INVESTIGATIONS ON THE EURO AREA PUBLIC DEBT CRISIS: THE CASE OF PIIGS

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Abstract:
The crisis that emerged following the bankruptcy of Lehman Brothers which is the fourth largest investment bank in the United States quickly spread to the entire world and has globally become a financial and real sector crisis. Today, the global financial crisis has influenced many countries in the world, and caused various economic, political and social problems in the European Union countries especially in Greece, Italy, Ireland, Portugal and Spain (PIIGS).
The global financial crisis became the European Union's economic crisis at first, and later turned into to be the debt crisis of the Euro area. The decline observed in recent years in the economic performance of the countries of the Euro Area has become more apparent along with the economic crisis, and this situation increased the concern about the future of the Economic and Monetary Union.
In this context, in this study within the framework of global capitalism, the economic, social and political problems that the global financial crisis caused in many countries are examined, observations were made on the Euro area public debt crisis and analyses were carried out on the PIIGS economies.

Key Words: Euro Area, Public Debt Crisis, PIIGS

Introduction

The change that the globalization around the world caused in the economic, social and political areas began to emerge along with the global financial crisis in 2008. The financial crisis that erupted in the United States took hold of the whole world in a short time and turned into a crisis on the global scale.

The negative developments in the financial sector quickly influenced the real sector. The economy of many countries especially the United States and the European Union countries entered the period of recession. In this context, the effects of the crisis of 2008 on the economies of countries are mainly seen on the macro-economic indicators such as decline in the development rate, increasing deterioration in the budget balance, increase in the debt rates, growth in the current account deficit, high decreases in the value of import and export, decrease in the rates of total investments and increase in the rates of unemployment.

The economic crisis had a negative impact on the Euro Area countries in which the economic and monetary union in the European Union is provided. The public deficits and debt stocks extremely increased in the EU member countries and the sustainability of public finance in many countries is imperilled.

Among these countries, Greece, Italy, Portugal, Ireland, Spain (PIIGS) influenced the Euro Area and therefore the European Union with their crisis of banking and external debt. These countries began to feel more severely the effects of the global economic crisis. In this context, the measures taken against the crisis in these countries have failed to achieve exactly the desired effect.

All these negative developments in the social, political and economic areas have revealed the deficiencies of the system of Euro and brought forward the issue that current policies and mechanisms need to be strengthened in order to maintain the stability and viability of the Euro Area.

Global capitalism and economic crisis

The process of globalization that started to gain importance especially in the 1980s throughout the world accelerated along with the developments in the field of information and technology observed in many countries and along with many developments in the world till the 1990s. In this context, along with the rapid development and transformation emerging in the process of globalization, the capital stock has exceeded the boundaries of the nation-state (Bauman, 1998: 70).

As the globalization accelerated, the national funds of the countries have turned into a structure having no borders and many companies have become a multinational structure. As a result of these developments, the nation-states are now estranged from the position of being the only determinant of the economic and social policies and the national economic policies have relatively lost their function (Cable, 1996:20-21).

The internationalization of the fund in many countries around the world has developed depending on the financial liberalization at the same time. In this context, if we define financial liberalization; it is the applications in which the countries reduce or remove the supervisions and limitations especially on the financial system in order to attract their international financial activities to their own countries. In other words, it can be expressed as the process of opening up of the national economies to the international capital flows (Ongun, 1993:38).

The liberalization of capital movement between countries in the 1980s and the acceleration of the capital flows after the 1990s, and as well as labour gained mobility are among the most important results the globalization caused (Çevik, 2004:154). In the process of globalization, protectionism disappears, liberality is provided to the foreign capital flow, and the interaction of countries is made easier through the foreign trade channels of countries. In this context, the mobility of the production factors between countries around the world has increased to a great extent.

In addition, the globalization trends have caused significant changes in the economic policies of states. Especially the developing countries have entered the process of liberalization spreading rapidly since the 1970s and their economic structures have changed. In this context, with the rapid process of globalization, financial liberalization and international markets integrated to each other began to be a current issue. In this context, as the impact of globalization increases, the solutions based on national supply and demand left its place to the solutions based on global supply and demand (Meriç & Ay, 2004:303).

As the globalization accelerated, the financial liberalization trends emerged especially in the developing countries has caused deteriorations in the macroeconomic structures of the countries on the one hand, and the financial structures of these countries to become more fragile on the other hand. The fluctuations in the flow of especially the short-term capital flows disrupt the financial stability and cause economic crisis (Aktel, 2003:89).

The global economic crisis have a negative impact on not only the macroeconomic stability of the developing countries but also on the economic relation with the outside world such as the foreign investments, exports, foreign aids and foreign debt which contribute to the development of these countries.

In this context, the policy of law interest the United States implemented has caused disruptions firstly in the real estate markets. However, as a result of that this situation is reflected to the reel and the foreign markets, a global crisis occurred (Şimşek & Altay, 2008:11). In this context, the reflection of the crisis which began in the financial sector in the U.S. to the reel sector and other economies actually has shown that the reel sector in developed economies is also vulnerable to crises (Önder, 2009:17). In this context, since the global financial crisis emerged in an environment which the financial markets have globalized, it affected the developing countries more compared to the other earlier crisis.

The global financial crisis and its effects to the european union

With the liberalization of capital movements and the globalization of the capitalist system throughout the world, the crisis emerging especially in developed economies has begun to spread to the global area much more easier and faster. In this context, the economic crisis emerged as a result of the problems occurred in the real estate sector in the United States in 2007 began to impact the economies of other countries in a short time (Krugman, 2009:185). The global financial crisis arising from the financial system and that affects the economies of other countries soon have caused many negative impacts on the macroeconomic indicators of many countries (Arıkan, 2008:17).

The crisis that affected many countries developed worldwide especially in 2009 and caused highly significant constrictions in the economies of developing countries. In this process in which the environment of confidence has collapsed completely, the liquidity crisis began to be experienced along with the credit crisis (Furceri & Ugane, 2009:7). In this context, the developments occurred in this process and afterwards are generally accepted as the biggest crisis that occurred after "the Great Depression in 1929".

In general sense, the subprime mortgage sector, expanding volume of credit, inadequate financial regulation and developments in supervision and global macroeconomic imbalances have caused the global financial crisis. However, the negative effects of the inactive monetary and fiscal policies that are implemented for very long periods in especially developed countries are also among the reasons of this crisis (Mohan, 2009:104).

The negative effects of global crisis in the fields such as growth, production, investment and employment required public interventions. The developed and developing countries also took some measures especially in monetary policies, fiscal policies and financial policies in order to reduce the effects of the global crisis that effected many countries around the world.

As the effects of the global crisis are felt, the applications of fiscal policy have been implemented in order to help the applications of monetary policies. As the interest rate cut and the applications of monetary policies implemented in the form of liquidity support remained insufficient in the first periods of the crisis, the instruments of fiscal policy came to the agenda (Batırel, 2008:2). However, the monetary policy, fiscal policy and policy measures for the financial sector aimed at reducing the impact of the crisis on the reel sector and at re-allocation of the confidence to the financial sector, unfortunately, have not been fully effective.

Reflection of the global crisis to the european union

The global economic crisis that began in 2008 caused many economies in the world to enter in a highly deep period of recession. The member countries were affected altogether due to the common external trade policy implemented by the EU. Many EU countries have introduced comprehensive economic stimulus packages along with the monetary expansion in order to reduce the effects of the crisis on economy. However, since the monetary system of the EU eliminated the possibility of implementing the loose monetary policy for many countries, implementation of expansionary monetary policies took some time (Pauly, 2008:78).

Most of the EU governments supported the private sector by reducing the taxes and social security premiums, through early payment of the rebates of VAT, incentives and export promotions as well as the measures that support the affordability of the household by reducing VAT, social security contributions and direct taxes. Despite these support packages, the economies of EU could not avoid from narrowing significantly in 2008 and 2009.

In this context, increased debt stock and interest rates due to the decline in the tax revenue caused by the narrowing experienced in the economies of EU countries and crisis also caused public expenditures and deficits to increase in the EU. Ultimately, the macroeconomic problems experienced in the EU countries after the crisis turned into a debt crisis by causing high public debts and budget deficits as well as the causing problems in growth rates, employments, investment and savings, production and high inflationary pressures (Reinhart & Rogoff, 2008:4). While the economic problems caused by the global financial crisis have not yet been fully solved, this time, the debt crisis emerged in the EU countries made a mark on the world economy.

Evaluations on the euro area debt crisis

Budget deficits and increasing debt burdens began to appear with the global crisis in 2008 in many countries in the EU. In addition, it has been observed that in many countries the governments could not adequately control their current economic policies and in this context could not generate strong control mechanisms (Welfens, 2010:5).

The negative effects of the crisis were seriously felt in the EU countries and the Euro Area experienced the biggest narrowing in its history by shrinking 4.1%. The global crisis caused public deficits and debt stocks in EU countries to increase seriously and caused the sustainability of public finance in many countries to be in danger.

The reduction in the total tax revenue of the member countries caused total debt burdens to increase by causing the borrowing need to increase and therefore causing an increase in the debt interest payments (Tanzi, 2004:54). Therefore, the increases in the public deficits caused not only

financial problems but also increase in interest and inflation on the debts of the state. In this context, the effects of the global economic crisis on the economies of PIIGS will be examined with the help of the following tables.

Table 1. Annual growth rates of piigs (%)

	2005	2006	2007	2008	2009	2010
Ireland	6,7	8,7	8	-2,2	-6,2	-0,8
Greece	4,7	9	2,2	1,3	-11,3	-6,3
Spain	1,3	2,3	2,7	-5,4	-5,4	-2,7
Italy	-0,4	1	-0,2	-2,6	-1,3	0,4
Portugal	7,8	1,2	0,3	0	-1,7	-0,3

Reference: Eurostat; "Economy and finance statistics", http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/themes

It is possible to observe the effect of the global crisis on the growth rates of the economies of PIIGS in the table above. If we examine in this context, the growth rates in the economies of Ireland, Greece, Spain, Italy and Portugal (PIIGS) showed reductions since 2007 and especially in 2009, the growth rates in terms of all the countries mentioned above reduced sharply. This situation began to show a tendency to improve since 2010.

Table 2. Tax revenues of piigs (GDP %)

	2005	2006	2007	2008	2009
Ireland	32,2	33,6	32,9	31,3	29,6
Greece	34,1	33,4	34,2	34	32,9
Spain	36,4	37,2	37,9	34	31,3
Italy	40,7	42,3	43,3	43,2	43,4
Portugal	35	35,7	36	35,7	33,9

Reference: Eurostat; "Economy and finance statistics", http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/themes

In the period of global crisis, contractions in production, employments and total demand were experienced in the economies of many countries around the world. Therefore, the tax revenues that have a significant share in the total income in the economy of a country decreased. The effects of the global crisis on the tax revenues in the economies of PIIGS are given in the table above. In this context, during the period of the crisis, the share of the total tax revenues in the economies of PIIGS within the GDP decreased especially in 2008.

Table 3. Social protection expenditures of piigs (GDP %)

	2005	2006	2007	2008	2009	2010	2012
Ireland	17,95	18,25	18,76	22,04	27,88	22.8	19.8
Greece	24,85	24,72	24,80	26,27	27,97	23.2	23.1
Spain	20,58	20,53	20,68	22,12	25,04	26.7	25.3
Italy	26,38	26,64	26,73	27,81	29,82	27.5	26.4
Portugal	24,59	24,59	23,89	24,35	26,94	26.1	25.4

Reference: Willem Adema, Pauline Fron, Maxime Ladaique; "Is the European Welfare State Really More Expensive?, 2011. http://epp.eurostat.ec.europa.eu

As can be seen in the table above, there have been increases in the shares of social expenditures in the economies of PIIGS within GDP especially in 2008. In this context, it was intended to establish an effect that can increase the total demand in the economy by increasing social expenditures in these countries.

Table 4. Basic public financial indicators of piigs (GDP %)

	PUBLIC EXPENDITURES				PUBLIC REVENUES			
	2007	2008	2009	2010	2007	2008	2009	2010
Ireland	36.6	42.8	48.9	66.8	36.7	35.5	34.7	35.5
Spain	39.2	41.5	46.3	45.6	41.1	37.0	35.1	36.3
Italy	47.6	48.6	51.6	50.3	46.0	45.9	46.3	45.8
Portugal	44.4	44.8	49.9	51.3	41.1	41.1	39.7	41.6
Greece	47.6	50.6	53.8	50.2	40.8	40.7	38.0	39.5

Reference: Eurostat; "Economy and finance statistics", http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/themes

The social protection expenditures that the countries made in order to stimulate total demand in the economy in the period of global crisis and as well as the costs of bank rescue with other incentives caused high increases in the public expenditures. The fact that financing of high public expenditures occurring in this context is met through borrowing has caused negative effects on the budget balance and the debt stock. Thus, during the period of the crisis, the balance of public expenditure and revenue began to deteriorate increasingly.

The fact that some banks in the EU countries nationalized their debts during the period of the crisis has caused public debt to increase to very serious levels and concerns on repayment of the debt emerged. Consequently, this situation caused a debt crisis in the countries such as Greece, Ireland, Portugal, Spain and Italy whose debts are high.

Table 5. Bank debts of piigs (billion dollars)

DEBTOR COUNTRIES	COUNTRIES THAT LEND	AMOUNT OF THE DEBT	TOTAL DEBTS
GREECE	GERMANY	45	135
	FRANCE	75	
	ENGLAND	15	
PORTUGAL	GERMANY	47	116
	FRANCE	45	
	ENGLAND	24	
ITALY	GERMANY	190	778
	FRANCE	511	
	ENGLAND	77	
SPAIN	GERMANY	238	572
	FRANCE	220	
	ENGLAND	114	
IRELAND	GERMANY	184	432
	FRANCE	60	
	ENGLAND	188	

Reference: Economic and Strategic Consulting Services; "Debts of Countries to the Banks in Europe", Information Management, 2011. http://esdh.com.tr/pdf/avrupada-ulkelerin-bankalara-borclari.pdf

The PIIGS countries chose to the way of borrowing from other countries in order to save many banks from bankruptcy in the economies of PIIGS. In this context, the countries that chose the way of borrowing are generally Germany, France and England. In this context, the amounts of debt and total debts that Greece, Ireland, Portugal, Spain and Italy borrowed from these countries are given in the table above. If we examine in this respect, the country that has the highest debt is Italy with a debt of 778 billion dollars.

The administration of the EU which was late when the global crisis emerged in the United States and then influenced the whole world is headed to the Euro zone caused the member countries to face the problems of high debt burden (European Economy, 2009:46). In this regard, the debt burden of the governments of the EU which was 7.1 trillion € in 2006 has increased to 8.6 trillion € with the activation of rescue packages at the end of 2009 (USAK, 2011:2). In this context, the debt crisis increasingly deepening in 2010 caused big problems in the Euro Area and ultimately the Euro Area debt crisis came to the agenda.

Table 6. Basic macroeconomic indicators of piigs

	GSYİH (% Change)					BUDGET BALANCE (GDP %)				
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
Ireland	5.322	5.626	-3.548	-7.580	-1.041	2.933	51	-7.339	-14.362	-32.204
Spain	4.017	3.572	0.864	-3.722	-0.147	2.016	1.903	-4.151	-11.131	-9.244
Italy	2.036	1.482	-1.323	-5.217	1.296	-3.337	-1.499	-2.685	-5.305	-4.598
Portugal	1.440	2.386	0.018	-2.474	1.398	-4.050	-2.768	-2.929	-9.342	-7.303
Greece	5.167	4.279	1.023	-2.045	-4.535	-6.122	-6.669	-9.535	-15.368	-9.570
	PLAIN BOROWING (GDP %)					CURRENT ACCOUNT BALANCE (GDP %)				
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
Ireland	12.155	12.175	23.037	38.039	69.385	-3.555	-5.346	-5.650	-3.040	-0.723
Spain	30.528	26.523	30.423	41.829	48.752	-8.972	-9.992	-9.739	-5.532	-4.487
Italy	89.793	87.322	89.164	97.099	99.561	-2.581	-2.439	-2.934	-2.084	-3.503
Portugal	58.771	58.111	61.093	71.883	79.096	-10.724	-10.119	-12.614	-10.925	-9.871
Greece	106.107	105.067	110.332	126.813	142.024	-11.244	-14.358	-14.688	-10.986	-10.448
	IMPORT (% Change)					EXPORT (% Change)				
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
Ireland	6.432	7.772	-2.946	-9.745	6.560	4.836	8.161	-0.797	-4.134	9.447
Spain	10.219	7.962	-5.261	-17.806	5.441	6.690	6.716	-1.101	-11.580	10.279
Italy	7.463	5.187	-6.517	-19.108	13.890	7.809	6.244	-6.324	-25.622	12.103
Portugal	2.350	7.422	5.143	-12.645	-5.777	10.058	11.761	2.991	-12.418	-0.699
Greece	9.654	9.842	3.980	-18.613	-10.784	5.322	5.752	4.018	-20.071	2.156
	TOTAL INVESTMENT (GDP %)					UNEMPLOYMENT RATE (Total Labor %)				
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
Ireland	28.020	27.294	22.266	14.061	10.809	4.425	4.575	6.325	11.825	13.625
Spain	30.984	30.983	29.088	24.420	22.990	8.513	8.263	11.327	18.010	20.065
Italy	21.615	21.870	21.238	18.911	20.192	6.783	6.158	6.750	7.817	8.492
Portugal	23.134	22.896	23.064	19.724	18.620	7.783	8.100	7.733	9.617	10.983
Greece	20.387	21.868	20.516	16.103	14.556	8.892	8.292	7.683	9.375	12.458

Reference: International Monetary Fund; "World Economic Outlook Database", April 2011. http://www.imf.org/external/pubs/ft/weo/2011/01/weodata/index.aspx

As can be seen in the table above, deteriorations occurred in the basic macroeconomic indicators in the economies of PIIGS during the period of the global crisis. GDP showed a negative trend in 2008 and 2009 compared to other years. In addition, the import and export values declined in these periods, the unemployment rates increased and total investments decreased significantly.

Within the framework of the criteria related to public finance, the condition that the rate of the budget deficits of the member countries does not exceed 3% of the rate of gross domestic product (GDP) and that the rate of the public debt stocks does not exceed 60% of the rate of GDP were stipulated with the Treaty of Maastricht in the European Union (Samsun, 2004:15). However, when we look at the table above, we see a value much higher than these criteria in terms of some countries. For many countries, the public debt stock and the budget deficits occurred above the criteria of Maastricht.

The high budget deficits increased the need borrowing requirement in the Euro area countries and the high debt stocks caused social, political and economic problems. With the global crisis, the manufacturing industry began to decline in many countries especially in Greece, Ireland, Portugal,

Italy and Spain and the balance of external payments of these countries began to deteriorate (Bagus, 2010:42). In addition, these countries had difficulty in borrowing from the international markets. In this context, Greece, Ireland and Portugal were assisted by the IMF and the EU (Dadush, 2010:1).

In this context, it is expected that the process of getting out of the crisis will be a long process. This situation will result in instability and volatility in the financial markets (Oliver, 2011:2). In this regard, the Euro area debt crisis has clearly demonstrated the necessity of taking effective measures and making policies in ensuring and strengthening financial discipline in the Union and the coordination between the national economic policies of the member countries. Therefore, in the process of coping with the crisis, the issues that the member countries the member states need to give priority in their economy and fiscal policies can be listed as follows (European Commission, 2011:3);

- That the member countries implement pro-growth fiscal policies
- Improving the capacity of granting loan in economy
- That growth and competitiveness are supported
- Combating the social consequences of unemployment and the crisis
- Modernization of the public administration

In addition, the countries that entered debt crisis in the European Union in this context, especially Greece, Ireland, Portugal, Italy and Spain should firmly implement the policies of fiscal discipline (Oliver, 2011:2). They must be prudent in the macroeconomic policies and take necessary measures to ensure and maintain economic stability. These countries should make configuration of debts in order to reduce the public debt burden (Sibert, 2011:2).

Measures lowering the labour cost should be taken in order to eliminate the reduction in the competitiveness. In the pre-crisis period, the wage increases remained well above the productivity increases in many member countries (Felipe & Kumar, 2011:26). In this context, measures should be taken against this and the manufacturing industry should be re-boosted (Bagus, 2010:123).

In addition, in this direction, a number of measures were taken against the debt crisis in the European Union. These measures; it was decided that the budgets of the member countries should be approved by the EU Commission in order to ensure fiscal discipline in the Euro zone and to carry out the common fiscal policies (Europa Press Releases, 2010:1). However, it was aimed that a Competitiveness Pact should be created that provides many economic and social reforms to be realized by the member states.

Conclusion

As a result of the global crisis, various measures have been taken in many countries especially in the United States and the European Union, but some effect of the crisis could not be resisted. One of the greatest reflections of the global financial crisis on the economy has been the increases seen in public deficits.

There are many reasons of why public deficits have reached high levels during the period of the crisis. Among these, the financial support programs implemented by the governments during the period of the crisis and the tax reductions played an important role. Against the crisis, many countries chose the way of borrowing to finance their public expenditures due to the reductions in tax revenues and as a result of this there have been important increases in the debt stocks of the countries.

The debt crisis in Europe which is one of the most important centers of gravity in the world economy continues to threaten the global economy and to be the biggest risk factor. During this period, note reductions were made in succession by the credit rating agencies toward the economies and banks in Euro Zone the debt crisis. In this regard, it is of great importance to find a common solution in terms of EU countries. In this context, it is of great importance to make regulations toward a common fiscal policy as well as a common monetary policy.

The harmonization the economy policies of the member countries are of great importance in order to increase the economic integration between the Euro Area countries. When we look from the aspect of Euro Area, a more alignment and integration should be provided in the field such as more political integration, tax, finance and budget policy in order to ensure the sustainability of the common currency of the union. In this context, getting out of the crisis basically caused by extensive borrowing can be possible with the restructuring of the debts and providing the fiscal union.

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