Continent's big stimulus plans don't quite add up

By David Jolly

PARIS: As recession has swept across Europe, countries have been rushing to respond with impressive-sounding stimulus plans: €11 billion in Spain, €31 in Poland, €80 billion in Italy, €32 billion in Germany and £20 billion in Britain. France was set to follow Thursday with its own €20 billion plan.

There is just one problem, economists and analysts say: Behind the big headlines, the numbers are wispy, at best, and there is very little in the way of new spending.

News Analysis

Surveying the various European plans, Gilles Moëc, senior economist at Bank of America in London, said the total was far short of what was necessary. "The harvest is not so nice," he said.

But Dominique Barbet, an economist at BNP Paribas in Paris, said the main point of the dramatic announcements was "to reassure the public and to open the door so that the governments that want to do something big can do it."

Spain and Ireland, for example, have relatively healthy public finances, he said, so they have more scope for spending.

Italy and France, which have been skirting EU budget limits for years, "can announce plans to make sure small and medium companies can get credit, but that doesn't mean it will actually cost anything."

Europe, which fell into recession in the third quarter, clearly needs a lift. As if to underscore the dismal state of the economy, the EU statistics office reported Wednesday that retail sales in the 27-nation bloc fell 0.8 percent in October from a year earlier.

The European Commission, the executive arm of the EU, last week proposed an economic stimulus plan for the bloc valued at about €200 billion, or $254 billion, 1.5 percent of EU gross domestic product, including

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the figures already announced. It called for the 27 member governments to provide €170 billion of the total.

The remaining €30 billion was to come from the EU budget and the European Investment Bank. In any event, European finance ministers vetoed €5 billion of that spending Tuesday.

The national plans are also coming up short. Prime Minister Silvio Berlusconi's supposed €80 billion stimulus package, which cleared the Italian cabinet last Friday, contained virtually no new spending, economists said. Poland, citing its finances and its desire to join the euro currency bloc, said on Sunday that it would not use deficit spending to bolster growth.

So far, Britain's package, at about 1.1 percent of GDP, and Spain's which is considerably more, are the most serious moves. But analysts note that their economies also seem to be among the hardest hit by the global crisis.

In Spain, which is losing more than 40,000 jobs a week, Prime Minister José Luis Rodríguez Zapatero has announced a series of stimulus packages this year, including an €11 billion initiative last week. And Gordon Brown's government is cutting the sales tax in Britain by 2.5 percentage points.

The contrast with the United States is striking. The incoming Obama administration is expected to push for a stimulus package of $600 billion or more, 4 percent of GDP, which comes on top of the $168 billion the Bush administration sent out in tax rebate checks last summer.

By way of comparison, the UN Millennium Development Goals include a call for governments to spend 0.7 percent of gross national product as official development assistance — a target few countries meet.

Washington, of course, has much greater power to carry out economic policy than does Brussels.

Thomas Mayer, chief European economist, at Deutsche Bank in London, noted that with no central political or fiscal authority, the European Commission could only suggest action.

"The only country with the room for maneuver and the critical mass is Germany," Mayer said. "But the Germans don't want to move." Chancellor Angela Merkel's government has presented its crisis spending plans as being worth as much as €50 billion over two years, he said, but "it all boils down to €6 billion next year and €6 billion in 2010. All the rest is acrobatics."

Merkel said Monday that she was "keeping all options" open," and there is talk of a second stimulus package, but the chancellor has also stressed that Germany should not get into "a race for billions" with other countries.

"There's an ideological resistance in some European countries" to using deficit spending, Katinka Barysch, an economist at the Center for European Reform in London, said. "People are saying: 'It's borrowing and spending that got us into this mess, so why should we do more of it?' "

In fact, there is not as much need for deficit spending in Europe as in the United States, she said, because Europe has a more extensive social welfare system that automatically buffers the effects of a downturn. "We're also a little less Keynesian than they are in America," she added, referring to the economic theory that governments should seek to replace private demand with deficit spending during economic downturns.

Barbet at BNP Paribas also noted that demographics in Europe were different than in the United States.

"The U.S. population is growing faster than in Europe, so we have to be extremely cautious about the debt we leave for future generations," Barbet said

There is a certain irony in the fact that the European Commission, which has been harping for years on the need for states to keep their spending in check, should now be urging them so unsuccessfully to spend.

José Manuel Barroso, the EC president, said last week that the EU's tough budgetary rules — which restrict deficits to 3 percent of GDP in normal times — would be applied with maximum flexibility during the crisis.

President Nicolas Sarkozy was expected to announce Thursday the French government's stimulus plans. Economists estimate it will total about €20 billion, a little more than 1 percent of GDP, but once again, almost none of that would require additional spending.

Jean Pisani-Ferry, an economist at the Bruegel research institute in Brussels, wrote in a commentary published Thursday in Le Monde that the effort also risked undesired consequences, as national governments seek to aid national champions instead of focusing firepower on the best macro-economic targets.

The French plan, for example, is expected to include a €1,000 rebate for consumers who trade in their old cars for newer less-polluting models. Proponents of the plan are touting the "green" benefit, but it also stands to give the faltering French auto industry a shot in the arm.

With the lack of a coherent or coordinated fiscal policy response, EU governments may just end up leaving the economic stimulus to monetary policy. The European Central Bank and Bank of England were both expected to cut interest rates at their meetings Thursday.