Cutback Decision-Making in Europe: A Comparative Analysis

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1. Introduction

The main purpose of this paper is to provide an international comparative analysis of how a variety of European countries have dealt with the financial-economic crisis during 2008-2012. The focus will be on governmental decision-making processes during the retrenchment.

The existing scholarly research has provided multiple insights about the implications and impact of the financial crisis on public administration. The crisis has been treated both as dependent and independent variable in theoretical and empirical works addressing different policy areas and aspects of public administration. For instance, several authors point out that the crisis has substantially redrawn the boundaries between public and private sectors (Thynne 2011) by empowering the former (Moulton and Wise 2010; see also opposing theorizing by Pandey 2010). Also, the coordination mechanisms of the key regulatory institutions have been studied; a number of studies conclude that the financial crisis resulted from coordination failures (Dabrowski 2009; Gieve and Provost 2012). Lodge and Hood (2012) have theorized about the shifting competencies required from public servants and governments due to crisis. Peters, Pierre and Randma-Liiv (2011) and Peters (2011) have looked at the governments’ responses to crisis from the perspective of public administration and offer hypotheses about the effects of the crisis on centralization, politicization and coordination. Also the issue of citizens’ (declined) trust, (heightened) expectations and general attitudes towards government and the role of public leadership have been addressed (Posner and Blöndal 2012; Raudla and Kattel 2013; Massey 2011; Van de Walle and Jilke 2012).

1 The research leading to these results has received funding from the European Union’s Seventh Framework Program under grant agreement No. 266887 (Project COCOPS), Socio-economic Sciences & Humanities and from the Estonian Science Foundation grant no. 9435.
The existing academic studies show that up to now the government responses to the crisis have been diverse; there have been “as many responses as countries” (Peters 2011, 76) and in many cases the responses have been diverging (see Bideleux 2011; Kickert 2012b, 2012c, 2012d, 2013a, 2013b; Lodge and Hood 2012; Peters 2011; Peters, Pierre and Randma-Liiv 2011; Pollitt 2010; Verik and Islam 2010). Although the number of publications in the fields of public administration and political science addressing the recent crisis has been vastly growing during the past couple of years, there is still lack of comparative studies based on common methodology.

This paper attempts to fill up some gaps in relevant research. As part of the EU Seventh Framework project ‘Coordinating for Cohesion in the Public Sector’ (COCOPS, www.cocops.eu), the Work Package 7 on ‘The global financial crisis in the public sector as an emerging coordination challenge’, an international comparative study of the responses of national governments on the fiscal crisis has been carried out. Being one output of this research project, this paper aims at describing and explaining similarities and differences between country responses to the recent crisis with special focus on governmental decision-making processes. The comparative study is based on the analysis of 14 European countries including Belgium, Estonia, France, Germany, Hungary, Iceland, Ireland, Italy, Lithuania, Norway, the Netherlands, Slovenia, Spain, and the UK.

The paper looks at the cutback decision-making in the European countries — therefore, it is firstly informative. The second objective is to compare the countries and try to explain the similarities and differences in the fiscal consolidation decision-making processes in different countries. In this particular paper, we do not consider the contents of the consolidation measures, but the political-administrative decision-making processes that led up to these measures. In addition to financial and economic explanatory factors we also use political-administrative factors and external influences that have affected the consolidation process.

2. Analytical framework

Up to now notions such as global financial crisis, fiscal crisis, economic crisis, banking crisis, sovereign debt crisis and lately also social crisis have been used hand in hand, at times even interchangeably. To solve the definitional issues, the current paper is based on the approach of Kickert (2012a), looking at the global crisis as separate (sequent) phases. First, banking crisis is referred to as the initial phase of the crisis where banks and other key financial institutions faced difficulties and governments undertook different support and rescue measures to save the financial institutions. Second, economic crisis emerged after the financial crisis started to affect the real economy and led to drastic falls in GDP and employment, forcing the governments to undertake economic recovery measures (e.g. in the form of economic stimulus packages). Third, fiscal crisis arose when the budget deficits the governments were having (and gross state debts they had accumulated) came to be seen as excessive; in response to that, governments started consolidating the budgets and undertaking cutback management (Kickert 2012a; Posner and Blöndal 2012). Since 2010, the fourth phase of the crisis has erupted — the European sovereign debt crisis, also called the Eurozone crisis. In countries with excessive national debt levels and budget deficits coupled with lenders’ increasing interest rates on state bonds, it became impossible to further finance their deficits and debt. This was (and is) particularly the case when
economic growth was low and debt was mainly in the hands of foreign creditors, as seen in Greece and Portugal. As a consequence, Greece, Ireland and Portugal had to be bailed-out in 2010, Spanish banks received a bail-out in 2012 and Cyprus was bailed-out by the European Commission, the International Monetary Fund and the European Central Bank in 2013.

The focus of this study is on the phase of fiscal crisis, the other phases are used for contextual information where necessary. We investigate how the national governments handled their domestic fiscal crisis, and do not focus on the European level of decision-making to jointly manage the Eurozone crisis. The Eurozone crisis, the bail-outs and other support measures taken co-operatively by the EU member countries, undoubtedly had a major impact on the economic and fiscal crisis in the Eurozone countries and their consequent domestic fiscal consolidation measures. Moreover, the Maastricht treaty of the EU about maximum budget deficit and state debt had a major impact on the domestic fiscal decisions of national governments. In this study, however, we will consider that only in the framework of external factors influencing the national fiscal consolidation process.

This study uses existing theoretical frameworks on government decision-making and cutback management. Based on the basic distinction in the cutback management literature, there is a resemblance with the classical dichotomy in decision-making between rational-comprehensive and incremental dichotomies (Lindblom 1959, see Table 1).

Table 1. Rational-incremental dichotomy in decision-making

<table>
<thead>
<tr>
<th>Rational-comprehensive</th>
<th>Incremental-compromise</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political priority-setting</td>
<td>No political priorities, no rational analysis</td>
</tr>
<tr>
<td>Fundamental rational core-task analysis</td>
<td>Across-the-board, cheese-slicing, equal cuts</td>
</tr>
<tr>
<td>Strategic long-term decision-making</td>
<td>Pragmatic short-term compromise decisions</td>
</tr>
</tbody>
</table>

Peters, Pierre and Randma-Liiv (2011) have further elaborated this classical dichotomy and subdivided decision-making dilemmas into a number of strategic characteristics such as fundamental priorities versus incrementalism, swift and drastic versus slow and small decisions, centralized versus decentralized decisions, coherent systematic versus incoherent patchwork, and long-term sustainable solutions versus short term quick fixes (see Table 2).

Table 2. Characteristics of decision-making

<table>
<thead>
<tr>
<th>Fundamental political priority-setting</th>
<th>Incremental pragmatic compromises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Swift, large and drastic decision-making</td>
<td>Slow, small and gradual steps</td>
</tr>
<tr>
<td>Centralized decision-making</td>
<td>Decentralized decision-making</td>
</tr>
<tr>
<td>Coherent and systematic decision-making</td>
<td>Incoherent patchwork</td>
</tr>
</tbody>
</table>
Characteristics of decision-making may differ in various stages of crisis. When faced with fiscal stress necessitating spending cuts, public organizations can essentially choose between two sets of actions: first, denying or delaying the cuts and, second, deciding and implementing actual cuts. This reaction pattern resembles the social-psychological ‘coping cycle’ (Carnall, 2003) about ‘resistance to change’: people first deny the need for change, then defend the advantages of the current situation, and only afterwards recognize and comply with the need for change, adapt to it, and in the end internalize the need and agree to take action to change. Moreover, the theory of change management teaches us that for a decision to change to be successfully implemented, a series of necessary steps ought to be taken besides the mere ‘decision’ (Kotter, 1996).

The experience with cutback management during the fiscal crisis of the 1980s has taught us that cutbacks took place in a series of stages (Raudla, Savi and Randma-Liiv 2013). After the initial stage of denial and defence was overcome, a first round of small cutbacks usually came about. Because politicians were not yet fully convinced of the gravity and duration of the crisis, the measures were moderate and temporary, cutbacks were postponed or planned for later years, and expenditure cutbacks were shifted to the capital investment account, thus disguising the cuts and sparing the service delivery to citizens. Only in the later stages of cutbacks did governments come to realize that the crisis was more severe and persistent than expected, and the cutbacks became more severe. Wages were frozen as was hiring, but wage cuts and dismissals were still avoided, as were cuts in public service delivery. It was only several cutback rounds later that governments had to concede that cuts in salaries and employment were inevitable and that political priorities had to be set for targeted downsizing and cutting of public services. Table 3 provides an overview of the different stages of cutback decision-making.

Table 3. Stages of cutback decision-making

<table>
<thead>
<tr>
<th>Stages of cutback decision-making</th>
<th>Types of cutback measures</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Moderate adjustment to status quo.</td>
</tr>
<tr>
<td></td>
<td>Cuts postponed or planned for later years.</td>
</tr>
<tr>
<td>Compliance with the need for cutbacks.</td>
<td>First attempt at serious cutbacks.</td>
</tr>
<tr>
<td>Internalized need for cutbacks.</td>
<td>First across-the-board and efficiency cuts.</td>
</tr>
<tr>
<td></td>
<td>Ultimately fundamental political priority-setting.</td>
</tr>
</tbody>
</table>
In the literature on cutback budgeting and cutback management, a number of categorizations of the cutback approaches have been put forth (for the literature review, see Raudla, Savi and Randma-Liiv 2013). The most basic distinction in cutback management is made between different types of cutbacks by distinguishing between across-the-board and targeted cuts. Across-the-board measures refer to cuts in equal amounts or percentages for all institutions, while targeted cuts imply that some institutions and sectors face a larger cut than others. This dichotomy has been labeled in various ways. The across-the-board tactics has also been called “cheese-slicing” (e.g. Pollitt 2010), “decrementalism” (e.g., Levine, Rubin and Wolohojian 1981; Levine 1985; Bartle 1996), and “equal misery” approach (Hood and Wright 1981). The “targeted” or “selective” cuts approach has been conceived of as involving an array of possible tactics, ranging from “strategic prioritization” and “managerial” to “ad hoc” or even “random” (or garbage can) cuts (see, e.g., Levine 1979; Behn 1980; Bartle 1996; Hendrick 1989). Strategic response to fiscal stress would entail decisions on the department’s mission and core services and corresponding prioritizations in resource allocations (Levine 1985: 692). Such a response could mean that in making reductions to programs, low-priority programs would be cut more than high-priority programs (Levine, Rubin and Wolohojian 1981). In the managerial approach, the cuts are also selective, but instead of using comprehensive and rational analysis for making the cuts, the officials use “programmatic criteria related to mandatory and non-mandatory expenditures to determine requests and appropriations” (Hendrick 1989: 30).

The existing literature shows that the longer-lasting and the more severe fiscal stress is, the more likely it is that the authorities start imposing targeted cuts (rather than implementing the across-the-board measures) (Levine 1979, 1985; Levine, Rubin and Wolohojian 1981; Hood and Wright 1981). Levine (1979: 182) argues that at the beginning of the austerity, across-the-board cuts are more likely (as the “sharing the pain” option is likely to be perceived as more equitable and hence to generate less conflict and resistance), but if these measures are not sufficient, more targeted cuts on the basis of prioritization will be adopted (Hood and Wright 1981; Pollitt 2010).

This comparative study uses the above-mentioned categorizations as a basis for country analyses.

3. Methodology

The current study treats fiscal crisis as an independent variable explaining the possible changes in governmental decision-making. The focus is not on explaining the crisis per se but on providing insights about the effects that the crisis has brought along. The study employs both exploratory and explanatory approaches to comparatively investigate the reactions of national governments to fiscal crisis.

The comparative study is based on the analysis of 14 European countries including Belgium (BE), Estonia (EE), France (FR), Germany (DE), Hungary (HU), Iceland (IS), Ireland (IE), Italy (IT), Lithuania (LT), Norway (NO), the Netherlands (NL), Slovenia (SI), Spain (ES), and the United Kingdom (UK). The paper draws on the main outcomes from the research compiled within the COCOPS project by integrating information and findings from three different sources.

1) 10 short country reports providing analytical descriptions of the national governments’ main responses to the crisis in a particular country following a common research plan.
2) 11 academic country case studies focusing on the analysis of consolidation measures, decision-making processes, and the impact of the crisis on public administration. These case studies integrated the information and analysis prepared for the short country reports, provided more in-depth analysis of the national responses to the crisis, and linked the empirical analysis to the theoretical literature.

3) for 10 countries, the relevant findings of the COCOPS’ Executive Survey on Public Sector Reform in Europe have been utilized. The survey explored the senior executives’ opinions and experience with regard to public sector reforms and included a special section on the impact of fiscal crisis on public administration. The survey targeted top-level decision makers and civil servants in central government and in the fields of health and employment and was sent to more than 21,000 European senior civil servants in 2012. The results of the survey included answers by 4,780 executives from ten participating countries. The overall response rate was 24%, ranging from 35% in Estonia and 34% in Norway, to 18% in Spain and 11% in the UK. Although it is difficult to make representative conclusions because of the low response rate in some countries, the overall response rate is rather consistent with other existing executives’ surveys in public administration. It is based on a full census of the target population defined, and represents by far the largest existing dataset of this kind for European public administrations.

All references in this paper to country-examples are derived from the afore-mentioned country-studies unless another explicit reference is made.

4. Cutback decision-making

4.1. Characteristics of decision-making

This section offers an overview of the decision-making processes in the selected European countries leading up to the fiscal consolidation measures. Strategic characteristics of the decision-making are addressed below, including the extent to which governments were able to reach more fundamental political priorities in their cutback management, whether governments were able to swiftly and centrally reach drastic decisions, and whether the decisions were coherent and systematic, and aimed at long-term solutions (Peters, Pierre and Randma-Liiv 2011).

Although this paper focuses on the decision-making about fiscal consolidation, brief contextual information will be given about preceding crisis management practices. As mentioned before, the fiscal crisis was preceded by the banking crisis of 2008 and the economic crisis of 2009, in which different types of decision-making practices occurred (see more about decision-making in different phases of crisis in Kickert 2012a).

During the 2008 banking crisis, the severity, magnitude and urgency of the crisis forced governments into very rapid and highly centralized crisis management. Only a few actors—usually the Prime Minister, Finance Minister and President of the National Bank assisted by a handful of top-officials—had to take decisions under enormous time pressure. In virtually all countries affected by the banking crisis, the decision-making was very quick and highly centralized.
During the 2009 economic crisis, several European governments devised economic recovery plans. However, this time the crisis was not as urgent, and decision-making followed the usual political and parliamentary path, often including extensive consultations with employers’ and employees’ organizations. Moreover, the crisis in some countries was not considered severe enough to justify large extra expenditures. Decision-making during the economic crisis was neither fundamental, nor swift, nor centralized, nor systematic, nor long-term in most European countries.

The Eurozone crisis that erupted since 2010 provides a totally different type of decision-making pattern, this time not restricted to domestic government decisions but a highly complex and multi-layered co-operative decision-making by all Eurozone states together.

By 2010 most governments arrived at the stage where budget deficits – often far exceeding the EU ceiling of three per cent of GDP — required fiscal consolidation measures. In the beginning, many political and social actors were far from being convinced of the need for expenditure cutbacks and, for example, debated the strictness of the European deficit-limit by that slowing down the decision-making process. However, as seen below, as the need for more radical cutbacks grew, governments tended to centralize their decision-making processes by that laying the ground for actual cutbacks.

The following examples from the country-studies illustrate the various characteristics of cutback decision-making process during the fiscal crisis and consolidation phase.

In Belgium the federal government decision-making on fiscal consolidation was constrained. The federal government has the authority in taxation and social security, but the regional and community governments have the authority in most of the expenditure categories. The party-composition of the federal government differed from the Flemish and Walloon government coalitions, making mutual cooperation difficult. The relatively prosperous Flemish government might have the opportunity to carry out expenditure cuts, but knew that a budget surplus would automatically compensate for the deficit of the economically poor Wallonia, and therefore lacked the incentive to do so. Federal fiscal consolidation therefore mainly focused on revenue measures. In 2011 fiscal consolidation measures were taken after extreme pressure of the European Union and the falling credit ratings of Standard & Poors. The Belgian 2010-2011 coalition formation was more concerned with Flemish-Walloon political language-group conflicts, and the reform of the Finance Act than with the specific priority setting for consolidation.

As the Estonian government opted for radical cutbacks in the beginning of the crisis, the decision-making was swift and drastic from the outset of crisis. The fiscal crisis led to an increased role of the Ministry of Finance in setting the targets for the cuts in program expenditures that were imposed on the line-ministries. Within ministries the budget-units also gained an increased influence over the policy-units. Furthermore, the Ministry of Finance appointed representatives into some of the boards of state foundations and enterprises. Central hierarchical control was enhanced. On the other hand, the operational expenditure cuts mainly were across-the-board measures, leaving line-ministries free in deciding on their own cutbacks.

In France the new 2007 right-wing government and president Sarkozy were well aware of budgetary difficulties. Sarkozy had before been Minister of Economics and Finances and had
initiated reforms in public finances. President Sarkozy strengthened his leadership and centralized his control of the government by frequently chairing inter-ministerial council meetings, and by tightening the control over ministries through a small number of close top-officials from the financial spheres. The government for a considerable period of time hesitated between cutback and economic stimulus measures. The policy was framed in the neologism “rilance”, a combination between the two words “rigueur” (rigor) and “relance” (stimulus). The result was a combination of (1) an economic recovery plan for 2009-2010 with extra spending of 26 billion, associated with several cutback measures that were not directly linked to the crisis, and (2) from 2010 the launching of a number of cutback measures.

In Germany, due to the crisis the budget procedure has been centralized and budget discipline strengthened. When German government in 2009 devised its two consecutive economic recovery plans, at the same time a constitutional debt brake (‘Schuldenbremse’) was adopted. Part of the ‘federalism reforms’ initiated in 2006 by the Christian-Socialist two-third majority coalition enabling a number of constitutional amendments, the ‘Schuldenbremse’ enacted structurally balanced budgets for both the federal and regional ‘Länder’ governments from 2016 and 2020 on, respectively. Secondly, the government proposed a ‘top-down budget procedure’ at federal government level in 2010 by granting the Finance Minister more central power to curb excessive spending of ministries. The Finance Minister as of 2011 determined multi-year budget ceilings for each ministry, within which limits the ministries received a higher degree of autonomy to achieve their budgetary targets. Thirdly, a ‘Stability Council’ was installed, consisting of the Minister of Finance, the Minister of Economy, and the Finance Ministers of the ‘Länder’. The Council regularly monitors the budgets of the federal and ‘Länder’ governments based on a set of indicators.

In Iceland, the consolidation measures led to immediate reforms aiming at a stronger, more centralized state with improved coordination capacities. The Coalition Statement of the first-ever left-wing government in Iceland foresaw the strengthening of the center of government by granting more power to the Prime Minister’s Office. The roles of a Prime Minister and Cabinet committees were further elaborated in order to increase their responsibility in policy coordination. The responsibilities of Ministers for taking initiative and steering their respective policy fields were better established. The need for closer control of the government by the Icelandic Parliament ‘Althingi’ was recognized by re-organizing parliamentary committees and enhancing their power of scrutiny. Finally, greater restrictions on the financial autonomy of local governments were considered necessary, although a new Local Government Act also included trends towards decentralization by introducing new ways of citizen participation at the local level. The left-wing government also aimed at increasing consultations with the labor market partners and entered a ‘stability contract’ with unions.

In Ireland, a form of corporatist bargaining between major interest groups and government was a prominent feature during the 1987-2010 period, but this has disappeared in the context of the crisis and more centralized control of economic policy. The crisis led to two important institutional changes at the center of the government. First, a new Ministry, the Department of Public Expenditure and Reform, was created. This new Department broke the duopoly in the Irish government in which decision-making power was shared, and contested, between the Finance and Prime Minister’s Departments. Assuming functions from these two Departments, the new Department combined revenue expenditure functions with public service management,
reform and industrial relations issues. The manifestation of the political commitment to reform in
the new Ministry was driven not only by the need for fiscal discipline as demanded under the
EU-ECB-IMF conditionality, but also by the desire for more centralized control of the public
sector and more standardized governance and accountability arrangements across the public
service. Second, an Economic Management Council was established as a form of Cabinet ‘super-
committee’ containing a small group of senior Ministers (including the Prime Minister or
‘Taoiseach’) and advisers to manage the Troika loan program and related reforms. These
developments refer to the tendency to centralize decision-making in a crisis and to facilitate fast
and swift responses of the government.

In Italy the government responded to the fiscal crisis by setting up a systematic approach for
controlling and revising public finances, patterned on the British ‘spending review’ approach.
The Monti government launched the spending review at the end of 2011 to tighten the control of
public debt and adopt a more targeted approach to cutbacks. Earlier attempts to overcome the
predominant cheese-slicing approach by the Prodi and Berlusconi governments had failed. In
2011 the crisis became so acute that the Berlusconi government started a spending review
experiment, which was interrupted by the resignation of Berlusconi. In order to support its
planned reform of social security and health care, the new Monti government launched a new
spending review with a special support structure, which resulted report on Public Expenditures
indicating the size and distribution of cuts, and the most ‘attackable’ issues in April 2012.
However, it did not manage to break through the predominance of across-the-board tools, due to
the weakness of the political system.

In Lithuania, major consolidation measures were announced literally overnight. For example, the
Lithuanian tax reform at the end of 2008 was dubbed as ‘the night reform’. More than 100 tax
rules were decided upon and came into effect in some instances only one week after their
adoption. Austerity decisions were both large and swift. The hasty nature of decision-making did
not allow for an adequate ‘ex ante’ assessment or proper consultation with social actors.
Lithuania’s response to the fiscal crisis tended to centralize the decision-making process by the
reduction in the number of appropriation managers and through the reorganization of
government agencies into the agencies under the ministries in order to increase the authority of
ministers to politically control government expenditure and agency performance. Consequently,
not only centralization increased but also the importance of politicians in the decision-making
process. The government-wide spending cuts were initially cascaded to the program level on the
top-down basis with little differentiation applied across the organizations and programs,
following the across-the-board pattern. Since the end of 2009, the government granted more
decision-making autonomy over the cuts to political and administrative executives by employing
a more managerial approach.

In the Netherlands the Central Planning Bureau performs a strong and central role in the budget
procedure. The multi-year economic forecasts of the Bureau are undisputedly accepted by the
government and by virtually all political parties as the starting point for the annual budget
preparation. In times of general election the role of the Bureau becomes even stronger. Besides
preparing the macro-economic figures that form the input for the (budgetary deliberations during
the) coalition formation, it economically checks the election programs of all political parties, and
economically checks the outcomes of the coalition agreement.
In the United Kingdom, the majoritarian political system enabled the new 2010 government to take swift, central and drastic decisions. The 2010 general elections did not yield a single winning party, and a coalition was formed between the ideologically opposed Conservatives and Liberal-Democrats. Although the coalition required extensive consultation between the two parties, both parties broadly agreed on the need to cut the budget deficit and the Cameron-Clegg coalition cabinet very quickly agreed upon a drastic retrenchment package, rapidly worked that out in an ‘emergency budget’ and within months finalized its details in the annual Budget. UK has a tradition of strong central leadership of the Cabinet Office and strong control exercised by the Treasury. In the British government the core executive has a high capacity to control spending, although the implementation of spending cuts may not be straightforward.

The following table summarizes characteristics of decision-making process country by country. Within one country, decisions of different governments are distinguished. In the case of all indicators, the *prevailing* characteristic is indicated.

Table 4. Characteristics of cutback decision-making at central government

<table>
<thead>
<tr>
<th>Belgium</th>
<th>Estonia</th>
<th>France</th>
<th>Germany</th>
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</thead>
<tbody>
<tr>
<td>None/small/ moderate/large cuts</td>
<td>Small</td>
<td>Moderate</td>
<td>Large</td>
</tr>
<tr>
<td>Swift/slow</td>
<td>Slow</td>
<td>Swift</td>
<td>Slow</td>
</tr>
<tr>
<td>Targeted/ across-the-board</td>
<td>Across</td>
<td>Across</td>
<td>Across</td>
</tr>
<tr>
<td>Centralized/ decentralized</td>
<td>Central</td>
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<td>Central</td>
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<table>
<thead>
<tr>
<th>Hungary</th>
<th>Italy</th>
<th>Iceland</th>
<th>Ireland</th>
<th>Lithuania</th>
</tr>
</thead>
<tbody>
<tr>
<td>None/small/ moderate/large cuts</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Large</td>
<td>Large</td>
</tr>
<tr>
<td>Swift/slow</td>
<td>Swift</td>
<td>Slow</td>
<td>Swift</td>
<td>Slow</td>
</tr>
<tr>
<td>Targeted/ across-the-board</td>
<td>Across</td>
<td>Across</td>
<td>Targeted</td>
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<td>Centralized/ decentralized</td>
<td>Central</td>
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<table>
<thead>
<tr>
<th>Netherlands</th>
<th>Slovenia</th>
<th>Spain</th>
<th>UK</th>
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<tr>
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<td>Targeted</td>
<td>Targeted</td>
</tr>
<tr>
<td>Centralized/ Decentralized</td>
<td>Central</td>
<td>Central</td>
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</tbody>
</table>
4.2. Targeted versus across-the-board cuts

The COCOPS survey offers a complementary approach to case studies by demonstrating how the public sector executives perceive the cutback decision-making in their particular countries. In the survey, the dichotomy ‘targeted versus across-the-board cuts’ was expanded to the following three-partition: targeted cuts according to priority-setting; productivity and efficiency savings; and proportional across-the-board cuts.

Figure 1 below shows that targeted cuts and proportional cuts have been applied the most during the fiscal crisis, and productivity cuts to a lesser extent (this is the reason why countries are listed according to the relative size of targeted cuts). According to the public sector executives, targeted cuts have been applied as a prevailing strategy of cutbacks in Spain (65%), the United Kingdom (51%), Germany (46%), Hungary (45%), the Netherlands (44%) and France (33%). In Italy and Estonia, the share of targeted cuts is more than 30%, but proportional cuts seem to have prevailed in these countries as 50% and 48% of the respondents from Italy and Estonia respectively confirmed proportional cuts to have been the main strategy applied during the cutbacks. In Italy, however, the government introduced more targeted cutbacks in 2012 — the same year when the survey was carried out — which can be the reason why this is not adequately reflected in the survey results. In Hungary, France and the Netherlands, more than 30% of the top public sector officials claimed that across-the-board cuts were executed during the retrenchment period. Cuts based on productivity appear to have been the least popular. According to the public sector executives in France, the United Kingdom and Germany, the share of productivity cuts was 30%, 27% and 25% respectively. The trio is followed by the Netherlands (19%), Estonia (13%) and Norway (12%) where the proportion of targeted cutbacks ranged between 10% and 20%. In Italy, Spain and Hungary, the share of cuts based on productivity was estimated to be less than 10%.

Figure 1. Perceived types of decision-making by European public sector executives

Norway has hardly experienced an economic and fiscal crisis, so it is not surprising that the survey yielded the highest outcome of ‘no cutbacks’ regarding this question. The drastic and fundamental cutbacks taking place in Spain and the UK are confirmed by the relatively high
outcome of ‘targeted cuts’ in the survey. At the same time, large cuts in Estonia and Lithuania were carried out by using across-the-board cuts as prevailing cutback strategies. In other countries like France, Germany, the Netherlands and Italy the relatively high perception of ‘targeted cuts’ in the survey somewhat differs from the information provided by country studies. The survey results also show that often it is not possible to draw a clear-cut line between targeted and across-the-board cuts. Most often, governments tend to use a combination of the two leading to a wide variety in the perceptions of public sector executives.

4.3. Stages of cutback decision-making

Decision-making on fiscal consolidation and cutback measures is usually not a one-off event, but it consists of a series of decision-making stages. It seems likely that the decision-making over the fiscal cutbacks of the 2010s follows a similar trajectory as in the 1980s in most of the European countries. The first cutback decisions in most countries took place in 2009-2010, and subsequent rounds of further cutbacks followed as the financial-economic crisis persisted. In the beginning, the decisions tended to be moderate and temporary, as the actors were unwilling to believe that the crisis and the need to undertake cuts were real. In the majority of European countries, the first cutback plans met with protest and resistance from the political left, trade unions, and other interest groups affected. Consequently, in the great majority of European countries, cuts were postponed or planned for later years, as the crisis was believed to be over soon (called the ‘tooth fairy syndrome’ by Levine 1979). Later the decisions became less hesitant but still addressing rather small adjustments. Consequently, initial rounds of small and incremental cutbacks had been undertaken in most European countries by 2013 (with Norway being a clear exception here). Governments gradually became aware that the crisis was more severe and persistent. Moreover, one could also argue that the initial (modest) cutbacks were among factors contributing to aggravating the crisis. Other stages of more serious cutbacks have followed, especially in the countries hit the hardest by the crisis. This shows that in most countries, it took several decision-making rounds before the gravity and duration of the crisis was fully comprehended and decisions came to be serious and resolute. In some countries, attempts to set political priorities and to arrive at more targeted cutback-decisions have been made.

The following country-examples illustrate various stages of cutback decision-making in selected European countries.

Estonia. Estonia was among the first European countries hit by the crisis. Despite the short denial period in the beginning, the severity of the crisis was quickly realized leading to fast operational cuts. The coalition government took its fiscal consolidation measures in three successive supplementary budgets. In the June 2008 austerity package, nearly half of the expenditure cuts were about operational costs, mainly by curtailing personnel expenditures through dismissals, salary cuts, work-time reduction and lay-offs. In January 2009, the operational expenditures were once again curtailed, amounting to a total of 22 per cent within one year. This second cutback package contained fewer dismissals but a further reduction of civil service salaries. The second and third cutback package of June 2009 also introduced cuts in program expenditures (social security, pension, health, etc.).
Iceland. The severe banking crisis in Iceland in October 2008 did not leave room for crisis denial, postponement of consolidation measures or temporary solutions. According to the Emergency Act following immediately the banking crisis, the Financial Supervisory Authority was granted extraordinary powers to address the fall of the three banks representing 85% of the banking system of the country. The cutback decision-making was swift and drastic, partly imposed by the IMF. Interestingly, the Icelandic government did not opt for across-the-board cuts, but chose immediately fundamental priority-setting. Such a targeted approach, in turn, required the strengthening of the leadership role of the Prime Minister’s office.

Ireland. Between summer 2008 and spring 2012, Ireland had eight episodes of fiscal adjustment. There is no evidence of remarkable crisis denial, postponement of cuts or major temporary measures applied. The severity of the crisis was quickly recognized by the government and cemented by the Troika loan program leading to a combination of spending cuts and increased taxation. The first round of consolidation measures relied upon efficiency cuts, moving gradually to across-the-board measures in operational expenditures (e.g. recruitment embargo across all sectors, cuts to public sector pay as a ‘pension levy’, pay freeze), and from there to targeted capital cuts particularly affecting the health services, environment and transportation sectors, as well as targeted cuts in a range of cultural and arts activities.

Lithuania. Although the need to start fiscal consolidation in Lithuania became apparent already in the first half of 2008, the political parties (both from the ruling majority and opposition) did not support unpopular cutback measures before the forthcoming general elections. Consequently, the reduction of government expenditures started only at the end of 2008. The cuts were initially broad-based but later some targeted reductions in different program categories (appropriations and public sector wages) were adopted.

The Netherlands. Expenditure cutbacks were lifted over the general elections of 2010. The new center-right coalition agreed upon a 18 billion cutback package. When further economic deterioration made another 14 billion cutbacks necessary, the coalition cabinet fell down in the spring of 2012. Surprisingly, however, three small opposition parties agreed upon the expenditure cuts, including a break-through in some politically sensitive issues. In the fall of 2012 the subsequent coalition formation managed to set some political priorities in pensions, unemployment and housing.

Slovenia. After the autumn 2008 elections, a coalition government was formed which immediately had to adapt its coalition agreement to the crisis. In December 2008, a first anti-crisis package was devised to boost the economy. In February 2009, the second anti-crisis package also included public expenditure reductions besides economic recovery measures. The public sector cuts consisted of withholding wage increases, a reduction of state employment, a reduction of sub-contracting, and a reduction of basic salaries. The rise of social transfers and pensions was limited. In April 2009 a wage freeze was introduced. Real fiscal consolidation was only undertaken in 2010. In April 2011, structural reforms were planned, but the pension and labor market reform was voted down in a referendum, and the government was forced to refrain to ‘mild’ measures. Partly due to its inability to manage the crisis, early elections were held in November 2011, resulting in a right-wing headed coalition government in February 2012. Downsizing the public sector became its priority. The May 2012 Act aimed at major cost-cutting of public sector salaries and employment, based on an agreement reached with the social partners.
The following table summarizes stages of cutback decision-making country by country.

Table 5. Stages of cutback decisions

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| Moderate adjustments     |    |    |    |    |    |    |    |    |    |    |    |    | 2009 |
| 2009 -11                 |    |    |    |    |    |    |    |    |    |    |    |    | 2009 |

| First attempts at cutbacks |    |    |    |    |    |    |    |    |    |    |    |    | 2009 |
| 2009 -                     |    |    |    |    |    |    |    |    |    |    |    |    | 2009 |

| Resolute cutback decisions |    |    |    |    |    |    |    |    |    |    |    |    | 2009 |
| 2012 -                     |    |    |    |    |    |    |    |    |    |    |    |    | 2009 |

| Fundamental priority-setting |    |    |    |    |    |    |    |    |    |    |    |    | 2009 |
| -                          |    |    |    |    |    |    |    |    |    |    |    |    | 2009 |

European countries have passed through such decision-making stages at varying pace. As a rule of thumb, countries hit the hardest by the crisis have reached faster the later stages of decision-making. The majority of European countries have followed a gradual development from crisis denial to temporary to moderate measures leading finally to more radical cutbacks (if necessary). With the exception of Germany, virtually no country could escape the measure to freeze hiring and pay, and to set caps on replacements. The latter resembles the responses to the fiscal crisis of the 1980s when this was typically the first modest step in curbing administrative expenditures. It was only in the later stages of further mounting budgetary deficits, that governments were forced to introduce the politically much more contested measures of actually reducing wages and employment. Cutbacks were made in several rounds with the measures increasing in severity.

There are also a few exceptions to this general pattern that could offer two alternative trajectories to the mainstream approach. First, the Estonian and Lithuanian governments skipped decisively modest measures and opted quickly after the outset of the crisis towards resolute cutbacks. Second, those European countries that had to request financial assistance from IMF, EU and ECB, like Iceland, Ireland, Italy and Spain, received the bail-outs on the condition that the public sector wage bill had to be reduced, leading to far more than only hiring and pay freeze, that is, to substantial cuts in public sector salaries and employment. The conditionality of Troika has forced governments swiftly towards radical cutback measures without giving the governments leeway in delaying cuts and/or introducing slowly more modest cutback measures.

4.4. Power relations during the retrenchment
The evidence from the COCOPS survey demonstrates some shifts in power relations in the decision-making process during the retrenchment. In addition to addressing classical dichotomies of politicians vs civil servants, and centralization vs decentralization, the study also pays special attention to the (changing) role of budgetary units in the decision-making process, both on the state and organizational levels. First, it is hard to describe the dynamics in the power of politicians in decision-making during fiscal consolidation, as most of the countries present mixed results – similar share of responses are from opposite categories. The exceptions are Spain and Estonia, where respectively 66% and 50% of the respondents claim that the power of politicians increased during the retrenchment.

Figure 2. Increase in the power of politicians in decision-making

Second, in all the countries more than a half of the respondents confirmed that the power of Ministry of Finance increased during the fiscal crisis: in Italy (83%), Spain (82%), Estonia (76%), Germany (74%), France (74%), Hungary (72%), the UK (71%), the Netherlands (67%), and in Norway (58%). In most countries, a remarkable number of respondents claimed that the power of the Ministry of Finance increased to a great extent.

Figure 3. Increase in the power of Ministry of Finance
Third, the public sector executives were asked about how the crisis impacted the centralization of decision-making within their particular organizations. The answers of the top officials show that during retrenchment the decision-making in respondents’ organizations was estimated as more centralized in all countries but Norway. The share of the respondents claiming that crisis triggered centralization is the following by countries: Estonia — 69%, Hungary — 68%, France — 66%, Spain — 66%, Italy — 65%, UK — 61%, the Netherlands — 53%, Germany — 45%. In Norway 47% of the respondents claimed that decision-making did not become more centralized during the crisis.

Figure 4. Centralization of decision-making in organization

Fourth, in terms of the power of budget planning units at the organizational level, more than 50% of the respondents in most countries confirm that its power increased during the fiscal crisis: Hungary (60%), Spain (57%), France (55%), Italy (53%), the Netherlands (52%), Germany (51%) and the UK (50%). Only in Estonia and Norway a bigger share of respondents claimed that the power of financial units did not increase (54% and 46% respectively) in their organizations.

Figure 5. Increase in the power of budget planning units
To sum up major changes in power relations during fiscal crisis, it is possible to conclude the following. First, the power of the Ministry of Finance increased during the crisis in all countries studied, with the lowest proportion confirming such change in Norway. Secondly, the centralization of decision-making on organizational level was acknowledged in all countries except Norway. Third, the power of budget planning units inside the organizations increased, albeit the proportion of public officials confirming the latter is relatively small (just over 50 per cent of the respondents agreeing). Only in Estonia and Norway a bigger share of the respondents claimed that the power of financial unit did not increase.

5. Discussion

Based on the economic literature, one can hypothesize that fiscal crisis decisions are related to the financial-economic circumstances of a country prior to the crisis. The worse the economic situation was (GDP, GDP growth rate, unemployment, etc.) and the worse the budgetary situation was (budget deficit, state debt, etc.), the more drastic and far-reaching measures had to be taken by the governments. In addition, the “financial size” of consolidation measures to be taken grew substantially if a government experienced a banking crisis and had to rescue banks. The basic economic logic of the fiscal crisis and consolidation is that deterioration of economy and public finances led to an increase of budget deficit and state debt, which forced governments to take fiscal consolidation measures, with the aim to decrease the deficit and debt-growth and recover the economy. Therefore, it can be conjectured that the financial-economic situation prior to the crisis together with the financial size of the banking and economic crisis affected the financial size of the consolidation measures.

Cutback decision-making, however, is not only influenced by financial-economic circumstances but also by political-administrative factors. For example, whether the political system is a majoritarian or consensus democracy (single party cabinet or coalition government) affects normally the possibility for swift and drastic decision-making. Furthermore, the relative power of the key decision-makers (like prime minister) affects the speed and scope of crisis actions. In addition, the relationship between politicians and bureaucrats affects the decision-making environment. Besides these characteristics of political systems, the speed and size of the crisis measures are related to the actual ideological composition of a country’s government. Conservative (Liberal) parties tend to advocate quicker and more drastic balancing of the books than Social Democrats or progressive Liberals. Lastly, the size and speed of crisis actions are related to the decision-making processes in government, politics and administration. Managing an urgent and severe crisis (Boin et al. 2008) can be a different process from politicized multi-party decision-making about the budget (Kickert 2012a).

These characteristics of state, political system and government can be used as explanatory factors for analyzing the political cutback decision-making. The usual assumption in international comparative political science research — that unitary states are better capable to take swift, drastic and uniform decisions than federal states — is confirmed in the cases of Belgium and Spain, but rejected in the case of Germany. The Belgian case seems to provide an example of the high complexity of a federal state hindering resolute political decision-making. The reason why the Spanish Zapatero-government did not succeed in taking drastic cutback decisions, however, seems to be related issues other than its state structure.
The usual political science assumption that single-party governments are better capable to take swift and drastic decisions is not confirmed by our data on cutback decision-making. On the contrary, during the single-party Labour-government under Prime Minister Brown, the government of the UK did explicitly refrain from taking harsh cutback decisions. It was the 2010 Conservative-Liberal-Democrat Cameron-Clegg coalition cabinet that took drastic and swift cutback decisions. Under President Sarkozy, France did not take drastic cutback decisions. And the single-party government under Prime Minister Zapatero in Spain did prepare drastic cutbacks under the pressure of the EU and IMF, but the massive protests and demonstrations forced it to call new elections, which it lost. At the same time, coalition governments in both Estonia and Lithuania were capable of carrying out swift and radical cutback measures.

Cutback decisions were usually reached in the preparation of the annual budget or supplementary budgets, which follow particular formal procedures. Several governments attempting to prepare decisions on new cutbacks, lost support of some coalition-partner(s), and either became minority cabinets (Estonia, Lithuania) or fell down (Italy, the Netherlands). In Spain the preparation of a new cutback package led to such massive popular protests that the Zapatero government called new elections, which it lost.

The traditional assumption in political science that minority coalition governments are less capable to take swift and drastic decisions than simple or grand coalitions, is partly confirmed and rejected. The Estonian coalition government fell in 2009 because of the disagreements on cutbacks, but the new right-wing minority coalition was able to decide swiftly on major consolidation measures. On the contrary, the centre-right minority coalition fell in the Netherlands because it did not succeed to prepare drastic cutbacks, and had to call new elections. However, in Denmark with its long tradition of minority coalitions, a similar centre-right minority cabinet, supported by a similar right-populist party as in the Netherlands, did take drastic cutback decisions, and moreover did so right before approaching general elections. And the grand Christian-Social-Democrat coalition in Germany postponed the unpopular decision-making about fiscal consolidation and cutbacks till after the general elections.

While domestic political-administrative factors have rather limited explanatory power, external factors play a great role in explaining cutback decision-making. First of all, developments in the worldwide economy clearly affected the state of economy and public finances. The increase of industrial exports to East Asia, especially China, highly contributed to the swift economic recovery of Germany (export industry). And therefore, indirectly, to the economic recovery of surrounding countries with strong economic relations with Germany such as Belgium and the Netherlands.

The EU-treaty of Maastricht placed ceilings on budget deficit (3% of GDP) and state debt (60% of GDP). In many European countries, the EU-pressure to keep within the deficit-limit was influential by that forcing government to cut back. In Italy and Spain, the European financial assistance made it imperative. Estonia provides an interesting example of a country where the fiscal tightening was an impendent decision, first and foremost explained by the Estonian government’s predominant political priority to join the Eurozone. This goal tied the government with the above-mentioned criteria of Maastricht Treaty. This way the adoption of euro in 2011 turned into a major focal point orchestrating in the government’s action during the crisis management and leading to substantial fiscal retrenchment.
Last but not least, countries like Iceland, Ireland, Greece and Portugal which received financial assistance (bail-outs) from the Troika of the IMF, the ECB and the EU, had to comply with strict and specified fiscal conditions and cutbacks. In these countries, the fiscal consolidation was externally imposed. It is important to note that the Troika holds an ‘orthodox’ view in addressing the crisis (Dellepiane 2012). This involves a general understanding that fiscal consolidation should start early and be imposed quickly in a front-loaded strategy to restore market confidence in governments’ ability to manage their public finances: a government must implement a ‘cold shower’, or fiscal shock treatment (Pisani-Ferry 2007). With such ideology in the background, it is not surprising that countries following the requirements of the Troika’s loan programs, were forced quickly to the real cutbacks including fundamental priority-setting and targeted cuts, without letting them go through long phases of crisis denial and postponement of cuts.

The table below summarizes external influences to European governments in managing the crisis.

Table 6. External influences

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Notwithstanding the many differences among the European countries, preliminary clusters of countries as to their responses to fiscal crisis can be discerned. Above-mentioned country examples show that decision-making processes were often influenced by the size and extent of the fiscal crisis. The one extreme of such a continuum includes countries which were not or only slightly hit by the financial and economic crisis, and experienced hardly any need for consolidation measures and major cutbacks. The other extreme of the continuum involves countries that were so severely hit by the financial crisis that they had to be bailed out, and where outside financial assistance was conditioned on severe austerity and reform programs. Most of the European countries fall in the middle of these two extremes (OECD, 2012). According to the government responses to the fiscal crisis, the study at hand allows to distinguish between five clusters of countries.

Firstly, thanks to its North Sea gas and oil revenues, Norway was hardly affected by the worldwide crisis. Norway did not really face a fiscal crisis of excessive budget deficits. Apart from the
relatively modest measures to stabilize the financial sector, there was no necessity for fiscal consolidation and significant expenditure cutbacks. The crisis had no impact on the functioning of Norwegian politico-administrative system.

Secondly, several European countries were hit so hard by the crisis that they were forced to seek for the external assistance which was in most cases provided by the Troika of IMF-EU-ECB. From our selection of countries, this concerned Iceland, Ireland, Italy, and Spain. The crisis in these countries was severe and fiscal consolidation was imperative. The Icelandic and Irish governments were unable to domestically solve the crisis and had to be bailed-out by the external partners which, in turn, led to externally forced financial and administrative reforms. Although Italy and Spain were not bailed-out, they did receive financial assistance from the EU and ECB leading to conditions of hard retrenchment and reform measures. Although Italy was hardly affected by the banking crisis and only mildly by the economic crisis, the Eurozone crisis deeply affected its public finances — fiscal consolidation was seriously addressed but administrative reform was less successful. In return for the financial assistance of the ECB, the Spanish government was forced to rapidly introduce hard retrenchments and cutbacks. The sudden and drastic measures taken without much consultation and consensus contributed to the growing social unrest.

A similar feature in this country-cluster is a relatively swift and centralized decision-making process triggered by the Troika conditionality, which led to radical cutback measures (e.g. layoffs, pay cuts) and substantive program cuts — in several cases also involving cuts in public services. These countries did not have the time to gradually move from crisis-denial via small and moderate to radical cuts but were forced to apply severe austerity measures much more quickly than most of the other European countries.

Thirdly, one can distinguish a cluster of continental European countries where the relatively modest size of the economic crisis led to relatively moderate economic recovery packages, and which show similar decision-making patterns and a similar approach to consolidation measures. This group of countries first includes those neighboring and economically connected to Germany: Belgium and the Netherlands. They highly benefitted from the swift economic recovery of the German economy due to the rising industrial export to South East Asia. These governments were first reluctant to applying consolidation measures — in all of these countries the retrenchment and cutback decisions were postponed till after the 2010 general elections, and hence coincided with the multi-party deliberations and negotiations about a new coalition cabinet. In Germany that coalition formation was relatively swift, in the Netherlands it took three to four months, but in the highly complex Belgian consensus politics it took 18 months to form a new coalition cabinet. Similarly, the Slovenian government denied the severity of crisis for a while, after which it first applied small consolidation measures and moved gradually to more substantial cutbacks as the crisis grew deeper. Although France had a single-party cabinet and president, and the energetic Sarkozy as a former Finance Minister and known advocate of austerity and reform put fiscal consolidation high on the agenda, in actual practice the cutback decision-making was only half-hearted.

The fourth cluster of countries involves the Baltic states of Estonia and Lithuania. Despite significant drop in their GDP, the Baltic countries implemented substantial fiscal consolidations
during the early stage of the crisis. These small countries were among the first ones hardly hit by the crisis. Instead of cuts’ denial and postponement which was clearly characteristic to the countries belonging to the third group, the Baltic governments applied radical cutbacks as early as already in 2008, and consequently carried out several rounds of substantive cuts. While in the earlier phases of the crisis, more across-the-board cuts were applied, as the time progressed, the cuts became more targeted. Such an approach towards the cuts was facilitated firstly, by the relatively underdeveloped civil society unable to mobilize major protests; secondly, by very weak unions with trade union density the lowest in Europe; and thirdly, by the missing tenure in the civil service regulation which allowed pay and personnel cuts.

Finally, the United Kingdom seems to represent a unique case. A majoritarian single-party cabinet refuted the alleged assumptions of swift and drastic decision-making. The Labour government under Prime Minister Brown explicitly refused to take cutback decisions in view of the upcoming elections. It was the Cameron-Clegg two-party coalition cabinet that took unprecedented and unequalled massive cutback decisions. Yet, notwithstanding the massive fiscal consolidation measures, the economy and public finances are still in a bad shape.

6. Conclusions

In analyzing the characteristics of decision-making processes leading up to the fiscal consolidation measures, this paper investigated whether governments were able to swiftly reach drastic decisions or rather applied slow, small and gradual steps, whether the decisions were centralized or decentralized, and the extent to which national governments were able to reach fundamental political priorities in their cutback management or rather relied on incremental pragmatic compromises.

The study indicates that fiscal crisis decisions were primarily related to the financial-economic circumstances of a country. The worse the economic situation and the worse the budgetary situation, the more drastic and far-reaching measures had to be taken by the governments. Besides economic indicators, the study also considered the political-administrative explanatory factors. It has been demonstrated that the type of state system (unitary, decentralized, federal), political system (majoritarian or consensus democracy) and government system (single party cabinet or coalition government) affects the possibility for swift and drastic decision-making. However, the country studies partly contradicted the theoretical predictions. Single-party governments in France, Spain and the UK were not clearly better able to take swift and drastic cutback decisions than coalition governments. There are also cases where minority governments were able to apply radical cutback measures. Finally, the external influences, most importantly, the Troika conditionality have affected substantially both the contents of consolidation measures as well as decision-making processes in the bail-out countries.

In most European countries, applying cutback measures was not a one-off event, but it consisted of a series of stages. At first denying or delaying the cutbacks prevailed and only temporary and small measures were undertaken materializing in moderate adjustments. In the later stage, the gradual recognition of the severity of the fiscal crisis and compliance with the necessity of cutbacks could be traced, leading to first attempts at serious cutbacks. Thereafter rather resolute cutback decisions were taken — first across-the-board efficiency-cuts, secondly targeted downsizing and cuts, and ultimately the final stage of fundamental political priority-setting. As
an exception to this general trajectory, some countries hit hardest by the crisis, such as those in Central and Eastern Europe as well as in Southern Europe reached faster the stages of serious and resolute cutbacks. In the bail-out countries, the conditionality of Troika forced governments to apply immediate cutbacks including fundamental priority-setting and targeted cuts.

A modest and gradual approach to cutbacks offers a major dilemma for European governments. Sooner or later across-the-board and incremental cutback decisions will become deficient to turn the fiscal tide. Sooner or later the muddling-through of successive rounds of small, slow and gradual cuts, which apparently is what several European governments are best at doing, will have to make place for fundamental political priority-setting which is necessary to arrive at far-reaching and drastic spending cuts to really solve the mounting fiscal crisis. The basic dilemma is between the seeming incapability of governments to take swift and drastic measures, and the ultimate inevitability of such decisions. Apparently it is not enough for economists to derive from their theories and models what measures ought to be taken. It is also about political decision-making capabilities of governments.

References


