



BRITAIN'S SPENDING CUTS – HOW MUCH IS TOO MUCH?

By David Smith

The die is cast. Britain's coalition government, the first in peacetime since the depression era, has set out plans for what the independent Institute for Fiscal Studies describes as the deepest and longest spending cuts in the post-war era.

Is this, like the election of the Thatcher government in 1979 and its determination to roll back the state and reduce the power of the trade unions, a turning point for Britain? Or will it end in tears, with both the coalition and the economy left in tatters?

There is no shortage of people predicting precisely that. "Maybe Britain will get lucky, and something will come along to rescue the economy," wrote Paul Krugman, the Nobel prize-winning economist. "But the best guess is that Britain in 2011 will look like Britain in 1931 or the United States in 1937, or Japan in 1997. That is, premature fiscal austerity will lead to a renewed economic slump. As always, those who refuse to learn from the past are doomed to repeat it."

David Blanchflower, until recently an economist with his hands on one of the levers of policy as a member of the Bank of England's monetary policy committee, described the government's plan as "the greatest macro-economic mistake in a century". The government, he said, was not only risking a dive back into recession but a decade-long period of slow growth.

Before assessing whether they could be right, it is worth describing briefly the plans set out by George Osborne, the Chancellor of the Exchequer, when he published his comprehensive spending review on 20th October.

The big figure in the review was £81 billion, the "cuts", measured as the difference between what public spending will be in 2014-15 and what it would have been if budgets had been raised in line with inflation. Though £10 billion of these cuts are something of a sleight of hand, representing the savings on government debt interest from lower projected budget deficits in future years, most of the rest is real enough.



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Even with the savings, debt interest will be rising, and because the level of unemployment is projected to remain relatively high over the spending review period, the axe will fall hard on those parts of government that have not been ring-fenced from the cuts. These departments, covering most parts of government, face an average real cut in spending of 19% through to 2014-15. This, despite the fact that Osborne managed to find an additional £7 billion of welfare savings to add to the £11 billion he identified in the June "emergency" budget. Members of public sector pension schemes will also have to pay nearly £2 billion a year more in contributions.

Even the National Health Service (NHS), the most notable ring-fenced department, will find life a lot tougher. An effective real freeze on spending follows a decade in which the NHS budget had risen by an average of 7% a year in real terms and has to be judged in the context of health inflation which is higher than general inflation.

There are two questions about the coalition's cuts. One is whether they will be achieved. The other, raised by Krugman and Blanchflower, is that if they are will the economic cost be too great to bear?

That the plans are ambitious is not in doubt. The coalition, in effect, wants to be clear of the deficit problem before the next election, for which it has already set the date of May 7 2015. The current budget deficit did not quite reach the heights of overall public borrowing, 11% of GDP in 2009-10, but it exceeded 7%. The plan is to eliminate that current deficit by 2014-15.

Though the government has opted for the textbook 80-20 split between spending cuts and tax rises (77-23 to be precise), regarded by economists as the most sustainable approach to deficit cutting – bigger tax increases damage growth too much – it is the case that the public spending squeeze will run in tandem with higher taxes.

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Britain's better paid people have already swallowed the new 50% top rate of income tax, which took effect in April 2010. The first half of 2011 will see two significant tax hikes affecting the bulk of the population, a rise in VAT from 17.5% to 20% on January 4 and a 1% rise in employee National Insurance contributions – the part of the payroll tax paid by individuals – in April. April is when the spending cuts begin in earnest.

Benjamin Franklin's famous observation about death and taxes applies to the public finances. Tax hikes are certain, even if their revenue effects are not, which is why officials tend to like them. Spending cuts are subject to slippage, particularly when substantial elements of them are intended to be achieved through efficiency savings. Britain's Public Accounts Committee found that of £35 billion of efficiency savings in the previous spending review, only a shaky £15 billion had been achieved.

Slippage is possible, indeed likely, even when governments are not deflected from their path by political or economic pressure. For budgets

that stretch into hundreds of billions of pounds, control systems are woefully inadequate, as Osborne has already observed.

If the cuts are achieved, can the economy take it? Few dispute the need to get Britain's budget deficit down. The issue is whether an explicitly political timetable – do it in a single parliament compared with the two that the defeated Labour Party would have followed – is the right approach.

The international record does suggest that long timetables interspersed with elections are a recipe for slippage. Countries that have acted fast, such as Canada and Sweden in the 1990s, succeeded in combining rapid spending cuts with vigorous private sector growth. Britain had a similar achievement in the 1990s, though with less fanfare, moving from a budget deficit of 8% of GDP to a surplus within five years.

The issue this time is whether the damage to the banking system, and exceptionally weak credit growth, will hold back the private sector's response. Sweden had a damaged banking

sector in the 1990s and thrived. The question is whether Britain will be so lucky. I think it will. If not, economic problems that have their roots in the banking system will be blamed on the cuts.

David Smith is the economics editor of The Sunday Times, London.

BOOK REVIEW: CAPITALISM 4.0 – ANATOLE KALETSKY

In his latest book, *Capitalism 4.0*, Anatole Kaletsky, editor-at-large for *The Times* newspaper in London, speculates on the emergence of a new economy resulting from the financial crisis.

Kaletsky describes the evolution of capitalism from its beginning in the 18th Century up until the present day. He argues that "capitalism doesn't break because it bends," and justifies this statement by giving explanations for each version of the capitalist system seen so far. Learning from this historical trajectory, Kaletsky attempts to predict what sort of capitalism - if any - will emerge from the 2007-2009 financial crisis.

The book outlines the main great eras of capitalism:

Capitalism 1: from Adam Smith and Alexander Hamilton to Lenin, Hoover and Hitler.

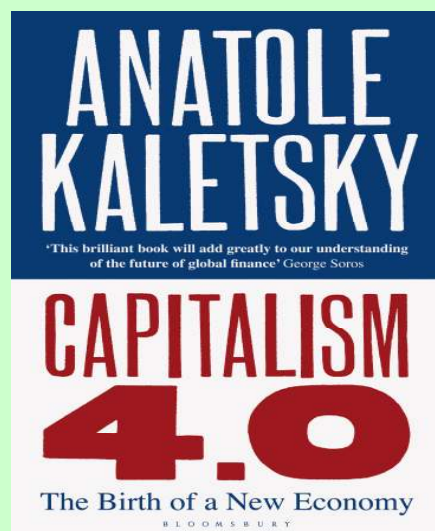
Capitalism 2: from Roosevelt and Keynes to Nixon and Carter.

Capitalism 3: From Thatcher, Reagan and Milton Friedman to Bush, Paulson, and Greenspan.

Capitalism 4.0: or post-capitalism 3, is what Kaletsky describes as marking today's coming capitalism, although its specific beginning is unknown and so is its current shape.

He also offers his explanation of the crises that led to the downfall of each stage of capitalism. But, when we come to today, Kaletsky points out that government intervention has had its greatest impact on the free-market with the large scale bailouts of recent times. He tries to show, as well as to suggest, that governments should try to separate themselves more from the markets.

His main argument is that capitalism is flexible, so it does not disappear but rather adjusts and comes out as a more evolved version of itself. The argument arches over the entire book, but despite the history presented, there is not substantial evidence to really predict the next – or indeed current - status of capitalism. He agrees that it is hard to predict the shape of "Capitalism 4.0" because all the different



known versions have been already implemented, so the next degree of capitalism could be a type that has yet to be discovered and is thus unfathomable at this point.

For those readers who enjoy an optimistic view on the current financial situation, this book provides one. However, it is so difficult to speculate on the future, that this book seems to provide wishful thinking at best.

Catherine Leung is a research intern at the Stockholm Network.

DIRECTOR'S REPORT



"Britain's Spending Cuts – How Much Is Too Much?" our leading article by the *Sunday Times'* economics editor David Smith looks at the vexed issue of public sector cuts and asks what the plans of the UK coalition government mean for the future of Britain's economy. While he acknowledges the challenges faced by both the government and the British economy in finding savings as well as weathering the knock-on effects of the cuts, he ends with a cautiously optimistic view that Britain is resilient enough to deal with the pain.

In a related vein, our book review takes a look at Anatole Kaletsky's new publication *Capitalism 4.0* about what the next evolution of the global market economy will bring. The book looks at the various stages in the development of capitalism

and makes some tentative predictions and comments about what might lie ahead in a post-crisis world.

Our think tank profiles include a look at the Finnish Business and Policy Forum (EVA), as well as a profile of the influential M.E.S.A 10 in Slovakia and a fascinating look at the origins of the Civic Institute, which grew out of dissident opposition to communism to become one of the Czech Republic's most respected policy institutions.

Last but by no means least we highlight aspects of the Stockholm Network's own work. Our spotlight provides an extract from a forthcoming experts' series paper on the 3rd stage of the EU Emissions Trading Scheme, while elsewhere we provide a taster of our new work

programme on internet piracy.

As the world economy shakily begins to recover, much faith is being placed in the green economy and in the growth of the digital economy but the technical policy challenges are complex and many of them concern the protection of knowledge and creating the right balance between reward for risk-taking on the one hand and creation of a competitive market on the other. Only if we get the balance right and continually adapt to new innovations can we get the next phase of capitalism back on track.

Helen Disney is founder and chief executive of the Stockholm Network.

STOCKHOLM NETWORK SPOTLIGHT: THE GOOD, THE BAD AND THE UGLY OF EU ETS

by Andres Jonathan Drew

Photo: Shutterstock



Pricing carbon through emissions trading (ET) provides a potentially efficient, effective and equitable response to what Nicholas Stern describes as the “greatest market failure of all time”. But just as markets can fail, so too can governments in correcting these markets.

The experience with ET has demonstrated a significant exposure to rent-seeking because lobbyists for producer interests have worked tirelessly for exemptions and free grandfathered permits. In the case of the EU ETS, this resulted in significant windfall profits for electricity generators. Other aspects of the EU ETS design influenced by lobbying also contributed to a low, unstable carbon price which has resulted in modest levels of abatement. These government failures are well documented and predicted by public choice scholars that view politics as a market where legislation is sold to the highest bidder.

Hayek’s analysis of the “knowledge problem” provides further insights into the systemic disadvantages faced by policymakers that also contribute to government failure. Policymakers face insurmountable informational asymmetries. They can therefore never beat the price mechanism at discovering information to design optimal policies, like the level of a carbon tax or the best new abatement technology.

The use of market mechanisms can help reduce this asymmetry. For instance, auctioning permits is superior to grandfathering free permits based on historical emissions because grandfathering is highly dependent on firms providing accurate information about their historical emissions. Auctions on the other hand, avoid the informational gap between the regulator and the regulated. This is the preferred approach for EU ETS phase 3 (100% auctioning is expected by 2027 with minor exceptions), and is a substantial improvement on previous phases.

In addition to the potential for incremental improvement, ET appears to provide an opportunity to strategically implement climate policy. The EU ETS case study demonstrates that paying-off opponents with free permits turns foes into friends as they become stakeholders with vested interests in valuable permits which they can now bank and borrow across ET phases. These newfound bedfellows, and the financial services that support carbon markets, have an interest in the maintenance and extension of ET schemes, particularly if a low carbon price rises over time. This institutionalising potential is highly seductive to policymakers, particularly if ET can be redeemed from its “original sin” as the EU ETS appears to demonstrate. But both Hayekian and public choice theories warn of the perils of this approach.



The choice of which opponents to “pay-off” faces a severe “knowledge problem” that is analogous to “picking industrial winners”. The EU ETS case study demonstrates that energy intensive industries, not electricity generators (as was done) should have been paid-off because the latter are not exposed to global competition and can pass-on carbon costs to consumers.

Also, the plethora of ancillary policies that have emerged to support a weak carbon price has resulted in a series of sub-optimal, inefficient, duplicative climate policies that have enhanced the level of rent-seeking. These ancillary policies may be difficult to reverse and optimize. The UK’s current policy muddle in electricity is an example of this. Consumer prices incorporate the EU ETS, the Renewables Obligation and will soon also internalise the Carbon Capture and Storage Levy as well as the costs of Feed-in-Tariffs for microgeneration. This complexity has come at the price of efficiency. One estimate has found that the Renewables Obligation and Feed-in-Tariffs are an order of magnitude more expensive per ton of carbon saved than the EU ETS.

There are a number of solutions to minimise rent-seeking and narrow the information asymmetry to benefit from ET’s institutionalizing potential. In deciding which special interests to pay off, procedural strategies should level the playing field by weakening every interest group’s grip on government policy rather than empowering one group over another. This allows groups to compete over information provision to government.

For minimizing the capture of ancillary support policies to ET, their implementation should be:

- (1) Sanctioned by an independent body to provide credibility: like the U.K. Climate Change Committee;
- (2) Use market-based instruments to reduce information asymmetry and capture;
- (3) Avoid complexity to reduce the information asymmetry between government and vested interests that make the system easier to game.

While the proposed solutions are not capture-proof and cannot completely bridge the “knowledge problem” gap, it appears that at present it is the least worst available option if ET is to be pursued. However, in some cases, an ET strategy for policy lock-in may be highly counterproductive and could further discredit the use of this potentially optimal regulatory instrument. As always, the risks of government failure should be weighed against the costs of the market failure. Climate change is a significant market failure which will not be corrected without government intervention. But while ET is promoted as being one of the most potentially efficient, equitable and effective policy tools available, its benefits of implementability may be outweighed by its ineffectiveness and the unintended consequences associated with the policy muddled left in its wake. The EU ETS case study provides some source for optimism, but it should not be viewed as a one-size fits all policy prescription for all jurisdictions.

Andres Jonathan Drew is a researcher in the Law Department at the London School of Economics. He has authored a new publication on the EU ETS, as part of the Stockholm Network Experts’ Series, which will be published shortly.

THINK TANK PROFILE

FINNISH BUSINESS AND POLICY FORUM

Helsinki, Finland

www.eva.fi/en



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The Finnish Business and Policy Forum, EVA, is a pro-market, not-for-profit, policy think tank established in 1974. EVA's aim is to identify and evaluate trends that are important for Finnish companies and for the long term success of society as a whole.

EVA provides current information on prevailing trends and brings fresh ideas to public debate. It acts as a discussion forum and networking arena for decision makers both in business and society as well as publishing reports, analysis, policy papers and articles. EVA also creates discussion by organising debates in the form of Forums and Symposiums. An important part of EVA's activities is the Fellows network, which consists of EVA's Senior Fellows, Business Fellows and Junior Fellows as well as international counterpart organisations.

EVA publishes around 8-12 reports and analysis pieces per year. The main topics of interest are found within the fields of business, economics, society and international relations. Recent reports published have included:

Talent available – Tapping the Expat Talent Pool

This report looks at the existing pool of highly skilled foreign professionals in Finland and urges Finnish businesses to recognise the value this group can have in increasing economic growth, competitiveness and internationalisation.

Does the EMU have a future?

This publication by Dr Sixten Korkman was published in late May 2010 during the height of Greece's financial crisis. In this light, Dr Korkman's analysis questions the future of Europe's Economic and Monetary Union.

Searching for the star of Africa

This report written by Finnish MP Pekka Haavisto argues that despite its difficulties, Africa is an expanding and demographically young market region whose business opportunities have been largely unexploited by Finland.

EVA has also recently published a number of publications as part of a project called "Revolution at Work". Finland is the first country in Europe to face a steep ageing of its population. At the same time, traditional Finnish industry is going through severe structural changes. Both work and workers are changing. The "Revolution at Work" project will continue until the end of the year. In addition to written reports, a Symposium will be held at the end of November entitled "The Future of Work".

Since 1984, EVA has published an annual Value and Attitude Survey. Over the years, EVA has researched people's views, values and attitudes concerning various national and international issues and topics such as the market economy, politics, climate change, the EU and NATO. The next survey will be published in March 2011.

“EVA acts as a discussion forum and networking arena for decision makers in business and society”

EVA is financed by the Finnish business community. Its Supervisory Board consists of twenty five business leaders. They represent EVA's member organisations who are the Confederation of Finnish Industries (EK), the Confederation of Finnish Industry and Employers (TT) and the Foundation and General Employers' Association of Service Industries. EVA's Board of Directors consists of nine business leaders. Mr Jorma Ollila (Chairman of Nokia and Royal Dutch Shell Plc.) acts as the Chairman of the EVA Supervisory Board and the Board of Directors. EVA works in close co-operation with the Research Institute of the Finnish Economy (ETLA) – the two organisations share the same Board and Managing Director.

Matti Apunen is director of EVA.

THINK TANK PROFILE

M.E.S.A. 10

Bratislava, Slovakia

www.mesa10.sk



The economic think tank M.E.S.A. 10 – or Center for Economic and Social Analysis - is an independent, non-governmental and non-for-profit organisation founded in 1992. Since its creation, M.E.S.A. 10 has defended the values of the market economy and argued for economic restructuring, the inevitability of reforms of the banking system, the judiciary, public funding and public administration.

Its ten original founding members were experts on a variety of topics including macro-economic development; economic policy and the restructuring of the economy; public funds; foreign policy; foreign trade and investments; privatisation; state decentralisation; and regional policy and development.

From its outset, members of M.E.S.A. 10 embarked on the public defence of the basic ethical principles of a market economy through various activities. These included the publication of a monthly periodical (Monatsbericht, Slovak Monthly Report), the organisation of public discussions (Slovak Economic Forum), publications in the printed media and the elaboration of alternative models of economic policies and other public policies.

The period between 1998 and 2006 was one of great excitement and success for M.E.S.A. 10, as one of its founding members, Mikuláš Dzurinda, became prime minister of the Slovak Republic. At the time, members of the organisation were the main representatives of reform in the areas of economics, public finance and decentralisation. Thus, during this period, the mission of M.E.S.A. 10 was to prepare conceptual materials and ensure that those members of the organisation who joined the Slovak government could implement the much-needed reforms. All the reforms were aimed at the encouragement of a higher participation of citizens in state affairs. New challenges brought by Slovakia's membership of the EU and the necessity of long-term competitiveness are the reasons why M.E.S.A. 10 has also been dealing with the functioning of a knowledge economy.

The main objective of M.E.S.A. 10 is to support an independent market economy and principles such as free competition, equality of opportunities, independent enterprises, inviolability of private property, limited competencies of the state, openness of the economy and separation of economic and political powers.

M.E.S.A. 10 considers the following topics to be the essential prerequisites for a successful economic transformation and healthy economic development: effective institutional organisation of society based on respect and protection of the values and principles stated above; creation and rigorous use of rules of the game that protect these values and principles; and influence public opinion with the aim of spreading and promoting

these values in society.

In order to help the promotion of these points, M.E.S.A. 10 has concentrated mainly on:

1. Supporting competitiveness of the Slovak economy in the EU common market environment and protection of economic policies, principles and system reforms;
2. Continuation of state decentralisation, support of good communal politics and elimination of regional disparities;
3. Foreign policy;
4. Social policy, health care, education and culture;
5. Law and legislation.

Over the years, the most important activities of M.E.S.A. 10 have included the elaboration of economic and social analysis and studies both in English and in Slovak; the provision of consultations; the delivery of media interviews, standpoints, reactions and comments to actual topics; the organisation of discussions, seminars, conferences and lectures; and the widespread promotion of its activities.



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Recent achievements include the successful execution of a project aimed at paving the way towards a comprehensive reform of administrative law procedures. This reform is a prerequisite for further public administration reform, as the current procedures and the increasing workload they represent for the judiciary system are effectively blocking a further decentralisation of state competences to self-governing regions and municipalities. Since an overburdened and inefficient judiciary system is also perceived by entrepreneurs as one of the major obstacles to improvement in business environment, reforms in the judiciary will remain a central focus for M.E.S.A. 10 in the near future.

M.E.S.A. 10 will continue its activities in cooperation with external partners and institutions such as: Health Policy Institute, INEKO, Institute for Public Affairs, F. A. Hayek Foundation and others.

Ing. Ján Marušinec is member of M.E.S.A. 10 and responsible for the area of economics.

THINK TANK PROFILE

CIVIC INSTITUTE

Prague, Czech Republic

www.obcinst.cz/en/



The Civic Institute (CI) was founded in Spring 1991 - a year and half after the Velvet Revolution and the fall of Communism in Czechoslovakia - by a group of anti-Communist dissidents of a conservative, Christian-democratic and classical-liberal tendency.

The roots of the CI grew from the late 1970s/early 1980s, when those dissidents used to meet clandestinely in each other's houses to discuss politics, philosophy, economy, theology, culture and international relations. After the fall of Communism, they decided to found an institution where they could continue those discussions. That institution would become the Civic Institute.

The founders of the CI intended to create an institution dedicated to the advocacy and defence of the necessary moral conditions and philosophic foundations needed to achieve a truly free society. This was to be understood as an ordered liberty of individuals and families, responsibility, rule of law, limited constitutional government, free economy, property rights and civic cum moral virtues.



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The most prominent of CI's members was Pavel Bratinka, a nuclear physicist by education and a Roman Catholic convert. Because of his anti-Communist activities, Bratinka was banned from his professional career but after the fall of Communism in 1989, he became involved in politics from 1990 to 1998. It was during this period that he founded the CI.

CI's first publication was a Czech translation of Friedrich Hayek's *The Road to Serfdom*; the second was *The Spirit of Democratic Capitalism* by Michael Novak. Other titles soon followed including *The Anticapitalist Mentality* by Ludwig von Mises and *The Ethics of Redistribution* by Bertrand de Jouvenel.

In the first half of the 1990s, the Czech Republic had the choice of adopting a "democratic socialism" in the style of Swedish

social democracy or a "democratic capitalism", or free market economy, of the Anglo-American style. The CI's position and advocacy were emphatically in favour of the latter. By the mid 1990s, the Czech government had embraced a free market economy but with a substantial state sector and welfare guarantees.

By this stage in its evolution, the CI had become the first Czech think-tank to raise the issue and to stress the importance of traditional family, family values and family policy in the Czech Republic. At the time it published many policy studies and related policy papers and two theoretical works: *The Conservative Mind* by Russell Kirk, and *Democracy and Leadership* by Irving Babbitt.

After 9/11, the CI added a new dimension to its portfolio of issues: the study of international relations. New issues included foreign affairs, security issues, terrorism by radical Islam, and threats to the West in general. These and other related issues were dealt with in dozens of conferences and seminars as well as in published studies.

"The founders of the CI intended to create an institution dedicated to the advocacy and defence of the necessary moral conditions and philosophic foundations needed to achieve a truly free society."

The CI reaches its audience in a variety of ways:

1. Publications: including a monthly bulletin, public policy studies, papers and books;
2. Seminars and conferences;
3. A reading room and a library containing books, magazines and literature on conservative philosophy, which are available to students and to all those interested in these ideas;
4. CI fellows join Czech universities as part-time lecturers;
5. CI fellows are invited by other Czech and Central European think tanks and political associations as lecturers, debaters and polemicists;
6. CI fellows serve as "pundits" in the Czech media, contributing op-eds to newspapers and magazines, or conservative opinions and comments on all political issues to radio and TV stations and also as advisers to Czech politicians;
7. Last but not least, the CI has always attracted scores of right-leaning young students and scholars, who have attended CI's events, and volunteered as organisers and assistants, lecturers and advisers.

Having been born from its resistance to Communist totalitarianism, and having opposed socialism and moral relativism, the CI is perceived by the political mainstream and the mainstream media in the Czech Republic as: (i) the most respectable and acceptable right wing association within the political spectrum of a liberal democracy; and (ii) as the most conservative association of a decent and respected democratic society, to extend and deepen the network of Clubs of the Austrian School of Economics and provide more scholarships for the best students.

Dr Roman Joch is director of the Civic Institute.

WHO GOVERNS EUROPE?

In the second instalment of the *Eye on Europe's* regular "Who Governs Europe?" section, new elections in Greece, Latvia and Sweden are discussed, as well as an update on the progress of coalition negotiations in both Belgium and the Netherlands.

This season's edition of "Who Governs Europe?" must begin with an update from countries covered in the last instalment, where elections in both Belgium and the Netherlands had failed to provide a certain outcome as to the future government.

127 days after the Dutch voters went to the polls, and 233 days after the previous Dutch administration resigned prompting the election, a new prime minister of **the Netherlands** was sworn in by Queen Beatrix on 14th October. His name is Mark Rutte, a former state secretary under his predecessor Jan Peter Balkenende, and the leader of the People's Party for Freedom and Democracy (VVD), the largest party in Parliament after June's election.

The final deal that Mr Rutte was able to agree sees the VVD share power with the Christian Democratic Appeal (CDA) led by Maxime Verhagen, who is now the deputy prime minister and minister for economic affairs, agriculture and innovation. In total, CDA has managed to secure half of the government posts in the Dutch cabinet, despite having a third less seats than VVD in the Tweede Kamer.

Together the VVD and the CDA have 52 seats, which leave them short of the 75 needed for a majority to legislate. As a result, in government they will be relying on the support of the Party for Freedom (PVV), an anti-immigration party led by Geert Wilders, with which it has agreed a "toleration agreement". Rutte's cabinet will be the first minority Dutch government since World War Two.

Prime minister Rutte has declared that his priorities are to bring the Dutch finances under control with a cut in government spending of €18 billion. Yet, in truth his tenure has so far been dominated by debate about his government's relationship with the PVV. In particular, a clash between Rutte and Wilders on the dual nationality of a junior health minister has indicated that tensions between both parties could dominate the government's time in office.

Belgium can only look on at the negotiations in the Netherlands with envy, as a coalition deal following their election over 150 days ago still seems elusive. The main problems hinge on political divisions between the regions of Flanders and Wallonia,



which have come to a head after an enduring period of communitarian tensions and political instability.

Bart De Wever, leader of the largest party the New Flemish Alliance, advocates a programme of devolution that would hand more autonomy to Belgium's three regions, in particular to gather taxes. This, it is believed, will result in much more revenue for the Flanders region at the expense of both Wallonia and Brussels.

Belgium's second largest party, the French Socialists led by Elio Di Rupo, are against De Wever's ambitions, claiming that they would jeopardise the welfare of people in other regions. So far, coalition negotiations have not reached the 196 days that it took to agree an interim government after the last general election, which resulted in a long period of governmental instability.

In **Sweden**, general elections took place in September where the incumbent centre-right Alliance coalition government managed to keep hold of power, albeit in a minority government. Consisting of the Moderate Party, Liberal People's Party, Centre Party and Christian Democrats, the Alliance coalition together now hold 173 seats in the Riksdag, two seats short of an overall majority.

In maintaining power, prime minister Fredrik Reinfeldt became the first Moderate politician elected to two consecutive terms, whilst the Alliance is the first centre-right government since before WWII to be re-elected.

Prime minister Valdis Dombrovskis had managed to maintain control of the government of **Latvia** after elections in October, yet had to negotiate a new coalition alliance after many of his previous partners lost support. Dombrovskis had fought the elections under a new Unity Alliance of conservative parties, which was formed earlier in the year to counteract the Harmony Centre alliance that had been gaining momentum. In the end, Unity increased its seat share by 15, whilst Harmony Centre increased its by 12.

At first a coalition agreement with both the Union of Green and Farmers (ZZS) and For Fatherland

and Freedom (TB) seemed to have been agreed. Yet, the inclusion of the nationalist TB was too contentious for some within Dombrovskis' own alliance and he had to make do with working with just the ZZS.

The deal eventually agreed upon does allow it to enjoy a majority of 5 in the Saeima, although with Dombrovskis looking to introduce tough austerity measures he would have hoped to have a greater degree of control. Dombrovskis will now rely on the TB for support in parliament, without having control over them in government.

There were also important local and regional elections in **Greece** which prime minister George Papandreou announced beforehand could cause him to call a snap general election four years early, if support in his PASOK party fell drastically. In the end, his party ended up ahead in a majority of the 13 races for regional governor. Mr Papandreou called back his threat and declared the results a "vote of confidence" in his leadership.

Yet many other commentators suggest that the results were not as supportive as the prime minister would like to believe. PASOK previously won all 13 of the races in last year's general election, but this time won an outright majority in just 2 and held a clear lead in 4 others. In 2 other races, the PASOK lead was less than 1 percentage point, whilst the conservative New Democracy party was ahead in the remaining five contests. In addition, the abstention rate was a record 42% with voters in Athens most likely to stay at home.

Paul Healy is senior researcher of the Stockholm Network.

To keep up to date with recent developments in Europe, please visit the "Who Governs Europe?" page on the SN blog at: <http://www.snblog.co.uk>

NEXT ELECTIONS IN EUROPE

| | |
|-----------------|-----------------|
| Portugal (Pres) | 23 January 2011 |
| Estonia (Parl) | 06 March 2011 |
| Finland (Parl) | 17 April 2011 |

WHO GOVERNS EUROPE



AUSTRIA
ÖSTERREICH

Head of State: Heinz Fischer
Head of Gov't: Werner Faymann
Governing Party: Social Democrats with Austrian People's Party
Elections¹: Last - 2008, Next - 2013²



BELGIUM
BELGIQUE / BELGIË

Head of State: King Albert II
Head of Gov't: Yves Leteeme³
Governing Party: Christian Democratic and Flemish with others³
Elections¹: Last - 2010, Next - 2014²



BULGARIA
БЪЛГАРИЯ

Head of State: Georgi Parvanov
Head of Gov't: Boyko Borisov
Governing Party: Citizens for European Development of Bulgaria
Elections¹: Last - 2009, Next - 2013



CYPRUS
ΚΥΠΡΟΣ / KIBRIS

Head of State: Dimitris Christofias
Governing Party: Progressive Party of Working People
Elections⁴: Last - 2008, Next - 2013²



CZECH REPUBLIC
ČESKÁ REPUBLIKA

Head of State: Václav Klaus
Head of Gov't: Petr Nečas
Governing Party: Civic Democratic Party with TOP09 and Public Affairs
Elections¹: Last - 2010, Next - 2014



DENMARK
DANMARK

Head of State: Queen Margrethe II
Head of Gov't: Lars Løkke Rasmussen
Governing Party: Venstre with Conservative People's Party
Elections¹: Last - 2007, Next - 2011²



ESTONIA
EESTI

Head of State: Toomas Hendrik Ilves
Head of Gov't: Andrus Ansip
Governing Party: Estonian Reform Party
Elections¹: Last - 2007, Next - 2011



FINLAND
SUOMI

Head of State: Tarja Halonen
Head of Gov't: Mari Kiviniemi
Governing Party: Centre Party with National Coalition Party and others
Elections⁴: Last - 2006, Next - 2011



FRANCE
FRANCE

Head of State: Nicolas Sarkozy
Head of Gov't: François Fillon
Governing Party: Union for a Popular Movement with others
Elections⁴: Last - 2007, Next - 2012



GERMANY
DEUTSCHLAND

Head of State: Christian Wulff
Head of Gov't: Angela Merkel
Governing Party: Christian Democratic Union with Free Democratic Party
Elections¹: Last - 2009, Next - 2013²



GREECE
ΕΛΛΑΔΑ

Head of State: Karolos Papoulias
Head of Gov't: George Papandreou
Governing Party: PASOK
Elections¹: Last - 2009, Next - 2014²



HUNGARY
MAGYARORSZÁG

Head of State: László Sólyom
Head of Gov't: Viktor Orbán
Governing Party: Fidesz – Hungarian Civic Union
Elections¹: Last - 2010, Next - 2014



IRELAND
ÉIRE

Head of State: Mary McAleese
Head of Gov't: Brian Cowen
Governing Party: Fianna Fáil with Green Party
Elections¹: Last - 2007, Next - 2012²



ITALY
ITALIA

Head of State: Giorgio Napolitano
Head of Gov't: Silvio Berlusconi
Governing Party: People of Freedom with Lega Nord
Elections¹: Last - 2008, Next - 2013²



LATVIA
LATVIJA

Head of State: Valdis Zatlers
Head of Gov't: Valdis Dombrovskis
Governing Party: Unity Alliance with Union of Greens and Farmers
Elections¹: Last - 2010, Next - 2014



LITHUANIA
LIETUVA

Head of State: Dalia Grybauskaitė
Head of Gov't: Andrius Kubilius
Governing Party: Homeland Union with National Resurrection Party and others
Elections¹: Last - 2008, Next - 2012



LUXEMBOURG
LUXEMBOURG

Head of State: Grand Duke Henri
Head of Gov't: Jean-Claude Juncker
Governing Party: Christian Social People's Party with Socialist Workers' Party
Elections¹: Last - 2009, Next - 2014



MALTA
MALTA

Head of State: George Abela
Head of Gov't: Lawrence Gonzi
Governing Party: Nationalist Party
Elections¹: Last - 2008, Next - 2013²



NETHERLANDS
NEDERLAND

Head of State: Queen Beatrix
Head of Gov't: Mark Rutte
Governing Party: People's Party and Christian Democratic Appeal
Elections¹: Last - 2010, Next - 2014²



POLAND
POLSKA

Head of State: Bronisław Komorowski
Head of Gov't: Donald Tusk
Governing Party: Civic Platform with Polish People's Party
Elections¹: Last - 2007, Next - 2011



PORTUGAL
PORTUGAL

Head of State: Aníbal Cavaco Silva
Head of Gov't: José Sócrates
Governing Party: Socialist Party
Elections¹: Last - 2009, Next - 2013²



ROMANIA
ROMÂNIA

Head of State: Traian Băsescu
Head of Gov't: Emil Boc
Governing Party: Democratic Liberal Party with Democratic Union of Hungarians
Elections¹: Last - 2008, Next - 2012



SLOVAKIA
SLOVENSKO

Head of State: Ivan Gašparovič
Head of Gov't: Iveta Radičová,
Governing Party: Slovak Democratic and Christian Union and others
Elections¹: Last - 2010, Next - 2014



SLOVENIA
SLOVENIJA

Head of State: Danilo Türk
Head of Gov't: Borut Pahor
Governing Party: Social Democrats, Zares with others
Elections¹: Last - 2008, Next - 2012



SPAIN
ESPAÑA

Head of State: King Juan Carlos I
Head of Gov't: José Luis Rodríguez Zapatero
Governing Party: Socialist Party
Elections¹: Last - 2008, Next - 2012²



SWEDEN
SVERIGE

Head of State: King Carl XVI
Head of Gov't: Fredrik Reinfeldt
Governing Party: Alliance for Sweden
Elections¹: Last - 2010, Next - 2014



UNITED KINGDOM
UNITED KINGDOM

Head of State: Queen Elizabeth II
Prime Minister: David Cameron
Party: Conservatives with Liberal Democrats
Elections¹: Last - 2010, Next - 2015²

¹ Legislative elections

² Latest possible date

³ While coalition negotiations continue

⁴ Presidential elections

A NOTE ON: INTERNET PIRACY

We now live in a 24/7 digital age, with the internet radically changing the way we work, live and play. But with success and change also come difficulties. The protection of intellectual property on the internet is a major concern for creative industries that many countries now rely on to boost their economies.

Governments are traditionally slow when it comes to reacting to technological change and so it is with piracy through the internet. Early signs of this phenomenon could have been seen in the shutdown of the website Napster way back in 2001. But, by the time that a similar judgement closed down the Pirate Bay website in 2009, very little regulatory change had occurred.

In the meantime, regular usage of so-called "file-sharing" websites and mechanisms had grown substantially. Indeed, the illegal downloading and selling of copyrighted DVDs, games and CDs has reached such a level that it is starting to become common practice. 40 billion unauthorised files were traded illegally in 2008. This is on average seven files for each person in the world.

One of the main reasons for this rise is the relative ease with which copyrighted material can be accessed for free. Internet users need not search for long, nor use any sophisticated methods, to be able to access a website that offers the newest song, film, game or TV programme at the click of a button.

The threat that such access poses to creative



industries that rely on the revenue that legitimate sales generate cannot be overstated. Whilst these industries benefit from the internet's ability to break down barriers to their customers, these benefits will be greatly outweighed if they also allow content to be passed around for free with no recompense for its creator.

A recent report showed that by 2015, creative industries in the EU will lose €240 billion as a direct result of piracy, resulting in a loss of 1.2 million jobs across the region. But what can governments in the EU do to prevent such losses becoming a reality?

France was one of the first to react by passing the *Creation and Internet Law*, which created HADOPI, a government body designed to protect the rights of IP on the internet. As part of the measures, internet service providers (ISP) were made responsible for monitoring the usage of their customers and reporting to HADOPI when their usage and traffic suggested file-sharing behaviour. Once determined, file-sharers are given two warnings, first by email then by letter, which request that they stop their actions. If they fail to stop, then the ISP is required to suspend their internet access for between 2 months and a year. Although, due to a recent Constitutional Court ruling, this last step must now be subjected to judicial review before internet coverage can be suspended.

In the UK, a similar "three strikes" system was introduced as part of the Digital Economy Act. This law was controversially passed by the previous Labour government during a so-called "wash-up" period, where a raft of laws are passed with little debate before campaigning for a general election begins. Although the current coalition government has shown no indication of repelling such legislation, a recent high court hearing opened a judicial review into the act that could prevent its implementation.

Legislation in France and the UK are just two examples of governments in the EU now looking to safeguard IPRs online. It has been a slow response, but it is nevertheless to be welcomed.

But in truth, coordinated action across the EU is almost certainly now needed to ensure a united defence against a threat of internet piracy that has no border. Many Europeans have yet to appreciate the effect that widespread internet piracy is likely to have on creative industries, whilst many will never know the music, games and films that are just simply not made.

Over the years, consumers in Europe have shown genuine support for creative industries that entertain us all. Yet, this support should not be diminished because a way has been found to sneak through the backdoor. As responsible consumers, we must appreciate that with good work comes reward.

Paul Healy is senior researcher of the Stockholm Network.

The Stockholm Network has written frequently on internet piracy and in due course will unveil a new section on its website dedicated to research and information about this topic.

ABOUT THE NETWORK

The Stockholm Network is a pan-European think tank and market-oriented network. It is a one-stop shop for organisations seeking to work with Europe's leading policymakers and thinkers. Today, the Stockholm Network brings together over 120 market-oriented think tanks from across Europe.

Combined, the think tanks in our network publish thousands of op-eds in the high quality European press, produce many hundreds of publications, and hold a wide range of conferences, seminars and meetings. As such, the Stockholm Network and its member organisations influence many millions of Europeans every year.

WHAT DO WE DO

We conduct pan-European research on, and create a wider audience for, market-oriented policy ideas in Europe. Our website contains a comprehensive directory of European free market think tanks and thinkers. We advertise forthcoming events (our own and those of partner organisations) and facilitate publication exchange and translation between think tanks. We also post regular news flashes and updates on European think tanks and their activities.

WOULD YOU LIKE TO JOIN THE STOCKHOLM NETWORK?

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Spanning almost 40 countries and 120+ think tanks, our unique organisation has the capacity to deliver local messages and locally-tailored global messages across the EU and beyond.

ARMENIA

Analytical Center on Globalization and Regional Cooperation
www.azadliqiragi.org

AZERBAIJAN

Free Minds Association
www.azadliqiragi.org

BELARUS

Belarusian Institute for Strategic Studies
<http://belinstitute.eu>

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European Centre for International Political Economy
www.ecipe.org

European Ideas Network

www.epp-ed.org/europeanideasnetwork

Health Consumer Powerhouse

www.healthpowerhouse.com

Institut Économique Molinari

www.institutmolinari.org

Institut Hayek

www.fahayek.org

Institute Thomas More

www.institut-thomas-more.org

Liberal Flemish Students Organization

www.lvsv.be

Ludwig von Mises Institute Europe

www.vonmisesinstitute-europe.org

Murray Rothbard Instituut

www.rothbard.be

Nova Civitas

www.novacivitas.net

Work for All

www.workforall.org

BOSNIA AND HERZEGOVINA

Club 2015

www.club2015.org

BULGARIA

Bulgaria Society for Individual Liberty
www.libertarium.net

Center for Economic Development

www.ced.bg

Center for the Study of Democracy

www.csd.bg

Centre for Liberal Strategies

www.cls-sofia.org

Institute for Market Economics

www.ime-bg.org

CROATIA

Adriatic Institute for Public Policy

www.adriaticinstitute.org

CZECH REPUBLIC

Centre for Economics and Politics

www.cepin.cz

Civic Institute

www.obcinst.cz

Health Reform.cz

www.healthreform.cz

Institute for Lifestyle Options and Longevity

www.ilol-think-tank.eu

SME Union

www.sme-union.cz

DENMARK

Centre for Political Studies

www.cepos.dk

The Copenhagen Institute

www.coin.dk

FINLAND

Anders Chydenius Foundation

www.chydenius.net

Finnish Business and Policy Forum

www.eva.fi

FRANCE

Civil Society Institute

www.ifrap.org

Fondation pour l'Innovation Politique

www.fondapol.org

Institut Turgot

www.turgot.org

Institute for Economic Studies Europe

www.ies-europe.org

Institut Euro 92

www.euro92.com

Institut Montaigne

www.institutmontaigne.org

Institute for Economic Studies Europe

www.ies-europe.org

Liberté Chérie

www.liberte-cherie.com

Sauvegarde Retraites

www.sauvegarde-retraites.org

GEORGIA

New Economic School

www.nesg.net

GERMANY

Center for European Policy

www.cep.eu

Council on Public Policy

www.council.uni-bayreuth.de

European Committee for a Constructive Tomorrow

www.efact.eu

Friedrich von Hayek Stiftung

www.hayek-stiftung.de

Hamburg Institute for International Economics

www.hwwi.org

Hayek-Gesellschaft

www.hayek.de

Institute for Free Enterprise

www.iuf-berlin.de

Institute for Innovation & Valuation in Healthcare

www.innoval-hc.com

New Social Market Economy Foundation

www.insm.de

Stiftung Marktwirtschaft

www.stiftung-marktwirtschaft.de

Stiftung Ordnungspolitik

www.sop-cep.de

Walter Eucken Institut

www.eucken.de

GREECE

Hellenic Leadership Institute

www.hli.gr

Society for Social and Economic Studies

www.ekome.gr

HUNGARY

Foundation for Market Economy

www.fme.hu

Institute for Transitional Democracy & Security

www.itdis.org

ICELAND

Centre for Social and Economic Research

www.rse.is

Civis

[Coming soon]

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Jerusalem Institute for Market Studies

www.jims-israel.org

ITALY

Adam Smith Society

www.adamsmith.it

Centro Einaudi

www.centroeinaudi.it

Fondazione Repubblica

www.fondazionerepubblica.org

Intertic

www.intertic.org

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www.acton.org

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www.brunoleoni.it

Magna Carta Foundation

www.magna-cartai.it

KOSOVO

Group for Legal and Political Studies

www.legalpoliticalstudies.org

Rinvest Institute for Development Research

www.rinvestinstitute.org

LITHUANIA

Lithuanian Free Market Institute

www.lrinka.lt

MACEDONIA

Association for Modern Economy

www.ame.org.mk

Economic Policy Research Institute

www.epri-macedonia.org

Institute for Economic Strategies & International Affairs

www.oi.org.mk

MALTA

Competitive Malta

www.competitivemalta.com

MOLDOVA

Institute for Development and Social Initiatives

www.viitorul.org

MONTENEGRO

Centre for Entrepreneurship & Development

www.visit-ceed.org.me

Institute for Strategic Studies and Prognoses

www.isspm.org

Slobodna Misao (Free Thought)

www.slobodnamisao.net

NETHERLANDS

Frédéric Bastiat Stichting

www.bastiatstichting.nl

NORWAY

Civita

www.civita.no

POLAND

Adam Smith Center

www.smith.org.pl

Center for Social and Economic Research

www.case.com.pl

Centre for Political Thought

www.omp.org.pl

Gdansk Institute for Market Economics

www.ibngr.edu.pl

Instytut Globalizacji

www.globalizacja.org

Ludwig von Mises Institute Poland

www.mises.pl

Sobieski Institute

www.sobieski.org.pl

PORTUGAL

Causa Liberal

www.causaliberal.net

ROMANIA

Center for Institutional Analysis and Development

www.cadi.ro

Ludwig von Mises Institute Romania

www.mises.ro

Romania Think Tank

www.thinktankromania.ro

Romanian Center for European Policies

www.crpe.ro

RUSSIA

The Hayek Foundation

www.hayek.ru

SERBIA

Center for Liberal-Democratic Studies

www.clds.org.rs

SLOVAKIA

Center for Economic Development

www.cphr.sk

Conservative Institute of M. R. Stefanik

www.institute.sk

Health Policy Institute

www.hpi.sk

Institute for Economic and Social Reforms

www.ineko.sk

Institute for Free Society

www.isloboda.sk

Institute of Economic and Social Studies

www.iness.sk

M.E.S.A. IO

www.mesa10.sk

The F.A. Hayek Foundation

www.hayek.sk

SLOVENIA

Institut dr. Jozeta Pucnika

www.iipucnik.si

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Discusses notable developments in the field of intellectual property in both in Europe and outside it.

THE SN ONLINE



SN BLOG

The Stockholm Network has launched a new blog that features all developments from within our network. The blog includes coverage of our network think tanks, including events, publications and blog posts. Recent postings from the blog are sent out weekly through the Weekly Bulletin.



To visit the blog, please go to:
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RECENT PUBLICATION

SHARING THE BURDEN: Could risk-sharing change the way we pay for healthcare?

by Stockholm Network



The Stockholm Network is now seeking to demystify the concept of risk-sharing and to explore it in a more systematic way. Risk-sharing agreements should reflect a true commitment to serve the needs of patients, to allow for greater individual choice, while securing the most effective methods of treatment.

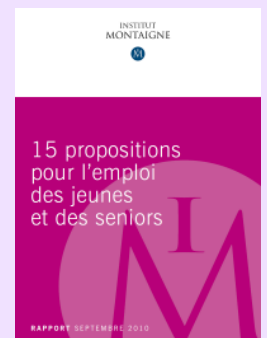
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15 PROPOSALS FOR EMPLOYMENT OF YOUNG PEOPLE AND SENIORS

by Institut Montaigne

This timely and interesting paper by Institut Montaigne offers 15 proposals to develop employment among young people and seniors with the aim of giving each citizen the opportunity to work differently so as to live differently, and restore the spirit of solidarity that it claims society so grievously lacks.



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