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Forum: EB 2/ Finance
Issue: Developing alternatives to austerity in struggling economies.
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Introduction

Governments consume, invest and transfer payments in order to increase their revenue. Such expenditures are made for future benefits, and need to be regulated very carefully. If governments exceed their existing revenue, measures need to be implemented to prevent the growth of budget deficits. The implementation of measures such as tax increases and spending cuts are called austerity measures; policies of governments that are put into action to reduce the money being spent [1].

Austerity measures are not well perceived by the public, and are therefore implemented during times of economic crises. The economic turmoil in Greece is one of the most recent and well known in which harsh austerity measures were taken by the government. In 2010, Greece, following its pledge in the World Economic Forum in Davos, put austerity measures into place. Those austerity measures froze the salaries of all government workers and cut 10% of their bonuses [2]. The first austerity package aimed to save 0.8 billion Euros. The inefficiency of the first austerity package forced the government to implement a second one which would save 4.8 billion Euros. The government also requested a bailout from the International Monetary Fund (IMF) and the European Union (EU). Up until now, fourteen austerity packages were put in place in Greece and has faced public outrage.

It is wrong to deny that austerity measures improve the long–term economic condition of a member state. However, countries refrain from applying it on their spending until they are in the midst of an economic crisis, therefore making their actions justifiable. It is for the benefit of all member states to sustain a strong economy. The struggle of one economy brings recession to many others. Therefore, it is crucial to find easily applicable, justifiable and efficient austerity measures.

Definition of Key Terms

Deficit Financing: Budget deficits can be overcome in many different ways. Deficit financing is to run a government's deficit during times of recession in order to create demand, and then use the surplus budget in times of economic prosperity[3]. Some economists believe that this would eliminate the net budget deficit. However, fiscal conservatives believe that governments should never run deficits and that they should follow a balanced budget, a budget in which expenditures and revenues are equal. Post-Keynesian economists believe that running the deficit would generate a money supply and would create a demand in the country, attracting foreign investment.

Taxes: Citizens of nations are required to pay a certain amount to their government which is determined by their income. The money the government receives from taxes are used for public services. It is important to understand the concept behind the increasing and cutting of taxes. Governments implementing austerity measures may increase taxes on particular products or may increase the required tax payments of specific social classes. This would enable governments to cut their public spending. In Italy, soon after the 2011 election of Mario Monti, the newly elected government increased taxes on the wealthy class[4]. Governments may also use a completely different perspective by decreasing taxes in order to attract foreign investments.

Gross Domestic Product (GDP): The GDP of a country consists of the total value of all final goods and public services provided in a country[5]. It is an indicator of the economic health of a state. GDP data can show an overall tendency of the economy, showing the growth or decrease of a country's economy.

Background Information

It is not enough to merely know austerity by definition. The best way to understand when and how austerity measures are implemented in struggling economies is by examining history. Numerous countries have underwent economic recession in recent history, some still experiencing its effects. Those countries are or have been implementing different austerity measures, designed for the debt they have and the needs of their economy. Being aware of those measures put into action in recent history and how they came true would develop a better understanding on the issue.

Greece Economic Crisis (2010-Present)

The introduction part of this report has mentioned the initial steps taken by the Greek government regarding their large budget deficit. The underlying reason behind the economic crisis is considered as the 2009 Great Recession. The recession, followed by the economic inflexibility of the Greek economy and revelations that the government was falsely reporting data on government debt engraved the situation. The government pledged to take action against their budget deficit by introducing their first austerity package in 2010. In March 2010, shortly after the implementation of the second austerity package, the Greek government requested the first bailout package from the IMF and the EU. An IMF led commission called "the Troika" was established with representatives from the European Central Bank (ECB), the IMF and the EU. The commission's aim was to set an economic policy programme before the provision of the unprecedented loan was authorised.

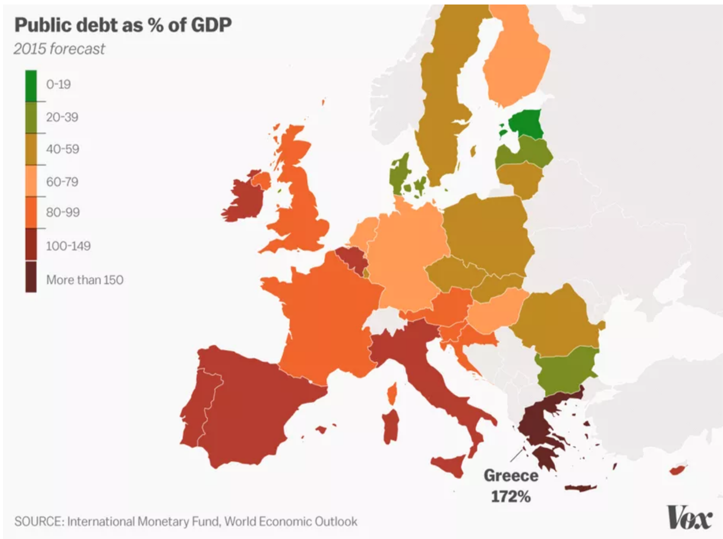
In June, the government introduced a programme called as the "First Economic Adjustment Programme for Greece". It was the first mutual programme created with the IMF, the EU and the ECB. The government later introduced the third austerity package which saved 38 billion euros through new austerity measures. This sparked outrage and led to violent protests in Athens, the capital of Greece.
Those austerity measures included the decrease of public-owned companies from 6,000 to 2,000, decrease in the number of local governments in Greece from 1,000 to 400, increase in retirement age, new taxes on high company profits, increase in the price of properties and therefore their taxes, 10% additional taxes on imported cars, additional taxes on citizens with high wages and many more[6].

In May 2010, a bailout package was agreed with the eurozone countries and the IMF. The total bailout was set as 110 billion euros. The eurozone countries had a 5% interest rate in their loans. It was believed that this loans would have covered the expenses of the government for the following three years.

The fourth austerity package was introduced in June 2011. It asked for the sale of government property worth 50 billion euros, and increased taxes on citizens over a certain income.

After facing severe backlash due to the 5th austerity package introduced by the Greek government, Prime Minister Papandreou called for a referendum on the package. He then cancelled the referendum after the opposition party agreed to support the bill. The prime minister then resigned following the agreement between parties to select a new prime minister. The EU warned the Greek government to follow the economic policy they have set or the country.

When it became 2015, the government implemented 6 other austerity measures. Greece became the first economically developed country to miss a payment to the IMF (1.6 billion euros). The Tsipras government minimised bank withdrawals to 60 euros a day to control the capital in the country. The IMF later on refused to contribute to the 86 billion euro bailout by the EU until Greece shows signs of significant debt relief. In 2017, the IMF put out a warning that the conditions proposed by the EU on Greece following the bailout provided in 2015 would stop the economic growth and therefore waste the bailout. The EU softened its conditions on budget targets but refused to consider any debt relief.



Greece received its final bailout package in 2018 and completed the program which started in 2010. Greece's owes the IMF and the EU a total of 290 billion euros. Greece's economy started growing again and unemployment started to decrease, although remaining as the highest in the EU. It is believed that Greece will need further debt relief in the future.

Eurozone Crisis (2009-Present)

The Eurozone crisis started when it was realised that Greece will not able to repay its loans and therefore default its debt. This crisis soon escalated as it became evident that countries like Portugal, Ireland, Spain and Italy were also on a similar direction. The leading countries of the EU, France and Germany, did not have the sufficient resources to provide their allies with. Eventually, bailouts from the European Central Bank and the IMF.

In 2012, Chancellor of Germany Angela Merkel's proposal was approved by the EU. It proposed a 7-point plan that would protect businesses. It came after the treaty signed in 2011. The treaty proposed limitations on the Maastricht Treaty's budget, pledged that the EU would back up its members with their sovereign debt, and amde EU more implemented in the fiscal systems of its members[7].

Because of the treaty, EU members had to legally hand budgetary authority to the EU. They would also need to prevent their deficit from exceeding the 3% deficit-to-GDP ratio specified in the treaty. If not, they would face sanctions. Member states had concerns. In order to fulfill the requirements in the treaty, member states would need to implement austerity measures which may lead to public outrage and change in governments all around Europe. This could have the potential of an EU breakdown.

As a result of these measures, austerity measures were implemented. Economic growth slowed down around Europe. Sanctions mentioned in the treaties were never implemented since France and Germany, the strongest members of the EU also exceeded their spending. Here are some austerity measures implemented in EU countries.

Portugal:
Following the eurozone crisis, the Portugese government increased its VAT (value added tax) by 1%, increased taxes on the wealthy, implemented cuts on military and infrastructure spending and went on to privatise part of the government.

Spain:
Spain froze payments for all government workers and reduced its government spending by 16.9%. The government also increased taxes on the wealthy.

United Kingdom:
The UK ended 490,000 government jobs and reduced its government spending by 49%. It reduced pensions and increased tax on tobacco.

IMF-EU Dispute Over the Effectiveness of Austerity Measures

The IMF along with other international organisations such as the Organisation for Economic Cooperation warns governments of tax-based austerity measures and their long lasting effects of recession. IMF reports on austerity show that the private sector responded negatively to tax-based austerity measures. It also showed that countries that prefered tax-based austerity measures rather than implementing spending-based plans suffered greater recessions. An example supporting this finding would be the UK, which only implemented spending cuts during the eurozone crisis. The UK government cut pensions and reduced government spending and public investment. As a result of this, the UK’s performance during the crisis was much better that the IMF had expected during the crisis. On the other hand, the IMF emphasises a pattern of recession in countries that have based their austerity measures on tax cuts[8].

The IMF states that the handling of the eurozone crisis, mainly the forceful implementation of tax cuts on EU member states, reduced economic growth and therefore increased the existing debt. The EU, however, strongly opposes the findings of the IMF and states that those implementations restored the confidence in governments.

Timeline of Major Events

1944	The World Bank is established.

1945	The International Monetary fund is established.
1947	The World Bank becomes a separate body of the United Nations (UN)
November 1, 1993	The European Union is established.
2008-2012	The Great Depression takes place, causing the budget deficit of many countries to increase rapidly.
2010-Present	The economic crisis in Greece begins.
2018	Greece receives its third and final bailout, completing the bailout program set out in 2010. As a result of the program, Greece owes the IMF and the EU a total of 290 billion euros.

Major Countries and Organizations Involved

International Monetary Fund (IMF):

The International Monetary Fund is a organisation found in 1945 following the Bretton Woods Agreement. Its primary aim is to promote monetary cooperation and to provide assistance and suggestions on developing and maintaining a country's economy[9]. It also provides loans to countries and helps them create economic policy programs. Those loans, however, are provided with multiple conditions. The loans generally serve as a "rescue" for a country, and those countries then need to repay the loan at very high interest rates. The IMF is therefore heavily criticised by many.

World Bank

The World Bank also established in 1945 under the Bretton Woods Agreement is an organisation with the purpose of aiding plans promoting long-term economic development. It provides loans to countries with the solemn purpose of funding projects developing developed, underdeveloped or emerging markets. Those loans do not serve the same purpose as those provided by the IMF and should therefore not be confused.

Organisation for Economic Cooperation and Development (OECD)

The OECD is an organisation that promotes policies having the potential of improving the economic and social well-being of people around the world[10]. The OECD has recently shifted its stance on austerity measures. Rather than supporting them, the OECD now calls countries to abandon measures that are just quantitative easing. They claim that such actions weaker the demand and therefore reduce the economic growth. Leaders of the OECD encourage companies to increase their public investment rather than curbing it[11].

Previous Attempts to Solve the Issue

Report on Austerity Measures and Economic and Social Rights

This report published by the Office of the United Nations High Commissioner for Human Rights (OHCHR) stresses out the economic and social effects of the austerity measures implemented during and after the recent global economic recession. It emphasises that austerity measures should be justified and should not limit rights of individuals.

The European Troika

The European troika was established during the Economic crisis of Greece. It is a decision group representing the EU in its diplomatic relations, and consists of the IMF, the European Commission and the ECB Its primary purpose was to ensure that the financial measures decided by them were implemented properly. Slovenia avoided the intervention by the Troika by getting a loan from another organisation. The success of the roika is controversial. Its assistance is member nations with a sovereign debt is regarded as an intervention by many states[12].

Possible Solutions

Delegates should realise that governments do not tend to realise the long-term effects of the implementation of austerity measures promoting unprecedented cuts on their budget. Governments also refrain from implementing austerity measures at times they will be most effective, and rather prefer implementing them during periods in which they are justifiable. Governments prioritise their grasp on power rather than the state of their economy. This, happening in a globalised world would stimulate the downfall of many other economies. In order to prevent that from happening, a union may be formed between relevant intergovernmental and non- governmental organisations which may evaluate and put pressure on countries that show tendencies of economic downfall. Such organisations should be asked to assist governments in decisions such as when to implement such austerity measures.

Useful Links For Further Research

- https://www.britannica.com/topic/austerity
- https://www.investopedia.com/
- https://www.thebalance.com/austerity-measures-definition-examples-do-they-work-3306285

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