
Wheelwright Lecture 2012

AUSTERITY POLICIES INCREASE UNEMPLOYMENT AND INEQUALITY - but don't reduce budget deficits and government borrowing

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The author came to Australia in August 2012 to present the annual Ted Wheelwright memorial lecture at the University of Sydney. The article is an abridged version of her full address. A video of the full speech, with an introduction by Meredith Burgmann, can be seen on the JAPE website at <http://australianpe.wix.com/japehome#!wheelwright/ciqv>.

Since 2010, many European governments have adopted austerity policies in an attempt to reduce the budget deficits and increases in government borrowing that were caused by the 2007/8 financial crisis. But cuts in public expenditure are not very successful in reducing budget deficits and government borrowing, though they are very successful in stifling economic recovery, creating a second wave of recessions and increasing unemployment and inequality.

Take the UK as an example. The Labour Government responded to the financial crisis of 2007/2008 by bailing out the banks (at a cost of around £500bn.) and introducing a fiscal stimulus. This helped to limit the depth of the recession and put the economy on the road to recovery. By the first quarter of 2009, the irresponsibility of private sector financial institutions had led to a deep recession and a rise in unemployment, at first more pronounced for men than for women. But as the stimulus policies kicked in, output recovered- quarterly GDP growth was positive and rising by the second quarter of 2010; and the rate of male unemployment (though not female unemployment) had begun to fall. The budget deficit and public sector debt had risen, but primarily because

recessions reduce tax revenue. Given a bit more time, economic recovery would increase tax revenue, and reduce expenditure on unemployment or related welfare benefits, and the deficit and public debt would fall.

However, a new government came to power in May 2010, a coalition of the Conservative and Liberal Democratic parties; and decided that the timetable for deficit reduction had to be accelerated, and that the way to achieve this was through an unprecedented four year programme of cuts to public services and welfare benefits. There were also some increases in taxes, primarily an increase in the Value Added Tax. But the plan was that 77% of the deficit reduction would come from expenditure cuts, and 23% from increases in tax revenue.

As austerity policies began to come into force, recovery of output and employment came to an end. By the middle of 2012, the UK economy was back in recession, with output in the second quarter falling by 0.7 % and unemployment at 8.3%. The targets for deficit reduction had not been met and government borrowing was rising, not falling, as tax revenues fell despite increases in some tax rates.

The government had hoped that, as public sector output and employment was cut, the private sector would take up the slack and lead accelerated recovery. But this did not happen. Business needs expanding markets and complementary public services and infrastructure as well as access to labour to stimulate investment. Cuts to public expenditure reduce household incomes and household spending, depressing the demand for private sector output; and cuts reduce public services and infrastructure. Business representatives are starting to call for a new stimulus through public investment in infrastructure, such as roads and rail.

Though the austerity policies have failed to meet targets for budget deficit reduction, they have increased inequality. Take the case of gender inequality. In the forty years preceding the financial crisis, gender gaps in the UK economy had been narrowing. Women's labour force participation had risen. The gender wage gap had fallen. Women continued to have to take the main responsibility for providing unpaid care for families and communities, but public services and welfare benefits made it easier for women to combine bringing up children with having a paid job. Public sector employment played an important role, as the gender wage gap was narrower in the public sector than in the private sector, and public sector employment policies were more family friendly.

The austerity policies are set to undermine this progress and to hit low income women particularly hard. Women's employment is more concentrated in the public sector than men's; and women make up about two-thirds of the public sector workforce. As expenditure cuts have led to loss of public sector jobs, women's unemployment has risen to unprecedented levels, reaching 7.7% in first quarter of 2012. At the same time, women's labour force participation has fallen, as increasing numbers of women are discouraged by lack of job opportunities and the problems of combining paid work with family responsibilities.

The austerity policies will hit women's incomes harder than men's. Rises in direct taxes, cuts in welfare benefits, increases in public sector pension contributions and freezes in public sector wages will raise 8 billion pounds in the period to 2014/15. Parliamentary researchers have calculated that, of this, men will pay £2.2 billion (26%) and women will pay £5.8 billion (74%). So though women's incomes are lower than those of men, they will pay more than men.

Lone mothers, one of the poorest groups of women, will be harder hit than other groups. Research by the Institute of Fiscal Studies on the incidence of changes in direct and indirect taxes and welfare benefit cuts on household income shows that the group that loses most are lone mothers, who stand to lose about 8.5% of their income, as compared to childless couples, who lose least- about 2.6%.

Lone mothers will also be hardest hit by cuts to expenditure on public services. Estimates by the UK Women's Budget Group and Landman Economics, shows that lone parents (95% of whom are women) stand to lose more than 4 times as much as couples without children, who stand to lose least. After lone parents, retired single women lose most, and then childless single women of working age.

The cuts to care services will make extra demands on women to provide unpaid care. Expenditure on social care for frail elderly people and severely disabled people will be cut by 20% from 2011/12 to 2014/15. This compares to an overall cut to expenditure on public services of 12%, including a cut to defence of 8%. The number of frail elderly people in receipt of free home care fell by 11% in 2010-12. Their daughters and nieces will be expected to provide most of the replacement care.

Reforms to the welfare system, designed to save money, are also set to undermine low income women's financial autonomy, and reduce their incentives to take a paid job, if they have a partner who is in paid work.

No wonder that UK women's rights organisations feel that the austerity policies are trying to turn back time to an era of male breadwinners and dependent housewives.

Anybody recommending austerity policies as an appropriate response to current economic conditions must explain why they think such policies will lead to prosperity, with fair shares for all; rather than a downward spiral of recession, unemployment, inequality and rising debts and deficits. Budget deficits are more effectively reduced by stimulating output and employment than by austerity. Stimulus policies are also an opportunity for social and economic transformation, with increased public investment in 'green' industries and jobs to meet the challenge of climate change; and in care services to address the aging population.

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Further Reading

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