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Matthew Melchiorre: Europe's lessons on austerity success

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With the U.S. national debt about to pass the \$17 trillion mark – more than America's total economic activity in 2012 – and federal interest payments eating up a growing share of revenues, Washington needs to start making real cuts. But will the political cost be too great for lawmakers to achieve major spending reductions? Not necessarily, as a look at Europe shows.

Unlike Western Europe, where not a single West European country has made a net reduction in government expenditures – except for Ireland, which soaked its taxpayers to bail out its banks – Estonia and Greece (yes, Greece) provide some useful examples of the kinds of cuts

needed in Washington – though they took very different routes to achieve them. A comparison of the two offers some insights for Americans.

Estonia faced a private debt crisis, while Greece faced a sovereign debt one, but both enacted policies that followed the same basic principles: let wages adjust to their market levels and shrink government to stop it from crowding out business.

Estonia began cutting spending in January 2009 in earnest while Greece took lots of cajoling from the European Union before it began making cuts in May 2010. Both countries cut government spending by roughly 6 percent annually in the first two years of austerity. Taxes were not central to either country's austerity programs.

Despite their enacting similar policies, the Estonian and Greek governments met radically different public reactions. Greece was riven with strikes, protests and violent riots, while social unrest in Estonia was virtually nonexistent. What accounts for this glaring discrepancy in popular outrage? History offers a guide.

Estonia has endured occupations by foreign invaders from the medieval period to the 20th century. Seeking autonomy under difficult circumstances, Estonians preserved their traditions and culture under foreign rule by collaborating with one another through art, music and literature. So, when Estonia finally gained its independence in the early 1990s, its citizens, channeling memories of Soviet occupation, adamantly rejected the creation of a large interventionist state.

The Estonian constitution, adopted in 1992 after the end of Soviet rule, emphasizes protecting rights from infringement by government more than guaranteeing rights to certain goods and services. Today, Estonia has a relatively small welfare state, at 11.8 percent of GDP in the years preceding austerity.

Greece, on the other hand, has a long political tradition of people looking to the state to provide life's basic necessities, including a job. Greek civic life under Ottoman rule in the 19th century, as University of Athens scholars Dimitris Charalambis and Nicolas Demertzis point out, was defined between subject and sultan. Impersonal secular institutions like markets developed poorly because they didn't fit this hierarchical mindset. Greeks became increasingly reliant on family and other personal ties, and Greek civic life came to be dominated by nepotism and clientelism.

For Greek politicians, cutting government wages and privatizing state-owned enterprises is political suicide, as the revolving door of Greek politicians since 2010 attests. In Estonia, by contrast, political parties that

campaigns on strong liberal reforms and public sector cuts have performed well in elections recently. In fact, after the governing Estonian Reform Party implemented austerity in 2009, voters reelected its deputies to parliament by greater numbers in 2011.

What does this mean for America? Quite simply, that we should draw on our traditions of individualism and self-reliance to pursue policies that reduce government's economic footprint. The U.S. government has been on a growth binge in recent years, but like Estonia, we've got the political tools to stem that growth, if we only rediscover our individualist, can-do spirit.

Who knows? As the American economy begins to recover, pro-austerity politicians may reap electoral rewards much like their Estonian counterparts. And we won't have to suffer through Soviet occupation to get there.

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