



Uprisings and Protests in Europe: Part II

Jacob Funk Kirkegaard explains how the protests in Catalonia could complicate Spain's austerity and reform drive and how Portuguese demonstrators forced the Lisbon government to adjust its fiscal measures.

Transcript of interview recorded September 28, 2012. © Peterson Institute for International Economics.

Steve Weisman: We continue our discussion of the protests and turmoil in Europe with Jacob Kirkegaard, research fellow at the Peterson Institute for International Economics. This is Steve Weisman. In Part I, we talked about Greece. But there have also been protests in Spain and to some degree in Portugal. Tell us what's going on there.

Jacob Kirkegaard: Starting with Spain, there are two separate protests, one large and one smaller protest. A couple of weeks ago you had a very large public protest in Catalonia in Barcelona in favor of a Catalan nationalism and potentially even independence from Spain. Then in the last couple of days, very closely linked to the release of the new Spanish austerity budget for 2013, 10,000 people protested in Madrid against further cutbacks. You also had a small number of people getting into fights with riot police. There were threats to storm the Spanish Parliament and others. So you did have some violence. But I would say that it is a relatively minor number of people in the street and again it was not necessarily a spontaneous protest. It was a protest that was carefully timed to coincide with the release of the new Spanish budget.

Steve Weisman: Have things stabilized?

Jacob Kirkegaard: Yes. Now the budget has been released and the government has an absolute majority in Parliament, so there really isn't much that these protests will do to affect it. I actually think that the bigger protest, the one that is more important, is not the one related to protests against austerity, but it is this new manifestation of Catalan nationalism that we saw in Barcelona a couple of weeks ago. You have now added a new political element of uncertainty in Spain.

You have new regional elections in Barcelona called for late November this year, two years before they were otherwise scheduled to be held. And this election is almost certain to be a referendum on what kind of relationship Catalonia wants with the rest of Spain. And the regional government has even announced that they're going to have a new referendum on independence similar to what we saw in Quebec some years ago.

Steve Weisman: Some decades ago.

Jacob Kirkegaard: Some decades ago. Even though the Spanish government will have said that that is unconstitutional, and they will block it. So this is actually a bigger potential source of political instability going forward.

Steve Weisman: Does it threaten the negotiations or the reform and austerity programs of the government?

Jacob Kirkegaard: I don't think it does. I think, if anything, it probably increases the probability -- already very high -- that the Spanish government will approach the European Union and the ECB for financial assistance in the coming two or three weeks.

Steve Weisman: There is a debate about the wisdom of that.

Jacob Kirkegaard: Yes. But I think the debate is really mostly domestic in Spain. I don't think that there are many people outside of Spain that believe that it wouldn't be a good thing.

Steve Weisman: Is there some disagreement between France and Germany about this?

Jacob Kirkegaard: There was. The German Finance Minister, [Wolfgang] Schäuble, was quoted as saying he didn't feel that Spain should rush into an application for this kind of assistance. But I think that that is mostly something that has to do with the domestic situation in Germany, where at the end of the day I think it is much easier to get Bundestag approval for a new Spanish assistance package after we know the final cost of the Spanish bank bailout.

Steve Weisman: Let's talk about Portugal, where there have also been protests.

Jacob Kirkegaard: Well, yes and no. Portugal is actually an interesting case because some weeks ago the IMF and the Troika [the EU, the IMF and the ECB] gave Portugal a passing grade with their quarterly reviews of the Portuguese IMF program. But they also made it clear that the Portuguese government would have to implement further austerity measures to make their budget targets.

What the government did was come up with a new proposal that would lower the Social Security contributions for businesses and raise them for employees. It's basically shifting the burden of social insurance away from business and on to workers. The intent was to have what's called an internal devaluation, lowering the cost of labor in Portugal relative to the surrounding countries and thereby hopefully regain some of its competitiveness.

But what happened was that in Portugal this move was widely viewed as socially unjust. Whereas previously, you had social and political consensus about the things that you need to do to stick to the IMF program, you for the first time had very serious political disputes between the parties in Parliament and in the governing coalition. You also had very large public protests against this. Unlike the situation in either Spain or Greece, the demonstrations in Portugal were actually coming out of a spontaneous public rejection about a specific austerity proposal by the government.

Steve Weisman: What's happened to that proposal?

Jacob Kirkegaard: The government has withdrawn the proposal. They have come up with a number of other measures. You could say that in Portugal, while there seems to be consensus about sticking with the overall trajectory or direction of where Portugal is going, sticking with the IMF program, here was a case where the government politically miscalculated and was ultimately -- in the face of a sort of sudden outburst of public opposition -- forced to retreat and change its policies.

Steve Weisman: In terms of austerity and reform, it's not surprising that each country is struggling to find its own way.

Jacob Kirkegaard: We have to keep in mind that these are all countries suffering multi-year recessions. They have unemployment rates of 20 percent or above, and they are likely to be in recession at least for another year, all of them.

So it's not surprising that the public is unhappy and there is wide scope for public protests, etc. But I think it's important not to really overdramatize this and take this as an indication

that the broad trajectory of these three countries is one that is turning its back on the IMF and the general direction of policy, fiscal austerity, and structural reform seen in Europe since the beginning of the crisis. That is, in my opinion, decisively not the case.

Steve Weisman: Jacob Kirkegaard, thank you very much.

Jacob Kirkegaard: My pleasure.

