

PRO DOMO

TIGHT SITUATION

In Greek mythology, *Procrustes*, a rogue smith and bandit from Attica, had an iron bed in which he invited every passer-by to spend the night, and where he set to work on them with his smith's hammer, to stretch them to fit. If the guest proved too tall, Procrustes would amputate the excess length; nobody ever fit the bed exactly because secretly Procrustes had two beds.

Indebted countries all over the world are creating their idiosyncratic Procrustean beds with only one feature in common: these beds never prove too large for those to be accommodated: Education, Health, Pension, Defences and the other lethargic giants. Modern Procrusteses need no hammer - just the saw.

Budget deficit occurs when the spending of a government exceeds that of its financial savings. In fact, governments always tend to spend more than they could afford. But cutting government spending may lead to a vicious circle, in which falling demand further depresses employment, leading to greater declines in demand and output, lower tax revenues and an even larger budget deficit.

The list of countries¹ ranked by the size of their budget deficit (defined as a percentage of the annual GDP) has a few surprises in store. Note that among the 20 countries labored with the worst deficits there are 15 of the World's poorest nations, including: Eritrea, Yemen, Tonga, Nepal and Botswana. Some of the richest, however, also hold illustrious positions: the United Kingdom, Ireland and the United States are also in the top 20.

In the United Kingdom, the current budget (excluding financial interventions) showed a deficit of GBP 7.1 billion in October 2010, 12pct of GDP – the highest in the European Union and worse than Treasury estimates.

The website of a group of independent analysts, www.debt-bombshell.com (also featuring a rather scary national debt clock), comes up with stern reasoning: "As a country, we've grown accustomed to living beyond our means. The government's tax revenues are rarely enough to fulfil its generous spending promises, so every year Britain runs a large budget deficit. The money we can't raise from taxation needs to be borrowed; and as taxpayers, we're the guarantee on the loan. Every year, this budget deficit is added to our national debt... We've been maxing out a new credit card almost every year, even in the good times. If a company were run like this, it would have long been declared bankrupt."

Under Eurozone rules for the single currency, no participat-



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ing country may run a budget deficit at more than 3% of its national wealth. Ireland's is set to hit 32pct this year.

In 2009 the United States ran a budget deficit of USD 1.4 trillion. "The 2010 deficit remained elevated as a result of the severe economic recession, high unemployment and the financial crisis inherited by the current administration," Treasury Secretary *Timothy Geithner* and acting White House budget director *Jeffrey Zients* said in a statement announcing the results. In *Alternatives to Austerity*¹¹, *Joseph Stiglitz* proposes a deficit reduction package that "boosts efficiency, bolsters growth, and reduces inequality". Stiglitz believes that, for this, five core ingredients are required. First, spending on high-return public investments should be increased. ... Second, military expenditures must be cut... Following this is the need to eliminate corporate welfare... Creating a fairer and more efficient tax system, by eliminating the special treatment of capital gains and dividends, is also needed. ... Finally, with more than 20pct of all income going to the top 1pct, a slight increase, say 5pct, in taxes actually paid would bring in more than USD 1 trillion over the course of a decade.

"A deficit-reduction package crafted along these lines would more than meet even the most ardent deficit hawk's demands. It would increase efficiency, promote growth, improve the environment and benefit workers and the middle class.

There's only one problem: it wouldn't benefit those at the top, or the corporate and other special interests that have come to dominate America's policymaking. Its compelling logic is precisely why there is little chance that such a reasonable proposal would ever be adopted."

In most countries, opinions about possible cures are strongly divided. *Jeffrey D. Sachs*, an American economist writing for TIME.com, sums it up: "One side wants to cut taxes and shrink existing public services (including support for the poor) in the name of cutting wasteful government programs and insisting that the poor solve their own problems. The other side wants to increase public spending on social and economic needs — the poor, the unemployed, infrastructure, education and the environment — even as it remains unclear how to fund the outlays."

European Union rules permit member states to hold a maximum public spending deficit of 3pct of gross domestic product, while the maximum gross debt level is set at 60pct. 2009 figures, however, show that the average government deficit of the 16 euro-zone nations stood at 6.3pct of GDP and at 6.8pct of GDP for the EU overall. Average debt stood at 79.2pct and 74.0pct, respectively.

Apparently, governments still prefer to save on the public and not on themselves. It's always the people from which governments ask "more sacrifice, greater effort and more commitment".

In Greek mythology, it was *Theseus* who finally captured and killed Procrustes. Theseus was considered by Athenians to be their own great reformer.

It is not only the Greeks, whose budget deficit is one of the worst in the EU, that could do very well with a reborn Theseus. The Ionian founding hero saved the world from Procrustes, a great reformer could perhaps rid us of his restrictive furniture. ■