

Europe Managing the Crisis

The politics of fiscal consolidation

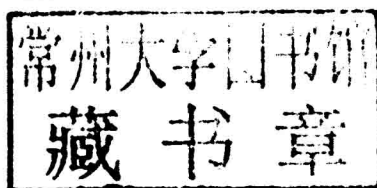
Walter J. M. Kickert
and Tiina Randma-Liiv



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**Walter J. M. Kickert and
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Foreword

Geert Bouckaert

President of the International Institute of
Administrative Sciences

In reading this book, I made three reflections on managing crises: one on the cultures of managing crises, another on understanding managing crises through disciplines, and a final one on the capacity of comparing and learning from others.

Managing crises or muddling through

There is an expression in Dutch that weak healers make stinking wounds. There also seems to be a tension between the direct and unambiguous word 'crisis', and labelling almost euphemistically its response as 'consolidation'. Not only risks, but also responses to catastrophes, revolutions, or crises are culturally determined, as Mary Douglas clearly demonstrated. There could be a culture of determinism, but also of voluntarism expressed in statements that one never should waste a crisis. The fiscal crisis has shown several levels and its management seems not always to have been proportional.

There are single-loop crises within a financial system that could be solved within that system by respecting, for example, standards of deficits, or levels of debt. There are double-loop crises where the rationality of the system itself is affected. The debates on volumes of money in a system, or the stop-go investment policies, or the failing efficiency of markets (see the controversy of the 2013 Nobel Prize winners Fama, Shiller and Hansen) are expressions of a failing rationality of a fiscal system. Finally, there are deuterio-crises, where there is a crisis of the concept 'crisis' itself. The concept of crisis itself shifts. If there is a conviction that systems are 'too big to fail', then the concept of 'crisis' shifts. This may move into a 'state of exception' (Agamben 2005), unprecedented, where 'exceptions' suddenly become 'normality' and 'standard

operating procedures'. It is also a situation where weak or even 'hollow states' (Frederickson and Frederickson 2006) emerge and crises become a relative reality.

Handling single-loop crises assumes that known causes lead to known consequences. Double-loop crises need to adjust the systemic key characteristics and the rationality of these systems. OECD (2009) has emphasised the need to have independent authorities that also can enforce certain logics. Cangiano *et al.* (2013) demonstrated the need for a new macro-governance architecture with new logics and rationalities. Deutero-crises have all the features of wickedness and could be unmanageable if there is no time and authority to establish a new system with a new rationality.

Different disciplines for different purposes

If this exercise would be reduced to the field of accounting, perhaps the only conclusion would be at the level of balance sheets: 'what is left is right, and what is right has left.' However, solid and reliable monitoring, surveillance and oversight are indispensable for financial and non-financial information. Historically, public-sector budgeting accumulated macro-economic issues, policy allocation and managerial functions. As a consequence, different disciplines (economics, policy and political sciences, and management) are involved for different purposes, also in a crises modus.

All these approaches are also legally framed. In several countries, there were appeals up to the highest courts to fight 'solutions' of the crises. Common-law countries do have different legal frames and degrees of freedom compared to civil-law countries. Finally, anthropology and cultural theory certainly provide context to avoid blind copy pasting of 'solutions'.

The field of Public Administration, as a consolidating scientific platform of different disciplines, should use this crisis as an opportunity to promote not only multidisciplinary research, but certainly to develop seriously interdisciplinary research.

International comparative research on 'political decision-making capabilities of governments'

The ultimate purpose of this international comparative research is to better understand the nature and mechanisms of crises, and to learn how to cope with this crisis and the next crises. The level of describing, explaining and even predicting depends on the levels of the crises themselves. Single-loop will be easier than double-loop, which will be less difficult than deutero-crises.

The capacity of governments to solve problems will be one of the essential challenges of the next decades to keep trust and legitimacy of populations in

our systems. For this reason, this book contributes significantly to this European agenda, and beyond. One could only wish that all the 'evidence' available in this book will influence the leadership to tackle all future crises effectively.

This Kickert/Randma-Liiv book: a guide and survival kit for solutions

This book is written by two top scholars in the field. They give a very well-documented description of the fiscal crisis. It is one of the best available texts on the mechanisms, the scope and the consequences of the crisis. The value added is that it is based on a lot of types of information, including interviews with key officials, and that it puts the crisis in a political context. The crucial question suddenly becomes: Does politics matter if economics gives the impression to have taken over?

The strength of the book is in the transparent analytical framework and the full coverage of aspects: cuts, expenditures, revenues, investments. The focus on decision-making (or non-decision-making) turns the book into a supremely useful embedded case for teaching in leadership, decision-making, political economy, governance and administration. For this reason, the book becomes relevant for political science, economists, Public Administration, management and even lawyers. Finally, the book is crucial since it is not just analysing and discussing process, but also effects. For all these reasons, this book will become a standard volume in crisis governance.

It is my conviction that this book is teaching us a lot of lessons, even if the scientific conclusions seem more ambiguous and the meaning of 'solution' is part of this ambiguity. The major lesson for the futures of our democratic systems is ultimately how to handle crises and ambiguity. This book is a guide and survival kit for all of us.

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Part one

Introduction

Introduction

For much of the recent past, the main occupation of European governments has been to make cutbacks. That is, to ensure the restoration of sound public finances via the reduction of excessive budget deficits through cuts to public expenditures and rises in tax revenues. Politicians, governments and administrations have been repeatedly confronted with the unpleasant necessity of this thankless task.

Since the outbreak of the global financial crisis in 2008 and the following economic crisis, public finances have come under enormous pressure. The worldwide financial system suddenly, unexpectedly, and completely collapsed. While initially many continental European governments hoped this US-originated crisis would not spread to their economies, European domestic economies were soon infected by the effects of the crisis on the international financial markets. Economies deteriorated, business declined and unemployment rose. Despite governments immediately launching economic recovery measures, European economies continued to slow, and in many countries they have only recently, and slowly, recovered. This has led to mounting public budget deficits, which, by necessity, have had to be reduced – whether governments and politicians have liked that thankless task or not.

At first, politicians in most countries tried to avoid unpopular cutbacks, primarily by disputing the necessity and strictness of budget deficit ceilings, such as the EU norm of 3 per cent. Alternatively, politicians tried to postpone budget cutbacks, leaving them for the next administration to cope with. But whatever their tactics to buy time, sooner or later cuts became inevitable, and unfortunately not just once, but in many successive rounds. Economies continued to perform disappointingly, and economic recovery took more time than expected. National public finances repeatedly turned out to be less optimistic than hoped for, and a next round of cutbacks had to be made. Political authorities faced sometimes massive protests and social interest, and hard decisions about where and when to cut. This has been the reality for many European countries for several years. Governments and politicians are constantly employed with, and often overwhelmed by, making decisions about cutbacks. And although the early signals of fragile economic recovery now seem more than just wishful thinking, the task is not yet over by some long way.

In this book, we will describe, analyse and explain how European governments handled the crisis, from a political and administrative science perspective. Much of our international, predominantly English-speaking, audience will be acquainted with how the United States and the United Kingdom handled the crisis, and probably the German and French cases, to some extent. Most other European countries are, however, less known to the international audience. Who is knowledgeable about the smaller Western European countries, such as Belgium, Ireland and the Netherlands? Who knows how the crisis impacted the Central and Eastern European countries of Estonia, Hungary and Lithuania? And although a larger international audience is aware of the depth of the crisis in Southern Europe, very little is known about what exactly happened in countries such as Italy and Spain.

In this book, we consider how fourteen large and small countries in Western, Southern and Eastern Europe – Belgium, Estonia, France, Germany, Hungary, Iceland, Ireland, Italy, Lithuania, the Netherlands, Norway, Slovenia, Spain and the United Kingdom – have managed the fiscal crisis. This range and scope makes this book highly informative to the international audience, not only to the academic audience, but also to practitioners and policy-makers who will be interested in the many country examples. We hope these provide helpful insights into how the complex problems they face have been addressed elsewhere.

This book seeks to introduce to an Anglo American audience various European approaches to managing the crisis, as well as informing Europeans about the way the crisis was handled by their neighbours. It encourages readers to view national distinctiveness in an international comparative perspective. And in the final discussion section, when we are less hindered by methodological and empirical limitations from making statements about countries outside Europe, we tentatively compare the European experience with other parts of the world – the United States, Japan, India, and the upcoming economic superpower, China.

The first question addressed in this book is how fourteen countries in Western, Southern and Eastern Europe managed in the period 2008–2012. How did European governments respond to the fiscal crisis? What fiscal consolidation and cutback measures were undertaken by governments to reduce the increasing budget deficits? How did the political decision-making leading up to these measures take place?

The attentive reader may have noticed that we employed the terms 'describe, analyse and explain' in the above formulation of our book's objective. The book is not only descriptive and informative, but also analytical and explanatory. In this book, we analyse and explain, primarily from an administrative and political science perspective, how European governments responded to the crisis. Although both authors are scholars in politics and administration, rather than economics and public finances, this by no means

makes the economic perspective less relevant. On the contrary, it is obvious that fiscal consolidation and cutbacks are, first and foremost, concerned with decisions about budgets, about economic facts and figures. Naturally, the economic perspective on how governments managed the financial and economic crisis is paramount is reflected in the many publications on the subject from this perspective; a review of twenty-one books about the financial crisis written by academics, journalists and a practitioner (Lo 2011) reveals that, despite the many different and often contradictory perspectives used, all are written from an economic point of view.

This book pays attention not only to the economic aspects of the fiscal consolidation measures taken by governments, but also pays particular attention to the political aspects of the decision-making processes leading up to these measures. Did politics matter in managing the crisis? Studies by political and administrative scholars are only beginning to appear, and there are only a limited number of publications on the current fiscal crisis and cutbacks in the fields from the perspective of political, administrative and public management sciences. So, the second question addressed in this book is how the fiscal consolidation measures that were taken by European governments can be analysed and explained from both an economic and a political perspective.

After elaborating the political perspective in the next chapter, we adopt an analytical framework that focuses on both the contents of the cutback measures and the political decision-making processes. We pay special attention to the characteristics of decision-making – the distinction between across-the-board (cheese-slicing) cuts, on the one hand, and targeted (selective) cuts based on political priorities, on the other. Moreover, attention focuses on the typical political characteristics of cutback decision-making, that is, that it takes place in a series of stages, usually beginning with denial of the gravity and duration of the crisis, gradually leading to compliance with the need for cutbacks, and only ultimately resulting in targeted cuts and political priority-setting.

In its comparative analysis of how fourteen European countries managed the fiscal crisis, the book focuses on key questions. What were the similarities and differences between the countries? How can the similarities and differences between the countries be explained? The individual country studies are framed in an internationally comparative perspective with the aim of comparing the similarities and differences between countries, from both an economic and a political perspective. What financial-economic factors explain the variation in the fiscal consolidation measures of the various governments? What political-administrative factors have explanatory power? And what other factors have a significant influence on fiscal consolidation?

It is self-evident that economic factors play a principal role in explaining fiscal consolidation measures. After all, fiscal consolidation is aimed at reducing the budget deficit and rise of state debt, so the financial and economic 'size' of the fiscal crisis evidently influences the 'size' of the consolidation measures.