
Journal of Finance & Management in Public Service

Volume 10
Number 1

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First published September 2011

Published by:

Earlybrave
PUBLICATIONS

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Earlybrave Publications is part of Golding Associates Limited

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Payment can be made by credit card or cheque.

Cheques should be made payable to Earlybrave Publications.

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ISSN 1475-1283

We live as they say in interesting times and from a public service point of view fascinating ones - in the context of this special edition nothing could probably be closer to the truth. As this editorial was being written/planned economic news seems to come in constantly, for example, of further and new problems in the Eurozone, the possibility of a default on American debt as Republicans and Democrats argue over tax rises versus spending cuts and, finally, continuing reported slow or stagnant economic growth in numerous western economies. While it is likely that the American debt crisis will be resolved by publication there will be a question as to whether any such solution will merely solve the short term crisis rather than provide a long term solution to America's structural problems. It was in this context that the idea for a special edition of the Journal came about in that we wished to have a topical highly readable edition which reflected the situation in a number of contrasting countries. Here we aimed to fulfil the Journal's remit of being useful to practitioners and students as well as being of general interest and contributing to the debate on an age of austerity for public services in many countries.

The above does not, however, tell the full story as inevitably each nation has its own specific issues and problems in the context of the world and their own domestic economies. In this edition, therefore, we have a selection of countries covered which hopefully adds to and widens the current debate. In terms of the countries featured at one extreme we have Ireland with the issue of the need for a eurozone bailout resulting from a banking and property crash, the UK which seems to embrace the hair shirt of austerity if not with enthusiasm but reluctant acceptance despite the impact of such policies on its economic growth, Poland being outside the euro and a convergence country and, finally, Australia where a series of natural disasters have seen a more significant impact on the lives of the populace than austerity and public service cuts.

In a little more detail, in the eurozone we have seen bailouts for Greece, Ireland and Portugal and the fear of further contagion to the much bigger economies of Spain and Italy (the so termed PIIGS). Indeed in the case of both Italy and Spain yields on bonds had recently risen to near 7% - identified by economists as a potential tipping point into bailout territory. The second bailout agreed in Brussels in July 2011 for Greece amounts to 109 billion euros (£96 billion) with private investors set to face a 37 billion euro 'haircut' estimated as equivalent to approximately 21% of what they are owed. The deal being described as probably that expected as 'momentous' and 'game-changing' by European politicians as they hoped to head off a further and potentially more damaging crisis for the euro project (and even possibly the EU itself) by not dragging Italy and Spain into the tangled web of bailout finance.

Before everyone gets too hopeful, however, it should be pointed out that the words 'second bailout' indicate a failure with the first bailout while others may describe it as a 'bottomless pit', especially for German taxpayers who in their opinion on their own seem to be supporting the currency and euro project. It is also not fully clear how the proposed haircut will work as it is understood to be voluntary with an assumed 90% of bond holders signing up to simply accept their losses. One also wonders how the Greek economy (and maybe eventually others), despite having longer to pay back European Stability Facility Fund loans and a lower rate of interest on those loans, while tied into the euro, can grow its way out of such a significant level of debt. Initially the markets may have reacted favourably to the results of the July summit but more time will allow the markets to test the credibility of the new proposals and in this context bond yields for Spain and Italy seem again on the rise. It was also recently reported that Germany despite the powerhouse of its private sector was experiencing problems with levels of public sector debt and its associated affordability.

The second bail out scheme clearly raises interesting challenges for the future. In terms of loans to stable western economies, for example, with historically the risk of default felt to be almost nonexistent lenders have been willing to lend at acceptable rates of interest. The risk premium, therefore, in terms of the

interest rate charged has therefore been relatively low and is seen in the future as inevitably rising – causing further pressure on such economies. We find with the Irish bailout interest rates were seen as punitive on the originally funds lent (as discussed by Stewart Smyth in his article 'How the Ship of Fools was Ship-Wrecked – the Irish Crisis a Response) and thus making it even harder to climb out of recession. Maybe in recognition of this, as part of the European new deal interest rates to Ireland will be cut (resulting in the UK independently agreeing to lose about £390m in lost interest charges on previous funds provided to Ireland). The European Stabilisation Fund set up by the Brussels summit would also surely struggle should Spain (and then Italy) follow Greece in needing assistance. There could be further issues to be addressed in future as, in terms of the old Noel Coward song, further 'bad times are just around the corner'.

While Laurence Ferry and Peter Eckersley outline the UK deficit reduction programme in their article in the context of the opening paragraph on July 26th 2011 UK growth figures showed a slow rate of growth in its economy (0.2% in the previous quarter) as the UK in economic terms bumps along. While economist may argue over whether it is a supply side or demand side problem certainly the public sector has seen pressure for cut backs that it has probably not experienced in a generation or more. This has a particular impact on those areas of the UK dependent on the public services for employment, for example, Wales and the North of England. The Chancellor's hopes for a speedy recovery and related dreams for the private sector to take up the slack are being seen as being battered by low bank lending, sluggish or non-existent consumer growth and confidence and the eurozone crisis. Consumers being pressurised by factors such as continuing relatively high inflation, low or nonexistent pay awards, fear for their job security and higher taxes such as the VAT increase in January 2011 cause low consumer confidence in the economy especially when all this occurs in the context of falling housing price values. While factors to explain the low level of economic growth over the past three months will include reasons/excuses like, the bank holiday for the royal wedding and an extended Easter break, one wonders if it's time for a plan B if the deficit plan A is proven to be cutting too far and too fast. Further quantitative easing is also a possibility although this would have a further impact on the exchange rate and inflation and one wonders of the consequences for individuals if it stimulated further inflation.

The OECD regards the Polish economy as being projected to expand by nearly 4% in 2011 and 2012 and in the context of Ireland and the UK can be seen as a success. The reason given for this is planned strong public investment in 2011. This is viewed as being related to a number of factors including EU-financed infrastructure projects and, in 2012 the European football championships (the UK has the 2012 Olympics), a recovery in business investment during 2012 and robust private consumption. In terms of the budget deficit this is projected to decrease from 7.9% of GDP in 2010 to 5.8% in 2011 and 3.7% in 2012. Inflation is seen as a danger to the Polish economy in that it increased early in 2011 largely due to rapidly rising food and energy prices (as experienced in numerous countries as world prices rose). In the view of the OECD monetary policy tightening should be continued with the objective of achieving a neutral stance. This is seen as being driven by the desire to control inflationary expectations and to reduce a possible second round of world commodity price increases. This is seen as a danger since strong growth in the economy would result in significant pressures on productive capacity. It can be seen in this in this paragraph that there is a contrast with the UK in that growth in part is driven by strong public investment while the UK is cutting back in this area (both capital and revenue spending are being cut) while at the same time the Bank of England has engaged in quantitative easing effectively increasing the money supply. The Bank of England has also lost control (or seemingly is not that worried about – unlike those on fixed incomes such as pensioners) of the rate of inflation given its 2% target and inflation's current level. The pound sterling has also been encouraged to drift downwards against other currencies in an attempt to grow exports. In contrast Adam Reichardt reviews the Polish experience of the global economic crisis in his article.

Finally in terms of this edition we turn to Australia. Here as stated above we have seen a number of natural disasters in the region not only in Australia but also Japan and New Zealand. The Australian government estimates that when taken together the results are expected to be a reduction of around ¾ of a percentage point in Australia's economic forecasted economic growth in 2010-11. The government acknowledges that while it will take a number of years for those communities directly affected to recover, the impacts on Australia's economic growth are expected only to be temporary. It is predicted that the resumption of economic activity and commencement of reconstruction are expected to add to real GDP growth from 2011-12 (4%) and in 2012-13 (3¾%). In this context Michael Sheehan examines the impact of such natural disasters on the Queensland economy.

Hugh Coombs

Ellis Jenkins

July 2011.

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