

On the Limits of Fiscal Consolidation within a Monetary Union - How to resolve the austerity puzzle at the Europeriphery

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ABSTRACT:

Considering as a case study that of Europeriphery today, the Paper examines the seven key pillars of bail-out programs, namely the issues of internal devaluation, expansionary austerity, growth-enhancing reforms, the frontloaded nature of the adjustment, the nominal targeting, the (wrong) values of the fiscal multipliers, and the very concept of conditionality.

The Paper analyzes the crucial role the recession plays in the austerity puzzle at the Europeriphery, e.g.

the self-defeating character of a fiscal adjustment in an indebted member-state of a monetary union that pushes the economy to a debt trap or/and how such a severe recession has acquired by now the characteristics of hysteresis, namely of a persistent and long-lasting recession. Within the context and the limitations of an adjustment program, the Paper puts forward innovative proposals aiming at improved results in terms of both fiscal consolidation and growth performance.



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