Austerity: The Answer to Europe's Crisis

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In 2008, the global economy entered into a recession unlike anything seen since the Great Depression. As with the United States, the European Union experienced major financial difficulties as a result of the recession. From the start of the recession, the European Union found it necessary to bail out several governments such as Greece, Spain, and Portugal all taking center stage in the fiscal nightmare. It is clear that the continued prolonging of this recession in Europe is the result of poor monetary policy and it is necessary to implement great austerity in order to break this cycle.

To fully appreciate the situation in Europe, one must have an understanding of the European Union and the European Central Bank. The European Union is a collection of 27 European nations that have created a partnership, both politically and economically. The union was created after World War II in an effort to "foster economic cooperation." It was thought that if the nations participated in more trade amongst themselves, then it would be less likely that they would experience conflict. The union allows goods and services, money, and people to move throughout the union more easily (Europa). Monetary policy in the union is controlled by the European Central Bank. The tasks of the central bank include creating policy, including monetary policy, adopting legal acts, and issuing bank notes (ECB).

What makes the Eurosystem unique is that each individual country also has a National Central bank. The national banks are responsible for enacting policy set forth by the ECB. So the individual countries are not responsible for their own monetary

policy, however they are responsible for their own fiscal policy. Fiscal policy includes the leveeing of taxes, changing of interest rates, and government spending.

Monetary credit expansion has a number of effects on the economy. Jesus Huerta de Soto gives a clear description of monetary credit expansion in his book Money, Bank Credit, and Economic Cycles. He explains that since the creation of the money was not due to savings, there is an alteration in the production structure relative to that structure determined by the social time preference. There will be a tendency to artificially widen the production structure; this means that it is easier for all people in all stages to borrow money. The production structure will also artificially lengthen. So when the interest rate falls, the present value of capital values increase the most farthest away from consumption, stock prices climb, and since there is an increased value in capital goods farthest away from production then people will be attracted to produce the goods that are farthest away from production because of higher yields, but those reallocating to those areas are participating in malinvestment, or directing their investments into the wrong stages. Keynesians would say that there is no such thing as "too many capital goods" because of their view of Say's law. The resulting problem this economy will experience will be from the effects of their malinvestment. This malinvestment arises from a cluster of entrepreneurial errors, (when entrepreneurs undertake new investment projects as if there was an actual rise in savings.) The initial effect of this malinvestment looks great; it results in an economic boom. People become overly optimistic because no one is restricting their consumption and yet, there is greater productive capacity. They get this idea that it is possible to have longer production processes without any sacrifice, which is

far from the truth. Now there is an increase in demand for labor at the new higher stages of production and there is an increase in nominal wages due to this increased demand for labor.

Things begin to look bad, because with every boom comes the bust, culminating in a recession. The price of land and natural resources will start to rise, because entrepreneurs are borrowing money at lower interest rates and increasing demand. They then also increase the price of the original factors. The supply of factors does not increase and therefore the finite supply must be bid up to ensure that those who want it get it, and those who cannot truly afford it will not get it. Now that the price of producer goods is increasing, this means that the costs of producer goods start to rise, which leads to consumer goods prices rising as well. Entrepreneurs experience an illusion of prosperity, this all leads to a reverse Ricardo Effect. In the reverse Ricardo Effect the increase in price of consumer goods is greater than the increase in wages, causing real wages to fall. Next there will be an increase in the loanable funds interest rates, because of the high demand for the funds. So when the pace of credit expansion slows, the interest rate will start to return to the previous level, sometimes even exceeding the original rate all together. Now, accounting losses begin appearing in firms at the highest levels. Then, the entrepreneurial errors begin being realized. People will shift their resources, as to reallocate their resources toward more profitable activities, meaning that liquidation of projects will have to occur, and some producers just won't be able to afford that. Some firms will be forced to shut down, causing higher unemployment. Banks will be apt to default, and there will be a serious credit crunch as the demand for lending is

greater than the supply. Some banks will suspend the payment of debt, and some will declare bankruptcy. Real wages will also fall and income throughout the economy will decline, eventually forcing the process to begin once again. This is precisely the problem that the union is facing. The ECB has made too many loans, thus creating the supply of money to increase drastically. This decreases real wages and increases prices and causes the social welfare of the union to decline. Also, since rates are low, more people are able to borrow money, resulting in entrepreneurial error and as mentioned, malinvestments.

Now that a background of the effects of monetary expansion has been established, analyzing the current situation in Europe becomes much easier. When the initial crisis hit, the union responded in a way many would have expected, with deficit spending. Early on, the main focus of the collapse was Greece. In early January 2009 the credit rating agency S&P cut Greece's rating to an A- and in October, Fitch downgraded Greece to an A- as well. By the end of April 2009 the European Union Commission began an investigation into excess government deficits in the countries of Spain, Ireland, Greece, and France, after which several countries admitted to maintaining excess deficits by the end of 2009. Greece announced that its deficit would be 12.7 percent, which was much higher than originally announced. Again in 2009 both S&P and Fitch downgraded Greece to BBB+ (Bagus, p.101). The problems were beginning to stack up.

Greece responded by attempting to increase their taxes to help reduce the deficit. The market began to be troubled as interest rates that Greece was paying on its debts

began to rise. Many countries were worried that they would have to pay the price because, as German Chancellor of Finance Wolfgang Schauble stated, “Greece had lived beyond its means for years”. The market continued to have doubts about Greece’s ability to repay its debts and it was also feared that the ECB would no longer accept Greek bonds as collateral on loans; therefore people would stop buying Greek bonds. If Greek bonds were no longer being purchased, then Greece would have to default on their obligations, creating an even worse situation. The ECB responded to the continuing crisis by lowering its required rating for bonds to be used as collateral to BBB- (Bagus, p.102).

In early 2010 it was clear that Greece’s financial data was questionable. Greece announced a reduction of its deficit that brought it down from 12.7 percent to 8.7 percent. The decrease was brought about through tax increases (7 billion euro) and spending cuts (3.6 billion euro). Greece froze wages of state employees, which caused them to go on strike on February 10th, 2010 (Bagus, p.103).

Deutsche Bank warned that a Greek default would be even worse than defaults that occurred in Argentina in 2001 or in Russia in 1998. Amid mounting pressure, Greece announced more measures to attempt to cut the deficit by an additional .4 percent, as well as attempting to get the deficit back to 3 percent by 2012. In February 2010 it was revealed that Greece had received help from Goldman Sachs in masking the extent of its deficits. Leaving out data on military spending and hospital debts helped Greece formally meet the limits in a single year, but masked what was actually happening.

Goldman Sachs was able to disguise loans for swaps, Greece issued bonds in foreign currency and Goldman sold Greece currency swaps at a made up exchange rate. Greece was able to receive more euros than the actual market value from the bond sales (Bagus, 104).

In February, CEO of Deutsche Bank Josef Ackermann expressed interest in trying to solve the Greece's problem. He and President Papandreou met, and a plan was proposed to Angela Merkel. The plan stated that private banks, as well as Germany and France would each lend 7.5 billion euro to Greece. The proposal was rejected because Merkel feared that providing a bailout was unconstitutional, as Article 125 of the treaty on the functioning of the European Union states that member states are not responsible for the other states' debts. Merkel was also worried that the German people would not approve a bailout. Around the same time the EU demanded that Greece reduce its deficit by an additional 4.8 billion euros. Greece tried to meet this new demand by raising taxes on fuel, tobacco, and the normal sales tax. They also cut 33 percent of the three bonus-salary payments made to "civil servants" (Bagus, p.105).

Many believed the problems in Greece would continue to multiply if action was not taken quickly. In May of 2010 20 billion euros of Greek debt would mature and it was unclear if those debts would be refinanced at better rates. In early March President Papandreou met with Sarkozy and Merkel to try and rally their support for a Greek bailout. The EU called for an institutionalization of emergency aid in order to try and

forestall market panics in the future (Bagus p.106). It became clear that the union was going to intervene in Greece.

On March 25th, EU nations and the International Monetary Fund, agreed on a bailout for Greece. On April 11th Germany agreed to subsidized 30 billion euro EMU loans to Greece, while the IMF contributed 15 billion euros. The markets plunged and resistance to budget cuts in Greece rose. Greece was forced to utilize the bailout package the next day because on May 19th 8.5 billion euros came due and it was looking as if it would not get refinanced. Greece's two largest banks, the National Bank of Greece SA and EFG Eurobank Egrasias, and the country of Greece itself, were downgraded to junk status by S&P. The problems in Europe were not limited to Greece. Spanish and Portuguese bonds were fallings. S&P had also downgraded both countries, Portugal from A+ to A- and Spain from AA+ to AA. Soon it became clear that the original 45 billion euro bailout was not going to be enough, so a second bailout totaling 110 billion euros was constructed with Germany footing 27.92 percent of the bill. The Greek government agreed to cut public wages and pensions and raise the sales tax once again, in return for the additional bailout package. Fears spread that soon Spain would also require a bailout (Bagus, p. 107).

To make matters worse, the independence of the ECB came in to question as it dropped all rating requirements for Greek government bonds and began accepting the Greek bonds as collateral without question. It became clear that the ECB was turning into an inflationary machine. Financial markets became shocked as European stock

markets began to fall and ratings continued to be cut. On May 7th 2010, the eurosystem was on the verge of collapsing. It was said that the trading of European bonds came to almost a complete stop in the afternoon. Something largely ignored by the markets was the fact that the German parliament passed a law that permitted loans in favor of the Greek government (Bagus, p.109). It was noted that Greece was relatively unimportant due to its size, but it was important to support the debtors because of how connected the financial markets had become. The newest package was instituted to prevent defaults by Portuguese and Spanish debtors that would ultimately affect German and French banks negatively. Even President Obama tried to intervene. The final agreement created loans up to 750 billion euros to troubled governments. Spain and Portugal announced a cut in wages for government officials as well as tax increases. Shortly after, Italy and France announced deficit cuts as well (Bagus, p.112).

The ECB took another step in the wrong direction when on May 10th it announced that it would begin to purchase government bonds on the market. This step was something that many believed the ECB would never take. The ECB claimed that this would not be inflationary. The bailouts and decisions by the ECB abolished the economic and monetary union as it was originally established (Bagus, p.113). EU nations began discussing penalties for countries who did not meet specified requirements; punishments included expulsion or loss of voting rights. Greece began a privatization process as it began to sell stakes in public companies.

At this point problems continued to grow. The banking system and governments were as intertwined as ever. If any one of them would default, it could cause a major collapse of other banks and institutions. If any one bank went bankrupt then this would prompt a government response, meaning increased government debt. Markets determined that a default by Spain would be much worse than a Greek default. Spanish banks were being kept afloat by the ECB alone and rumors began to float that the Spanish government was going to use the emergency bailout funds (Bagus, p.115).

Problems in Greece continued to get worse as Greek banks began to lose credit lines from other banks, as well as 7 percent of its deposit base. Greek banks were also being supported by loans from the ECB. In July things began to start calming down in Europe. A stress test was announced that helped calm markets. One thing that greatly affected Europe and the euro was "qualitative easing". Dr. Bagus describes it as "a monetary policy used by central banks that leads to a reduction of the average quality of the assets backing the monetary base (or the CB's liabilities). By buying government bonds of troubled countries, the average quality of assets backing the Euro was diminished" (Bagus, p.118). It makes a huge difference if 1000 euros are issued by the ECB and the assets that are backing it are 1000 euros of gold, German government bonds or Greek government bonds. Each of these is of different liquidity and quality. The earlier mentioned stress did a lot to help. The test analyzed how European banks would resist a partial sovereign default. It is clear that unrealistic assumptions were selected to get this desired outcome. A total collapse of the system was avoided, for now.

Data provided by the IMF allows us to see the situation empirically. In table 1, we can see that inflation increased in 2010 and 2011, fairly substantially in Greece, Spain and Portugal, 4.7 and 3.3, 1.4 and 3.6, and 2 and 3 percent respectively. The IMF has projected that the inflation rate will continue to rise in Europe at a fairly high rate in 2012 and will begin to increase at a decreasing rate from 2013 onwards. This is an indicator the policies of the ECB during crisis were in fact inflationary, therefore prolonging the recession.

In table 2, we can see that unemployment is also at extremely high percentages in some European countries in 2010 and 2011, mainly Greece (12.4 and 17.3) and Spain (20 and 21.7). The IMF projections for unemployment numbers in 2012 are not looking much better for any of the countries in the report. Unemployment is projected to rise again in 2012. Germany is the only country in this report to see decreasing unemployment. Unemployment is a good indicator of the condition of the private sector; it is clear that with rising unemployment the situation in the private sector is not improving.

What happened in Europe is just a classic case of the Austrian Business Cycle Theory at work. In order to help correct this cycle, it is imperative that a climate of savings be created in these nations. If the decrease in interest rates were driven by an increase in savings, then more stable growth would have occurred. When people save, they typically put that saved money into an account in a bank, not stash it under their mattress, this allows for the money to be transferred to owners of factors of production at

higher stages of production. The increased savings creates disequilibrium between different productive stages; it creates a relative decrease in demand for consumer goods. The decrease in demand for consumer goods will cause the price of consumer goods to decrease as well. Accounting profits in the consumer stage will decrease as well and entrepreneurs at these lower stages who do not predict this happening will start to reap loss.

The disequilibrium created by decrease in demand causes to effects. The first is the "derived demand effect". As the price of the consumer goods fall, the demand for the factors used to produce consumer goods will also reap accounting losses. Below is a generic example of the structure of production. When there is a disparity between rates of return in different stages, entrepreneurs will reallocate their investments into higher stages of production, therefore the production structure will lengthen. Any "signals" the entrepreneurs receive are ones that the system allows to be fulfilled. The increase in demand for higher factors will be at least partially offset by the increase in supply from the shift from lower stages. The supply and demand for labor increases at the higher stages but we cannot really say what will happen to nominal wages, but we do know that real wages will increase because the economy is more productive, lowering prices. The second effect is the "Time Discount Effect". Since we have an increase in savings, we will also have a decrease in the interest rate. The lower interest rate is manifested throughout the time market. This means that the rate of return will decrease throughout the entire structure, this happens in both the production structure and the loanable funds market. This new lower interest rate creates a time discount effect which affects the

capital value of assets, increasing the present value of assets. This interest rate decrease also causes an increase in the sum of the discounted marginal revenue product, or DMRP.

An extremely important factor in a smooth transition of capital goods is that land, labor, and capital good markets must be flexible. This allows for easier allocation of these resources to the different stages of production. Typically during this adjustment period you will start to notice a temporary decrease in output of consumer goods that accompanies the increased savings. This decrease in output of consumer goods will only occur until the increased productivity that results from more and better capital goods works itself to the bottom of the production structure, so a decrease in consumption sets into motion a process that leads to more consumption later on. So the capital good structure is lengthened vertically as all the new stages of production are introduced. The changes in the values of capital assets will change the capital value of the firm and this will all be reflected in the price of the stocks of the firm. This also leads to the Ricardo Effect. It is not unusual for the prices of consumer goods to fall before there is a fall in wages or land rents. So if there is a drop in prices of consumer goods before there is a drop in wages, real wages will increase. This makes labor less attractive to hire as real costs are increasing, thus there will be a shift to capital and out of labor, and this reinforces the tendency of saving to result in more capital-intensive production. This increase in real wages allows for individuals to purchase more goods with their income, growing the economy. Expansion through voluntary savings is something that will become permanent because investment takes place where the market decides it needs to go, and not where people “think” it should go.

Europe presents an interesting case of the ABCT. Credit expansion caused an unsustainable boom. Artificially low interest rates led to projects being undertaken even though there was no increase in savings. One thing that makes the crisis in Europe unique is that because of the way the union is set up interest rates fell in countries that are typically that have inflation. Since savings did not increase, this resulted in a boom for southern countries and Ireland (Bagus, p.122). This situation helped lead to the housing bubble in Spain, as well as allowing people in southern countries continue to live above there means because they were seeing the effects of a boom they did not deserve. In countries like Germany, saving rates continued to remain high.

At the time of the crisis, there were other ways to fix the system other than monetary credit expansion. Private investors could have injected the needed capital into the banks they deemed worth saving in the long run. Also, creditors could have been transformed into equity holders, which would have reduced the banks indebtedness and bolstered their equity. Those institutions that were unsustainable would have been liquidated and the market share taken up by those companies who were sustainable. This recent crisis just goes to prove that government intervention just delays the recovery.

Governments still have the opportunity to fix this problem, if they choose to do so wisely. Dr. Bagus outlines 5 different ways that that governments could get out of the debt problem. The first way is that overly indebted countries can reduce public spending. In some countries like Greece this is very difficult to do. Greece has a history of not taking to these kinds of reforms very kindly and this makes it increasingly difficult to

implement austerity. The second suggestion made is that countries can increase their competitiveness to boost tax income. Labor unions continue to haunt Greece in that they are propping up wages. Countries like Greece or Spain could stop subsidizing unemployment allowing wages in the private sector to also come down. If they could manage to get rid of labor unions all together, this would further bring prices down and the competitiveness of Greek companies would be increased. This would further help reduce the deficit via increased tax revenue from more successful companies (Bagus, p.125).

One thing that has become increasingly clear throughout the entire recession is just how connected capital markets make everyone. We know that capital markets are worldwide and that just because capital originates in one place, does not mean it is going to stay strictly in that place. Just like any other good, capital will be arbitraged. In 2011 Bloomberg released spreadsheets containing data it received from the Federal Reserve outlining what entities tapped into its emergency funds programs from 2009 until 2011. What is even more interesting is that the Fed loaned out 1.5 trillion dollars in peak lending. This includes foreign-currency liquidity swaps, which means that the Fed lends dollars to foreign central banks, which then lend the money to local banks. One of the banks included in the report is the ECB. Bloomberg also reports that lending to Europe peaked in December 2008 at 586 billion dollars. This goes to show just how interconnected financial markets really are and just how important it is that we create a stable atmosphere in these markets (kuntz).

Another interesting situation, and something that seems to defy the odds, is the success of Germany throughout this recession. As noted earlier, Germany has played a huge financial role in the bailout packages that have been passed, as well as maintaining success within its own borders. An email received by the author from Dr. Guido Hulsmann gave some insight into what Germany had done to give themselves a competitive advantage during the recession. Labor Market reforms, brought about by the previous chancellor Gerhard Schröder in 2003, included reducing health care benefits, restructuring labor regulations, tax cuts, and an overhaul of the pension system, put Germany in a better position to compete. In healthcare, Germany passed a law that reduced the monthly premium payments for the national healthcare system from 14.3 percent of an employee's income to 12.15 percent by 2016. They also decided to no longer finance dentures or replacement teeth and required a co-pay for doctor visits and prescriptions. These reforms were expected to save insurance companies up to 20 billion euros (agenda 2010).

Next Germany decided to pass a reform bill that sought to make Germany's extremely heavily regulated labor market much more flexible. It reduced the maximum amount of time an unemployed person could receive benefits after losing their job to twelve months, and eighteen months for older employees. It also helped make it easier for companies to hire and fire employees. One thing the government did that was crucial to the reform package was a massive reorganization of the Federal Labor Office. They modeled their newly reorganized office after a private placement agency and gave them the responsibility of managing unemployment benefits and helping find job placements

for the unemployed. Companies are now required to immediately inform the office if an employee has been released and to free up that employee for job hunting. The office would also have the right to refuse benefits for any individual that would refuse to take employment. Germany also tightened restrictions on unemployment benefits in order to try and motivate individuals to find work (agenda 2010).

Germany also participated in tax cuts. The reform changed the country's progressive tax rate from 19.9 percent to 15 percent for the lowest incomes and from 48.5 percent to 42 percent for the highest incomes. It was expected that taxpayers would save a total of 21.8 billion euros from the cuts. These cuts help put money back in the pockets of Germans, which could help boost consumer spending. The government planned to finance the tax cuts by cutting federal subsidies and privatizing government held properties. Germany also hoped to increase the amount of money that local communities got by increasing the percentage received from the local business tax from 2.2 to 3.6 percent (agenda 2010).

Since the EU is made up of sovereign nations, each with its own economic situation. One problem the union faces is that when monetary policy is handed down from the ECB, the policy is created based on the union as a whole, not on a case by case basis. If policy were handed down on a case by case basis then it would be possible to handle situations like the one the union has recently faced more effectively. As stated earlier, countries who should not have been experiencing as low of rates, were getting these low rates because of the success of the more "productive nations", like Germany.

Another problem that some countries like Greece face is the fact that their tax laws are not as well enforced like those in the United States. The Greeks have had a serious problem with tax evasion for years, a problem that makes tax increases almost worthless. Tax evasion has cost Greece an estimated 28 billion euros (WSJ) every year. Recently the Greek government has created a list of 2,000 individuals they suspect may have taken part in tax evasion. Another figure states that the difference between what Greeks owed and what they actually paid to be was about a third of the total tax revenue, or an amount roughly the size of the country's budget deficit. Evasion has caused more problems in Greece than many imagine, it puts the burden on honest tax players and it causes the government to have to spend way more of its own money than it should. Though tax collecting will not totally correct the issues the Greek government face, it would do a lot to help out.

Finally, austerity measures are typically met with great resistance. Many believe that a decrease in government spending causes a retraction of the economy. They believe that if the government cuts spending then unemployment will continue to rise. Economists like Paul Krugman even believe that "More austerity serves no useful purpose…" (Krugman).

Based on the recent decision making of the ECB it is clear that austerity measures must be implemented in all struggling EU nations in order to allow the markets to recover and a more stable economy to develop. It is clear that some nations in the EU, namely Greece, Portugal, and Spain, have been living beyond their means for years, running

deficits that are far too high, as well as neglecting their duties to not involve other nations in their debts issues. The sheer fact that countries like Germany have had to bailout these countries repeatedly is helping to create potential liquidity issues in a country that has been fairly successful throughout this recession.

The problem with "austerity" in Europe is that it's not necessarily the right kind of austerity, if it is austerity at all. Many would believe that in order for you to be austere you must spend less than you earn. The problem in Europe is that there is not a single country that is currently doing this (table 4). Every single country is spending more than they are bringing in. Austerity is the route that will lead to renewed prosperity in Europe. As governments decrease their spending, they open up resources for use by the private sector. If governments close departments and sell their capital they will help decrease the costs for different private industries as well. This would also cause decreases in wages because the people who have been laid off will begin to search for new jobs which would cause downward pressure on the wage rates (Bagus).

Another benefit of a decrease in government spending is that the government may even be able to reduce taxes. This would allow for higher after-taxes profits for business owners as well as an increase in money that employees will have in their pockets after taxes. Reducing government spending would also help reduce the deficit. Even keeping the current tax rate would allow the government to close that deficit because it is spending less than its revenue. The money that is saved is able to be used to lend to good entrepreneurs who can then invest in production to help bring about higher quality, lower

priced goods, which will help bring about an increase in real income. An increase in real income brings about even more benefits because the workers dollar, or euro in Europe's case, can go even further as prices have now decreased. One of the problems that Spain faces is that their citizen's savings are being soaked up by the banks and being channeled to the government to help buy bonds to fund the public deficit. This makes private loans nearly impossible to acquire causing investment by entrepreneurs to decrease drastically. When entrepreneurs cannot get funds to invest in production then they cannot innovate and therefore cannot help decrease the prices of goods (Bagus). This kind of austerity fosters economic development and growth, not the other way around.

Another area of concern for those who argue against austerity is that it will cause GDP to fall, which is true. The fact that GDP fell does not mean that there was a negative impact on the economy. If GDP falls because the government closed a few agencies and therefore GDP falls, the fact that there is less government interference in private production could lead to the private sector being to better fill the needs of the consumers. This is a positive effect on the economy. We also need to keep in mind that with any restructuring comes an adjustment period. After a boom there needs to be time for the market to liquidate bad investments and arbitrate capital to the places that will put it to best use and during this process it is possible to see a decline in GDP. After the adjustment period the economy will begin to see sustainable growth and everyone will be much better off.

We can see the results of the “austerity” that has been implemented in Italy, Greece, Spain, and Portugal (Table 3). Though these measures have not made the governments totally austere, they are a step in the right direction. If we look at the GDP (in constant prices) we can see that from 2010 to 2011, GDP in Greece and Portugal decreased. The GDP in Italy, Greece, Portugal, and Spain is predicted by the IMF to decrease rather drastically in 2012. This could be a sign that the adjustment period is under way (IMF).

The recent financial crisis in Europe has led to a large debate on the best way to handle situations similar to this one. Some believe that the only way to “right the ship” is to stimulate the economy through government spending and monetary credit expansion. We know that as we inflate the money supply we see a decrease in the value of our currency, a problem that Europe is currently facing, as well as inflation in prices of consumer goods. This causes a worsening of the situation as consumers buy less goods and governments collect greater debt. It is clear that the response that must be taken is to implement austerity in the countries that are suffering the most. Austerity, when implemented correctly, can decrease government spending and can potentially lead to a decrease in the tax rate. When governments are austere, their citizens will benefit by decreased prices, higher real income, and higher quality goods as more resources are available to entrepreneurs in the private sector. Austerity in Europe in necessary and it is the only way that Europe will be able to create sustainable growth and economic development.

TABLE 1*

Country	Subject Descriptor	Units	Scale	Country/Series-specific Notes	2007	2008	2009	2010	2011	2012
France	Inflation, average consumer prices	Percent change			1.490	2.817	0.099	1.493	2.141	1.924
Germany	Inflation, average consumer prices	Percent change			2.276	2.754	0.234	1.150	2.482	2.152
Greece	Inflation, average consumer prices	Percent change			2.895	4.153	1.210	4.713	3.330	0.938
Ireland	Inflation, average consumer prices	Percent change			2.873	3.108	-1.706	-1.572	1.186	1.401
Italy	Inflation, average consumer prices	Percent change			2.038	3.500	0.764	1.639	2.902	3.014
Portugal	Inflation, average consumer prices	Percent change			2.423	2.651	-0.903	1.389	3.557	2.792
Spain	Inflation, average consumer prices	Percent change			2.844	4.130	-0.238	2.043	3.052	2.440

Shaded cells indicate IMF staff estimates

TABLE 2*

Country	Subject Descriptor	Units	Scale	Country/Series-specific Notes	2007	2008	2009	2010	2011	2012
France	Unemployment rate	Percent of total labor force			8.375	7.817	9.500	9.729	9.633	10.138
Germany	Unemployment rate	Percent of total labor force			8.783	7.600	7.742	7.058	5.983	5.213
Greece	Unemployment rate	Percent of total labor force			8.290	7.676	9.380	12.452	17.326	23.827
Ireland	Unemployment rate	Percent of total labor force			4.558	6.305	11.825	13.632	14.391	14.813
Italy	Unemployment rate	Percent of total labor force			6.108	6.783	7.808	8.408	8.425	10.552
Portugal	Unemployment rate	Percent of total labor force			7.985	7.592	9.469	10.797	12.739	15.468
Spain	Unemployment rate	Percent of total labor force			8.275	11.300	18.000	20.075	21.650	24.900

Shaded cells indicate IMF staff estimates

TABLE 3*

Shaded cells indicate IMF staff estimates

Country	Subject Descriptor	Units	Scale	Country/Series-specific Notes	2007	2008	2009	2010	2011	2012
France	Gross domestic product, constant prices	National currency	Billions		1,800.700	1,799.200	1,742.600	1,771.600	1,801.600	1,803.794
Germany	Gross domestic product, constant prices	National currency	Billions		2,385.780	2,404.910	2,282.902	2,374.769	2,448.286	2,471.194
Greece	Gross domestic product, constant prices	National currency	Billions		209.855	209.525	202.715	195.586	182.078	171.154
Ireland	Gross domestic product, constant prices	National currency	Billions		170.389	166.796	157.695	156.487	158.726	159.286
Italy	Gross domestic product, constant prices	National currency	Billions		1,492.671	1,475.413	1,394.347	1,419.507	1,425.627	1,392.948
Portugal	Gross domestic product, constant prices	National currency	Billions		164.660	164.646	159.858	162.097	159.392	154.601
Spain	Gross domestic product, constant prices	National currency	Billions		1,078.162	1,087.787	1,047.078	1,043.706	1,048.057	1,031.937

TABLE 4*

Shaded cells indicate IMF staff estimates

Country	Subject Descriptor	Units	Scale	Country/Series-specific Notes	2007	2008	2009	2010	2011	2012
France	General government revenue	National currency	Billions		940.720	965.398	927.955	958.250	1,014.780	1,048.817
France	General government total expenditure	National currency	Billions		992.619	1,030.025	1,070.585	1,095.602	1,118.428	1,144.650
Germany	General government revenue	National currency	Billions		1,062.300	1,088.200	1,065.980	1,087.376	1,154.888	1,184.218
Germany	General government total expenditure	National currency	Billions		1,056.540	1,089.610	1,142.240	1,190.819	1,175.125	1,194.563
Greece	General government revenue	National currency	Billions		90.915	94.764	88.601	90.247	87.900	87.556
Greece	General government total expenditure	National currency	Billions		106.066	117.850	124.646	114.106	107.500	102.697
Ireland	General government revenue	National currency	Billions		68.864	63.015	54.112	53.218	54.245	55.821
Ireland	General government total expenditure	National currency	Billions		68.747	76.145	76.579	101.644	74.519	69.242
Italy	General government revenue	National currency	Billions		715.564	723.432	706.781	714.960	728.334	755.135
Italy	General government total expenditure	National currency	Billions		740.269	765.537	788.361	784.470	788.735	797.759
Portugal	General government revenue	National currency	Billions		69.674	70.697	66.707	71.506	76.369	69.375
Portugal	General government total expenditure	National currency	Billions		75.113	77.055	83.842	88.502	83.615	77.676
Spain	General government revenue	National currency	Billions		432.808	404.076	365.382	379.497	377.085	377.997
Spain	General government total expenditure	National currency	Billions		412.751	449.238	482.688	477.724	472.048	452.018

*All data was acquired from the IMF

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