Article:
The deep roots of the government debt crisis

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The deep roots of the government debt crisis

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Abstract
The current differences between euro countries in terms of government debt, deficit and restructuring efforts have much deeper roots than many acknowledge. Behind them are apparently long-term differences in tax mentality and in attitudes toward one’s government and its borrowing policies. A cautious effort in 1974 to build a “pyramid of tax mentalities” turns out to be a good predictor for the same differences between the north and south, which can be observed in an international study of tax mentalities in the 1960s, a 1651 description of European countries and in the forecast of the euro countries’ performance right up to 2017. The results do not imply that the Eurozone has to fail because of its fiscal problems. A clear message from these results is that the structural adjustments in the southern countries might take much longer than is acknowledged at present. Should at the end of the day the euro area be considered as a case for realignment, then the proponents of what may be called the northern euro or a “euro of the strong ones” could draw on these results.

1 I would like to thank Brigitte Preissl for helpful comments on the structure of the paper, Wolfram Richter for the information about the Habsburg experience, Bertram Schefold for pointing out the importance of Kaspar Klock for the subject of this paper, Linus Mattauch for the hint about the Mezzogiorno example, Johannes Becker for the information on the work of Herrmann et al., and Aloys Prinz for pointing out recent sources on the government debt crisis.
1. Background and hypothesis
1.1 Starting point and sets of observations
The crisis in the Eurozone is now mainly a government debt crisis. It is expected to last much longer than the recent financial crisis and the ensuing economic crisis, at least in Germany [Zimmermann (2012)]. At present, the amount of debt per capita varies very much between the euro member countries. But it is interesting that even before the financial crisis started, there was a marked difference between mainly northern and mainly southern member countries. This paper argues that the roots of the present government debt crisis are much deeper than many wish to acknowledge, and certainly date back long before 2007, which was the last year before the financial crisis of 2008 started.

The argument in this paper starts from an international comparison of tax mentality that Günter Schmölders and his Cologne group undertook in the 1960s. This is the main source for this subject until today, because a similar in-depth survey of this kind does not seem to have occurred since then. In 1974, a special study came out that aggregated the results of these Schmölders studies plus some other comparative efforts [Tretter (1974)]. Tretter was courageous enough to sum up his results in what he called a “Pyramid of tax mentality” (Table 1).

Table 1: “Pyramid” of tax mentality

<table>
<thead>
<tr>
<th>Switzerland</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scandinavian countries, England</td>
</tr>
<tr>
<td>Luxemburg, Germany, Austria, Netherlands</td>
</tr>
<tr>
<td>---------------------------------</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Spain, Belgium</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
</tr>
<tr>
<td>Italy</td>
</tr>
<tr>
<td>(Greece)</td>
</tr>
</tbody>
</table>

Note: In 1974 Germany meant West Germany. Greece and the North-South divide were added by the author H. Z. Source: Tretter (1974, p. 49)
Though visually it does not look like a pyramid, the term “pyramid” is used throughout this paper because of its origin. Greece was originally not part of the pyramid. But the information below should permit us to add Greece to this table as well, and at the lowest level. Interestingly, some evidence that fits the pattern of 1974 can be found in an 800-page Latin text of 1651, which looked at the government systems and fiscal performances of several European, as well as a few non-European countries [Klock (1651/2009)].

1.2 The hypothesis
The hypothesis for this paper is that tax mentality and the concomitant borrowing habits are long-lasting attitudes that only change over a very long time period. This paper should, therefore, be viewed as part of a recent strand of economic thinking, and especially fiscal matters, that looks at historical developments as a way of understanding present day phenomena. An example of this area of research is a recent study by Becker et al. (2011), which detected marked differences in the quality of local administration between the former Habsburg possessions in today’s Eastern European countries compared with nearby areas that were not part of the Habsburg area. Another example is the “Eight centuries of financial folly” subtitle of Reinhart and Rogoff’s book on financial crises [Reinhart and Rogoff (2009)].

To put the hypothesis in concrete terms, the “Pyramid” of 1974 is chosen because it transformed the debate from one based on heuristics to one based on an ordinal scale, from weak to strong tax mentalities. It turned out that with the exception of Belgium, the differences in tax mentalities could be broken down between northern and southern countries. Therefore, I added the north-south divide. This pyramid is used throughout the paper as the blueprint to discuss (1) the results of the studies in the 1960s, (2) the 1651 Latin text and (3) the recent performance of the euro countries and the forecast until 2017. It will be demonstrated that the positions of countries on the pyramid only change marginally and almost never between the northern and southern half of the table, thus highlighting the deep roots of the present day problems.
1.3 The relationship between tax mentality and public debt performance

Historically, it has been found that countries in which the relationship between the government and its citizens is good are able to finance themselves during difficult times comparatively well through taxes, whereas weaker or more authoritarian states have to resort to debt financing. The French scientist Leroy-Beaulieu stated in 1906 that during the Crimean War (1853–1856) Great Britain financed almost half of its additional costs by way of taxes, whereas France had to rely on debt for more than 90% of its funding [Leroy-Beaulieu (1906)]. The German public finance scientist Lotz generalized this notion in 1931 and stated that: “Financial history is full of examples where only strong governments can impose a burden from extraordinary need on the present, whereas weak governments in the fiscal sense always have to rely on borrowing in such circumstances” [Lotz (1931, p. 862)].

It is thus the attitude of citizens toward their government that dictates tax mentality and debt performance. The determinants of tax mentality and tax morale have been analyzed thoroughly by, for example, Schmölders (1960/1970) and Torgler (2003/2007). It will also be shown below that one indicator of tax mentality, and of the attitude toward the state, is the way in which taxes are levied. This is something that can be traced far back and is valid today.

This paper will be structured according to the three points in time mentioned above. It starts with a look at the 1960s, followed by an analysis of the 1651 Latin text, and then looks at the current government debt crisis and the forecast until 2017.

2. Well-founded comparison for the 1960s

2.1 The underlying studies

The idea behind taking a long-term view of tax mentality, and the data that many refer to in their studies of the subject, emanated from “the Cologne school of tax psychology,” organized by Günter Schmölders and his “Office for Empirical Research on Social Economics” (Forschungsstelle für empirische Sozialökonomik).²

² The importance of their work was recently acknowledged again, pointing out that these researchers were well-versed in the sociological methods of the time in working with interviews from a representative sample. See above all Torgler (2003), pages 5 and 172, but also Smekal and Theurl (1994) and Döring (2014).
Schmölders and his team undertook several interviews in different European countries, using roughly the same set of questions, to determine respondents’ attitudes toward their government, taxes and tax fraud and – more as a side – to fiscal soundness.

In parallel to the studies of tax mentality and tax morale, the team undertook studies into taxing technique and taxing practice. This made it possible to relate both sets of results to each other: a sophisticated tax system with a large share of personal and corporate income taxes is only manageable if tax mentality supports it. The written tax laws were often much more sophisticated than the way in which they were actually implemented, for instance in France.3

Of specific interest is Tretter’s 1974 report, which combined and summarized the results of the two volumes, as well as many other studies that had been undertaken on the subject by either the Cologne school or other institutions. His “pyramid of tax mentality” (Table 1), in specific, will be helpful for the brief interpretation of the Klock study of 1651, and provides a good foundation for interpreting the situation today. The first three lines are taken together here as northern countries and the last four lines as southern countries. Belgium belongs geographically to the first group, but the fact that more than half of the territory and 40% of the population is French-speaking, as well as some of the data provided below, justifies the decision to assign it to the southern countries. The following remarks for the circumstances of the various countries in the 1960s, mostly drawn from Tretter, are organized by the sequence in this pyramid.

2.2 The results for the northern countries

- Switzerland was put for good reason at the top of the pyramid. In all answers concerning tax mentality the country ranks first. This is based on a strong affinity toward the country’s government. This is helped by the country’s low tax burden, which is in general considered to be helpful for a positive tax mentality.

3 The empirical results of the two sets of studies were published in two volumes [Beichelt et al. (1969); Daviter et al. (1969)], along with some questionnaires and additional volumes of tables, which were deposited in the research center.
The Scandinavian countries are usually given the same rank as England (which in Tretter’s work apparently stands for Great Britain). Sweden demands an income tax return even for low income, thus using a taxing technique that can only be implemented with rather high tax mentality.

England was the subject of several studies at the time. Most of them assign a very positive tax mentality to the country, again based on strong affinity to government, comparable to Switzerland. But having the highest income tax rates of all the countries in the study means that England’s tax morale is not too great, which is why it is not ranked in the highest tier. Nevertheless, “every second citizen believes in the just distribution of the tax burden” [Beichelt et al. (1969, p. 184)], an unusually high proportion.

The three Benelux states Belgium, the Netherlands and Luxemburg show very different tax mentalities. The Dutch seem to have a positive tax mentality, only slightly less than Germany. There is no information on Luxemburg, and for Belgium see below.

Germany has a good middle position for its tax mentality in international comparison. The interview results clearly suggest that the attitude toward government and the tax mentality are to be judged positively. This is the more astonishing since the German taxing technique was considered at the time to be characterized by sharp confrontation and a kind of perfectionism in taxing that would usually affect tax mentality negatively.

2.3 The southern countries

Among the Benelux countries with their different tax mentalities, Belgium is regarded as the worst and quite close to France in terms of results. This by the way is one of the reasons, apart from partly belonging to the Romance language group, why it was placed in the south, even though it is geographically in the north.

As for Spain, it might have been assumed at the time that because of its low socioeconomic development and its southern mentality it might have a negative tax attitude. But the studies demonstrated a relatively good tax mentality, and the government, as well as taxation, are mostly accepted. However, except for large businesses, no higher forms of taxation are applied, which would have meant a greater challenge for the loyalty of the taxpayers. Spain is, therefore, assigned the same level as Belgium in the pyramid. For the future of this euro country, it is important that “the tax mentality, as measured, should not stand in the way of success in taxation, which would be oriented toward ability-to-pay” [Beichelt et al. (1969, p. 184)].
France was at the time often mentioned as an example of bad tax mentality. Its history is rich in examples of fights between fisk and taxpayer. Tax code and comments on the income tax seem to indicate a modern income tax aimed at ability to pay. In reality, it is almost completely applied as a tax on estimated instead of actual receipts, i.e., the system is oriented toward indicators for cost and standard of living.

Italy is expected to be at the far negative end of the scale. Political culture, tax mentality and tax discipline are equally very bad. A large share of the direct taxes was not collected by the government tax authorities in the 1960s, but the right to collect them is given to third parties. This system is supposed to be abolished only very slowly, because it seems to be less costly than the administration of the government’s tax authorities.

Greece was not part of the international comparative studies. Schmölders mentions the country together with Spain, Italy and France as one, where sophisticated tax laws degenerate “to a mere farce” in daily tax administration [Schmölders (1970, p. 116)]. And the new Greek state in the early 19th century had started with high borrowing and early default [Schönhärl (2013)].

Taking the results of the observed countries together, they form the pyramid in Table 1. The researchers summarize their report by saying that: “The judgment on the fairness of the tax system in the three analyzed southern European countries [i.e., France, Spain and Italy] is devastating in international comparison” [Schmölders and Strümpel (1968, p. 149)]. In contrast, the judgment on the northern countries is generally positive.

3. A look further back
3.1 The origin in 1651
The voluminous work of Kaspar Klock in 1651 is well known and often quoted. However, it consists of about 800 pages of sophisticated Latin, which made it impossible for any scientist without a strong background in Latin to use, and sadly, according to Schefold’s private information, translations into German or other language does not exist. It was, therefore, very helpful that for the 2009 edition of the Latin text Bertram Schefold wrote a 100-page German introduction (plus many pages of notes). There he documented many of the detailed country-wise descriptions that Klock had given.
Klock concentrated on the Aerarium, which means the treasure of the ruler. At the time it mostly meant precious metals [Schefold, 2009, p. XLVIII], which fits the origin of “aerarium” from “aes” as metal. In the first volume, which is mainly referred to here, he deals with the various countries, “each with its particular institutions in the fiscal system, which are determined by topographical and cultural peculiarities and by the political setup, which in turn results from the specific historical development that Klock takes into account” [Schefold (2009, p. VIII)]. When Klock mirrors fiscal system and government system, he “adds the historical dimension, and if then one remembers that Klock tries to characterize national mentalities as well, one can speak of a comparison of economic styles” [Schefold (2009, pp. XI and LXVI)].

This seems to put Klock somehow in line with the analysis of tax mentality, as it was discussed in this paper. But whereas the studies in the 1960 analyzed the citizens’ tax mentality directly and then one had to link this to public borrowing habits, Klock’s context was different. He describes rulers in the first place and only occasionally adds a remark on the citizens. But here one can draw on the habits of rulers who may or may not pursue sound finances, and who ultimately are the ones to incur public debt.

The following remarks, which are exclusively based on Schefold (2009), are organized not by the sequence in Schefold’s introduction, but again by the arrangement in Table 1.

3.2 Klock’s remarks on the northern countries

- With regard to Switzerland, Klock notes that it does not seem to have any kind of fiscal system. However, “their big asset is parsimony.” They are poor, but “they thanked God for their freedom” [Schefold (2009, p. LXII)]. The economic base is diversified, and there are few beggars in the country. The city cantons, such as Basel, seem to run a reasonable system of excises. As for the soldiers, they are mainly mercenaries against pay and not hereditary subjects. Compared to the descriptions of the other countries, Switzerland certainly deserves a place in the upper part of the pyramid.

- The Scandinavian countries on average also receive positive marks. Sweden is dealt with most thoroughly. If this country has to carry the burden of wars, the money has to be approved within the corporate system. The state can rely on a rather diversified tax base, which is also extended to the nobility and to the church real estate. In general, its institutions are at the time more liberal than those of the German Reich.
In England, the king is in case of war supported by Parliament, which means that the ruler and the ruled are relying on each other. This had allowed the country to rely on taxes instead of borrowing in the Crimean War. On the revenue side, the country relies on a sophisticated system of excise duties. It seems obvious that England and Sweden (as the most important Scandinavian country) deserve a place in the upper tiers of the pyramid.

The Netherlands, which at the time included parts of modern Belgium, are dealt with extensively by Klock. In a summary statement, Schefold describes the country as the most interesting from an economic perspective and as the pioneering example of a republic with market economy structures in fields that one cannot find elsewhere. If taxes are sourced out to collecting agencies, then strict laws work against overstepping the competencies, which elsewhere seems to be a big problem with squeezing money from citizens and business.

Germany was not an easy country to judge at the time. It had barely survived the 30-year war (1618–1648), with large parts of the country devastated. The finances were split between the individual kingdoms, dukedoms, etc., and the emperor, with the emperor relying on little money in regular times and special allowances for special occasions. The “Reich,” as territorial unit under the emperor, did not possess enough tax base to keep it together and strong.

Looking only at Klock, one would probably put the Netherlands at the top of the pyramid. Taking the comments on the northern countries together, they would all be in the upper part of the pyramid, with Germany being for good reason in the third tier.

3.3 The southern countries

Spain was at the time the country with the widest colonial extension, and included Portugal. The Spanish king often went into debt hoping that additional revenues from the colonies would pay for it. Belgium is not mentioned as a separate country by Klock, because it partially still belonged to Spain.

France is considered to be of advanced statehood, and its riches are used parsimoniously.
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- Italy is not yet mentioned as a country, and Klock looks at various regions instead. Venice is discussed quite extensively. It borrows from rich citizens and seems to be well administered. With the exception of Venice, Italian public servants are considered to be particularly greedy and grasping, with Naples and Sicily being exceptionally bad. This north-south divide in the quality of the public sector might be taken as a precursor of present-day Italy, which seems to be divided between an economically strong north and a weaker south with its Mezzogiorno.

- Greece is at Klock’s time part of the Ottoman Empire and had been so for 200 years. The sultan relied on extraordinary revenue, and, though powerful, he is regarded as poor in comparison to Venice. Klock considers the Ottoman Empire as being typical of tyranny. In Schefold’s words “fear and subservience of the subjects, insecurity of the law, arbitrary distribution of sinecure, subservient presents instead of orderly taxation” [Schefold (2009 p. LXVII)].

Looking across the southern countries the picture is less clear. Venice could certainly be among the top countries, France receives good marks, Spain is prone to high public debt, and only Greece is difficult to judge because it is not yet a country of its own and will not be for another two centuries, so it remains to be seen whether the experience of more than 300 years of the Ottoman Empire could be overcome.

Of course, the results of Klock should be taken in context. More than 350 years have elapsed since then, so one cannot talk of continuity, given the changes in government systems and the enormous economic development in that time. Yet, the fact that they retain their positions on the pyramid throughout this period makes these remarks quite fascinating. They become even more interesting when one looks at the current situation – with the same geographic pattern as before.

4. The current government debt crisis
4.1 The situation before the financial crisis
After our look far back into European history, the discussion returns to the relationship between tax mentality and government debt performance, which in turn is at the heart of the government debt crisis.

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4 Private information by Bertram Schefold.
5 This observation was referred to the author by Linus Mattauch.
As mentioned on the previous page, one might expect a rather strong correlation between a negative attitude toward government and taxation, and thus a bad tax mentality on the one hand and the readiness to accumulate large amounts of public debt on the other hand. Weck (1983) conducted a study of tax immorality for the period 1960 to 1978, with tax immorality standing for “the value of tax evasion” [Torgler (2003, p. 40)]. Table 2, which presents Weck’s findings, illustrates marked differences between north and south. The relationship was roughly 1:1.5 in 1960 and rose to more than 1.2 from 1970 onward, which means that the north-south divide has even widened somewhat during this period. The aforementioned Office for Empirical Research on Social Economics has continued to study tax morale in Germany and found that its already rather good tax morale even improved between 1997 and 2014 [Forschungsstelle (2014)].

### Table 2: Development of tax immorality, index figures

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Switzerland</td>
<td>0.6</td>
<td>1.0</td>
<td>1.2</td>
</tr>
<tr>
<td>Denmark</td>
<td>2.2</td>
<td>3.6</td>
<td>4.4</td>
</tr>
<tr>
<td>Finland</td>
<td>2.2</td>
<td>3.6</td>
<td>4.4</td>
</tr>
<tr>
<td>Norway</td>
<td>2.2</td>
<td>3.6</td>
<td>4.4</td>
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<tr>
<td>Sweden</td>
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<td>3.6</td>
<td>4.4</td>
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<tr>
<td>Great Britain</td>
<td>2.2</td>
<td>3.6</td>
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<td>Luxembourg</td>
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<td>Germany</td>
<td>5.5</td>
<td>9.0</td>
<td>10.9</td>
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<tr>
<td>Austria</td>
<td>5.5</td>
<td>9.0</td>
<td>10.9</td>
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<tr>
<td>Netherlands</td>
<td>5.5</td>
<td>9.0</td>
<td>10.9</td>
</tr>
<tr>
<td><strong>Average north</strong></td>
<td>5.6</td>
<td>5.1</td>
<td>6.2</td>
</tr>
<tr>
<td>Spain</td>
<td>7.1</td>
<td>11.6</td>
<td>14.0</td>
</tr>
<tr>
<td>Belgium</td>
<td>7.1</td>
<td>11.6</td>
<td>14.0</td>
</tr>
<tr>
<td>France</td>
<td>8.7</td>
<td>14.3</td>
<td>17.3</td>
</tr>
<tr>
<td>Italy</td>
<td>10.4</td>
<td>17.0</td>
<td>20.6</td>
</tr>
<tr>
<td>Greece</td>
<td>8.3</td>
<td>13.6</td>
<td>16.5</td>
</tr>
</tbody>
</table>

Note: Sequence of the countries as in Table 1. Averages unweighted because each government counts equally. Averages pertain to the countries listed with figures. Data sources: Weck (1983, p. 134), from Torgler (2003, p. 158)
Given this background, the following arguments pertain directly to the government debt situation. In this last step of the paper, the findings of 1651 and of the 1960s are contrasted with the present situation. Table 3 presents the accumulated government debt from 1980 to 2007, the last year before the financial crisis started. By 1980, the welfare state, which in many cases began in the 1970s, had gained ground in European countries and was still progressing. The picture between the north and south is not very different, with the south being only four percentage points above the north in 1980. That changed in the 1980s. Until 1990, the figures for the north grew rather slowly whereas the south almost doubled its average accumulated debt as percentage of GDP. The negative outlier is Belgium, followed by Italy, but all others grew considerably as well.

Table 3: Government debt, % of GDP

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Switzerland</td>
<td>43</td>
<td>31</td>
<td>51</td>
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<td>Denmark</td>
<td>39</td>
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<td>Sweden</td>
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<td>40</td>
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<td>Great Britain</td>
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<td>33</td>
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<tr>
<td>Luxemburg</td>
<td>10</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Germany</td>
<td>30</td>
<td>41</td>
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<td>Austria</td>
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<td>60</td>
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<td>Netherlands</td>
<td>45</td>
<td>77</td>
<td>54</td>
<td>45</td>
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<tr>
<td><strong>Average north</strong></td>
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<td><strong>40</strong></td>
<td><strong>48</strong></td>
<td><strong>42</strong></td>
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<tr>
<td>Spain</td>
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<td>Belgium</td>
<td>74</td>
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<td>Italy</td>
<td>57</td>
<td>94</td>
<td>109</td>
<td>103</td>
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<tr>
<td>Greece</td>
<td>23</td>
<td>72</td>
<td>104</td>
<td>107</td>
</tr>
<tr>
<td><strong>Average south</strong></td>
<td><strong>38</strong></td>
<td><strong>74</strong></td>
<td><strong>87</strong></td>
<td><strong>79</strong></td>
</tr>
</tbody>
</table>

Note: Sequence of the countries as in Table 1. Averages unweighted because each government counts equally. Averages pertain to the countries listed with figures.

The year 2007 has to be looked at more closely, because this was the situation in all of the countries just before the financial crisis started. Spain showed very sound finances, being below the average of the northern countries. At that point in time, there was no reason to think that Spain would not be able to face the crisis as well its northern counterparts did. It later turned out that it was not a basic structural problem that caused the crisis in Spain, but the large real estate bubble that had burst because of the effect of the crisis. France had increased its debt not beyond proportion, staying almost within the Maastricht limit of 60% of GDP.

Belgium had reduced its very high burden by about one-third between 1990 and 2007, and taking into account that this country had a sound economic basis, it could be expected that it would come out of the crisis in a rather good shape. It is the large increase in borrowing during the 80s and 90s that led the author to place this country among the southern countries. If during “normal” times a country can accumulate such high levels of debt, there must be something in the political and cultural system that makes it prone to high borrowing. An analysis for 1990 had found that “Flemish people … have a higher tax morale than the Francophone inhabitants” [Torgler (2003, p. 40)].

Things are different in Italy and Greece. These countries did not improve their debt ratios by any considerable degree until 2007 and entered the crisis with an amount of government debt that was above annual GDP. It was to be expected that these countries would run into difficulties when the financial - and subsequently economic - crisis would hit.

The general picture thus fits the pattern of the pyramid rather well. The most promising example is Spain, which in 1651 already had received rather good marks and did not do too bad in the surveys of the 1960s. Italy and Greece are the countries that should have caused most concern in that decisive year 2007.

4.2 Hope for the near future?
Today, it is of major interest whether the projections for the coming years show a different tendency in raising the south more than the rest of Europe and thus alleviating the government debt crisis in Europe.
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Table 4 shows the development until 2017 for those countries in the pyramid in Table 1, which belong to the Eurozone. The picture is definitely not encouraging. To begin with government debt, the difference between north and south, which had been somewhat less than 1:2 (42:79) in 2007 as a percentage of GDP (Table 3), will not narrow, but in fact increase slightly (60:112).

Table 4: Budget deficit and unemployment rate, euro countries from Table 1

<table>
<thead>
<tr>
<th>Country</th>
<th>Government debt % of GDP 2012</th>
<th>Budget deficit % of GDP 2012</th>
<th>Difference 2013-17</th>
<th>Unemployment rate % of labor force 2012</th>
<th>Average 2013-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finland</td>
<td>53</td>
<td>-1.9</td>
<td>1.9</td>
<td>7.8</td>
<td>7.5</td>
</tr>
<tr>
<td>Luxemburg</td>
<td>21</td>
<td>-0.8</td>
<td>1.3</td>
<td>5.1</td>
<td>5.7</td>
</tr>
<tr>
<td>Germany</td>
<td>82</td>
<td>+0.2</td>
<td>0.0</td>
<td>5.5</td>
<td>5.2</td>
</tr>
<tr>
<td>Austria</td>
<td>73</td>
<td>-2.5</td>
<td>2.0</td>
<td>4.4</td>
<td>4.7</td>
</tr>
<tr>
<td>Netherlands</td>
<td>71</td>
<td>-4.1</td>
<td>0.7</td>
<td>5.3</td>
<td>7.1</td>
</tr>
<tr>
<td>Average north</td>
<td>60</td>
<td>-1.8</td>
<td>1.2</td>
<td>5.6</td>
<td>6.0</td>
</tr>
<tr>
<td>Spain</td>
<td>84</td>
<td>-10.6</td>
<td>4.1</td>
<td>25.1</td>
<td>27.0</td>
</tr>
<tr>
<td>Belgium</td>
<td>100</td>
<td>-3.9</td>
<td>1.6</td>
<td>7.6</td>
<td>8.2</td>
</tr>
<tr>
<td>France</td>
<td>90</td>
<td>-4.8</td>
<td>1.7</td>
<td>10.3</td>
<td>11.0</td>
</tr>
<tr>
<td>Italy</td>
<td>127</td>
<td>-3.0</td>
<td>1.3</td>
<td>10.7</td>
<td>12.2</td>
</tr>
<tr>
<td>Greece</td>
<td>157</td>
<td>-10.0</td>
<td>2.9</td>
<td>24.3</td>
<td>27.6</td>
</tr>
<tr>
<td>Average south</td>
<td>112</td>
<td>-6.5</td>
<td>2.3</td>
<td>15.6</td>
<td>17.2</td>
</tr>
<tr>
<td>Eurozone</td>
<td>93</td>
<td>-3.7</td>
<td>1.5</td>
<td>11.4</td>
<td>12.2</td>
</tr>
</tbody>
</table>

Note: Sequence of the countries as in Table 1. - Averages for north and south are unweighted because each government counts equally.
Data sources: EY (2013, p. 47); Government debt: German Ministry of Finance 2013, Table 16.

Of course, this figure does not change very fast. But it is driven by the budget deficits of the next few years. These deficits are more than three times higher in 2012 in the southern countries than in the north (Table 4). And the development of this indicator until 2017 sees the south still aggravating its problems.
Behind it are, of course, economic problems, for instance the high unemployment rate in the south, which is projected to be almost three times higher than in the north. And behind these economic problems are not short-term business cycle effects, as they could be seen in Germany for instance between 2008 and 2010. Instead, the problems in Italy and Greece stem from delayed structural reforms.

Structural problems might also be the reason behind Spain's high unemployment, but as was mentioned before, the basic fiscal system of that country was sound before the crisis started.

It, therefore, looks as if the north-south divide, which was inherent in the pyramid of 1974, might persist far into this decade.

5. A comprehensive perspective
5.1 Analytical perspective
To begin with the facts: the initial hypothesis of the paper has been confirmed. Information from 1651, the 1960s and today demonstrate a similar international pattern in Europe. The northern countries have a more positive attitude toward government and taxation, and they lean more toward parsimony and fiscal austerity than southern countries. The method applied might be called the “recurrent pattern as research tool”: (1) observe a pattern, be it the “pyramid” here or be it an international pattern of frequent over-borrowing, then (2) search for a theoretical basis, for instance on the relationship between tax mentality and underlying attitude toward government, and finally (3) refine the hypothesis and then continue empirical analysis by observing the later patterns.

From an analytical perspective the question that has as yet not been addressed here is why the two types of countries are not spread around Europe, but instead are clustered closely in the north and, though less closely, in the south. A possible explanation, in addition to referring to a general notion like economic styles, could be provided by recent research on neighborhood effects [see Becker and Davies (2014), also for earlier literature]. Local proximity makes the exchange of information and experience easier. In the case of the north-south divide the similarity of language helps.
The south, with the exception of Greece, is characterized as Romance language, and the Germanic languages of the north play the same role. In addition, the greater proximity of the northern countries might also help explain why they are closer to each other in terms of tax mentality and fiscal attitude than the southern countries, which are geographically much wider apart. If one northern country has had a good experience with higher growth following fiscal austerity, the others – government and voters (or earlier rulers and the ruled) – could draw from that apparently successful experiment. “Countries react to each other” is an established result of recent research and could help to explain the north-south divide. Northern countries are also strong in terms of pro-social norms, which in turn supports a good tax morale, as opposed to – in this case – Greece and Turkey [Herrmann et al. (2008), table on p. 1363].

If the subject of this paper is regarded as interesting, then a research proposal might look promising. The results from the underlying studies in the 1960s could be taken as an opportunity for an interesting research today. At the time of the Cologne studies, Schmölders himself was involved in setting up the Central Archive for Empirical Social Research (Zentralarchiv für empirische Sozialforschung). It was meant to collect the methods and results of such empirical research in Germany. Some of the questionnaires for these studies on tax mentality in Great Britain, France, Italy and Spain have been preserved in this archive and in the Office for Empirical Research on Social Economics. In addition, separate volumes with basic univariate analysis (“Grundauszählung”) exist for some countries. This way, it should be possible to rerun these studies to see whether method and outcomes stand up to modern empirical research standards. In addition, and more interestingly, it would be possible to run a similar survey today. The results could be compared to those of the 1960s, so that the outcome might support the subject of this paper, namely that the roots of the present government debt crisis are deep.

5.2 Political perspective

Turning to the economic policy perspective, the results support the notion that the Eurozone is far from a Mundellian optimal currency area.

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6 This source was referred to the author by Johannes Becker.
The paper shows that the economic differences between the member countries have much deeper roots than is usually acknowledged. Of course, not all of the countries included fit the pattern equally well. Spain, for example, was rather well-managed from the beginning; it entered the Eurozone with a very light debt burden, and its current crisis is more related to the property bubble bursting than to long-term fiscal burden. Germany, of course, had experienced two periods of very high inflation (1923 and 1948) following from an incredibly high debt burden, which at the time could only be relieved by currency reform.

Despite that, the fact remains that the northern countries remained in the upper part of the pyramid and the southern countries in the lower part, which makes the “Pyramid of 1974” a unique analytical tool.

Are there any conclusions from these findings that can be applied to the future crisis policy?

1. The results demonstrate that the Eurozone does not have to fail because of its fiscal problems. After all, the member countries are bound together by common values like the love for freedom and democracy, and the feeling that Europe belongs together, with Greece as the currently most problem-laden country being regarded as the cradle of European culture and civilization.

2. A clear message from these results says, however, that the structural adjustments in the southern countries might take much more time than is acknowledged at present. Attitudes toward the government and the concomitant tax mentality as well as the borrowing habits apparently have deep roots, and changes take longer than one thinks.

3. Should at the end of the day the euro area be considered as a case for realignment, then the proponents of what may be called the northern euro or a “euro of the strong ones” [Sinn (2013) and Sinn and Sell (2012)] could draw on these results. A recent perspective on this issue was provided by Allan Meltzer, who said that “the southern countries need their own euro.”

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7 English version of the heading for his interview [Meltzer (2014)].
The deep roots of the government debt crisis

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N. B. Quotations from German sources have been translated by the author.


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