

No. 383 June 2010

Pain Ahead for Indebted Europe

By Henry Ergas

15 July 2010

A SPECTRE is haunting Europe: the spectre of public debt. The debt-to-gross domestic product ratio for the European Union is projected to reach 80 per cent this year. Some recent growth in public indebtedness reflects weak economic conditions, but structural budget deficits have also increased sharply.

European governments have now committed to reversing course. But budget deficits are merely symptoms of the problem, not its cause. Fiscal crises are always political in character. With little prospect of any change in the political dynamics, Europe's fiscal woes are here to stay.

The heart of the problem is that Europe's political systems are trapped in zero-sum games, with powerful veto players who can protect themselves from bearing a higher share of costs. Faced with those vetos, the burden of paying for public expenditure has been shifted on to the only party that could not refuse: future generations of Europeans.

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This article was published in [The Australian](#) online on 11 June 2010.

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