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## Assessing Austerity

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### Introduction

From a crisis of the state in Greece to bankruptcy in the city of Detroit, the effects of austerity have had stunning policy implications in much of Europe and North America since the ‘great recession’ started in 2007-8. The history of contemporary austerity is remarkable for how quickly policy consensus was established between global economic institutions, central banks and national policy makers. After a short flirtation with policies which promoted economic stimulus, politicians in country after country made the case for the necessity of “fiscal consolidation” or austerity, often pushed by the large international lending institutions, such as the IMF, World Bank and the European Central Bank. National (and sub-national) varieties of austerity were rolled out across much of Europe and the US, much as it had been across developing countries in previous decades.

The crisis originated in the sub-prime mortgage debacle in the US, where poor quality debt was repackaged and rebranded in global financial markets as high yield and low risk. When many of those debts went bad, the repercussions quickly reverberated around the global banking system. By saving the global financial system (recapitalizing the banks and adding liquidity to the banking system), the private banking crisis was rebranded as a public sovereign-debt crisis and blamed on profligate government spending of peripheral European countries. This, despite the fact that none of these countries, except for Greece, had problematic budget deficits before the crisis. Thus, the private debt crisis became a public debt crisis, in what Mark Blyth (2013: 73) called the “greatest bait and switch in modern history.”

This special issue brings together some of the most influential articles on austerity published by the *Cambridge Journal of Economics*, *The Cambridge Journal of Regions, Economy and Society*, and *Contributions to Political Economy*, which reflect on the history, theoretical justification, and the spatial and social implications of austerity policies. This remarkable range of articles explores the political economy of austerity policies – its intellectual origins and justifications, the politics and politicking surrounding austerity, and its uneven spatial and distributional implications.

### **The Economics of Austerity: The Rise and Fall of Keynesian**

Konzelmann’s article “The Political Economics of Austerity” (2014) sets the stage for understanding the evolution of ideas about economic austerity. After World War Two, when the welfare state was firmly in place – and its social and political popularity protected it from serious cut-backs – austerity took a periodic macroeconomic form, designed to stabilise economic activity, protect employment, prevent inflation and avert financial crises. Steeply progressive tax regimes ensured that the cost of these measures was borne proportionately more by the better-off. As a result, during the decades that followed, egalitarianism and an extended period of economic growth delivered greater economic equality and unprecedented improvements in living standards.

However, this social and economic progress was undermined, as Kalecki (1943) had predicted, by the failure to create social and political institutions capable of supporting continuously high levels of employment. State management of the economy was ultimately destabilized by the crisis-ridden 1970s, which also discredited worker-friendly legislation, trade union organisation and collective bargaining. The resulting counter-reaction to Keynesianism was led by neo-liberal theorists, who portrayed unemployment as a “natural” phenomenon – made worse by trade union activity, legally enforceable labour market regulation and overly-generous welfare provisions – casting doubts on the wisdom of efforts to maintain full employment. As the stagflationary crisis of the 1970s progressed, neo-liberal theory – that inflation is a monetary phenomenon and unemployment is explained by labour market imperfections – came to be regarded as the alternative to Keynesianism. From this perspective, austerity has a central role to play in maintaining price stability by directing the economy back towards the “natural” rate of unemployment. During the decades that followed, the neo-liberal challenge to the Keynesian orthodoxy was ultimately successful; and the focus of policy shifted away from attempting to maintain a full employment level of effective demand and stable prices, leaving employment to market forces, with joblessness being considered a *personal* – rather than a *systemic* – problem.

Between 1979 and 2008, governments of all political persuasions pursued neo-liberal economic policies with emphasis on labour and financial market deregulation and macroeconomic strategies emphasising monetary control. Economic policy has alternated between the unleashing of debt-fuelled consumer binges and excessive asset speculation, followed by the imposition of deep austerity measures when bubbles burst. Having abandoned control of international capital movements and the supply of money, governments have effectively discarded the levers that they previously relied upon to regulate the financial sector and to manage deficit-financing and debt reduction. However, without these means, economies are prey to hostile speculation in international financial markets and the risks to fiscal budgets of rising interest rates and debt servicing costs. In this respect, as Greece and other weaker members of the Eurozone are discovering, the *votes* of speculators in financial markets carry more weight in determining economic and employment policy and outcomes than do those of the electorate. In this context, Konzelmann (2014) concludes that the only clear beneficiaries of austerity are financial speculators, with their proven ability to hold governments to ransom.

### ***Austerity, Public Debt and Growth***

Since the 1980s, one consequence of adopting neo-liberal policies has been the slowing-down of growth in Gross Domestic Product (GDP) in the advanced industrial economies, with deep recessions during the early 1980s and 1990s that played an important part in decimating manufacturing and increasing import dependency. Slumps have been followed by unsustainable bubbles, inflated by increasing supplies of low cost credit from the progressively deregulated financial sector. The latest credit bubble burst in 2007, bringing bank lending virtually to a halt and precipitating a world-wide crash of monumental proportions.

The initial response by governments was to rescue systemically important (but failing) financial institutions and to reflate their economies. But increasing the money supply – a policy termed “quantitative easing” – has had little effect in stimulating the economy because the underlying problem was not a shortage of supply but rather a lack of demand for credit, in no small part by pessimistic consumers whose debt-financed spending had supported earlier bubbles. Instead, quantitative easing has acted as a sort of “blood transfusion” for struggling banks, boosting the

prices of financial assets and stabilising the institutions that hold them. In 2010, after emergency stimulus measures and bank bailouts had apparently averted financial collapse, there was a policy reversal to economic austerity. This was partly due to a similar *volte-face* on the part of the financial markets, which having cried-out for a rescue in the wake of the financial crisis, now felt emboldened to challenge countries that were subsequently burdened with high levels of public debt.

The theoretical justification for austerity was provided by Harvard economists, Carmen Reinhart and Kenneth Rogoff; and this was seized upon by politicians wanting to reverse course. Reinhart and Rogoff's (2009) study of the long-term historical relationship between public debt and economic growth suggests that following a financial crisis, output and employment recover very slowly and that the average duration of debt over-hang episodes is 23 years. This implies a substantial cumulative loss in output, raising concerns about the long-term negative consequences of high levels of public debt. From this, they conclude that in the current context, since growth is slower when public debt is high, austerity is required to reduce public debt-to-GDP ratios to growth-permitting levels. Their 2010 study goes further, identifying a public debt "threshold" – 90 percent of GDP – at which economic growth contracts. Economic analysts, the international financial elite and, most importantly, politicians, embraced these findings as the academic justification for austerity policies.

However, Reinhart and Rogoff's research faced substantial and growing criticism – until their findings were ultimately discredited. Scholars checking their results soon came to question the dataset, since no one was able to replicate them. When Reinhart and Rogoff eventually allowed researchers at the University of Massachusetts Amherst access to their database, Herndon, Ash and Pollin ("Does High Public Debt Consistently Stifle Economic Growth? A critique of Reinhart and Rogoff", 2014) discovered omitted data, methodological problems and Excel coding errors, which when corrected caused the stagnation threshold to disappear. But despite the strong refutation of their findings – and the implications this has for the austerity programmes they were used to justify – Reinhart and Rogoff (2013) have dismissed them as "academic kerfuffle", maintaining that austerity is a sound policy in the current context on the grounds that since public debt levels are high, growth is slower than it otherwise would be.

In sharp contrast to Reinhart and Rogoff's findings, examining the relationship between the government's stance on public debt for 11 OECD countries between 1881 and 2011, McCausland and Theodossiou (The Consequences of Fiscal Stimulus on Public Debt: a Historical Perspective", 2016) find that fiscal austerity is associated with a *deterioration* in public debt as a percentage of GDP, with a *damaging* effect on economic recovery and growth. They conclude that during periods of recession, policies aimed at reducing public deficits not only worsen the public debt-to-GDP ratio; they also increase unemployment.

### ***Budgetary Effects of Austerity***

The ideas that have been used to justify economic austerity – like Reinhart and Rogoff's public debt threshold – have a long (and chequered) history (Konzelmann, 2014). One of the most enduring of these is the idea that governments' budgets are comparable to those of households and that they therefore requiring balancing. From this perspective, when public deficits and debts are high – just as when households and firms have accumulated too much debt – it is necessary to suffer the "pain" of austerity to eliminate them; anything less is considered fiscally irresponsible. However, Konzelmann points out that unlike a private firm or household, a

sovereign government that issues its own currency and has a floating exchange rate is *not* operationally constrained by its budget, because it can both issue and adjust the value of its currency to manage a deficit. Moreover, whilst a firm or household can balance its budget by reducing spending and repaying its debts, a government cannot: during a recession, government deficits rise as a consequence of falling tax revenues and rising unemployment-related social costs, putting upward pressure on public debt levels at the same time as GDP growth is slowing. In this context, a programme of economic austerity will not only deepen the slump it will also add to public debt.

Considering the historical record in Europe, Boyer's analysis ("The Four Fallacies of Contemporary Austerity Policies: the Lost Keynesian Legacy", 2012) reveals that the approach of the European Central Bank, driven by Germany, fails to recognize that German austerity and Southern Europe's debt-led consumption are two sides of the same coin. Since the advent of the Euro, as a result of tight fiscal policy and slow growth in real wage rates relative to productivity increases, there has been only a modest (5 percent) increase in aggregate demand in Germany. This compares with a 30 percent increase in the rest of the Eurozone, much of which is accounted for by debt-financed consumption and the wealth effect of asset bubbles. Put another way, Germany's export-led growth is a consequence of importing by the rest of Eurozone; and Europe experienced cumulative increases in Germany's trade surpluses, resulting in deficits in France, Greece, Portugal and Spain. "Over-consumption" in the rest of Europe therefore plays an important part in realising the surplus generated by "under-consumption" in Germany. However, this balance is threatened by the negative demand effects of generalized austerity, when all countries are required to cut-back demand and to attempt to improve competitiveness by making labour cheaper and more flexible.

Similarly, Bibow ("On the Franco-German Euro Contradiction and Ultimate Euro Battleground", 2013) shows that Germany's anti-Keynesian approach to economic policy since the early 1980s succeeded (for Germany) because other European countries supported its export growth. Tracing the Franco-German relationship from the creation of the Eurozone, Bibow shows that growth in France was driven by domestic demand – largely consumption – with imports acting as a drag upon it. He argues that this, combined with France's more recent embrace of economic austerity policies, wage restraint and labour market liberalisation, will make it very difficult for the European project to survive.

In the case of America, Pollin ("US Government Deficits and Debt Amid the Great Recession: what the Evidence Shows", 2012) shows how the neo-liberal claim – that the 2009 economic stimulus programme in the US led to rising interest rates and inflation as well as excessive government debt – is unsupported by the facts. Federal government interest payments are at near-historic lows; and the reason why the stimulus programme did not lead immediately to a strong recovery was because of the severity of the financial crisis and resulting recession, which led to the collapse of household wealth and the seizing-up of credit markets for smaller businesses. Moreover, Taylor et al. ("Fiscal Deficits, Economic Growth and Government Debt in the USA", 2012) show that over the last 50 years in the US, fiscal *expansion* has repeatedly resulted in higher economic growth, especially during recessions.

### ***"Expansionary" Austerity and the "Confidence Faeries"***

"Ricardian equivalence" is another idea that has been invoked to justify economic austerity (Barro, 1974). Ricardo, himself, was sceptical about the practical relevance of his notion of

equivalence, since he was doubtful that people are “rational” in the way economists assume them to be. Yet proponents of austerity assume that consumer and business decisions are based on (rational) expectations about the future, claiming that if the government cuts spending and reduces borrowing, private sector spending will increase to fill the gap. They reason that when public deficits and indebtedness are high, private sector spending can be expected to be weak because households and firms – anticipating future tax increases to fund the public sector deficit – are increasing savings to provide for this. Conversely, if governments promise to cut spending and reduce deficits, the resulting expectations of lower future taxes are assumed to cause current savings to fall and private sector consumption and investment to increase, offsetting the fall in public spending, with a positive impact on growth.

Using this logic, Alesina and Ardagna (2010) revived the (discredited) “expansionary fiscal consolidation” hypothesis – a term first used by Gianazzi and Pagano (1990) to describe the experiences of countries like Denmark (1983-1986) and Ireland (1987-1989), that had grown despite sharp fiscal consolidations during the 1980s – to dismiss concerns about imposing economic austerity on a severely depressed economy. This hypothesis postulates that reducing government spending can be expected to generate increased growth as a consequence of the resulting increase in private sector *confidence*. However, many scholars have challenged their reasoning. Kinsella (“Is Ireland Really the Role Model for Austerity?” , 2012) argues that Ireland was only able to reduce its fiscal deficit between 1987 and 1989 as a result of favourable macroeconomic conditions – including growth in the international economy, fiscal transfers from the European Union and currency devaluation in 1986 – which are not currently available.

Additionally, Foresti and Marani (“Expansionary Fiscal Consolidations: Theoretical Underpinnings and their Implications for the Eurozone”, 2014) show that expansionary fiscal consolidations cannot be the result of purely fiscal policies and that the main determinants of these phenomena are falling interest rates and/or national currency devaluations. But since interest rates are currently very low in the Eurozone – and exchange rate devaluation cannot occur – austerity is not a credible response to the current crisis. Considering the case of Spain, Fishman (“Anomalies of Spain's Economy and Economic Policy-making”, 2012) argues that structural problems afflicting the economy have contributed to chronically high levels of unemployment and that labour market and financial deregulation – combined with a programme of generalised economic austerity – will not resolve the crisis.

As a result of their reliance on confidence, since the turn to austerity in 2010, “[t]hose who advocated austerity on the grounds of indirect *confidence* effects became known (pejoratively) as austerians and/or confidence faeries” (Considine and Duffy, “Keynes and the Confidence Faeries” 2016, p. 310, emphasis added). Considine and Duffy caution that from a theoretical point of view, despite Keynes’s acknowledgement of a role for confidence and budgetary discipline – and his recognition of a relationship between the two – he placed much greater emphasis on the role of confidence in the *investment* channel than in the consumption one. Keynes also argued that during a slump, uncertainty about future demand could be expected to undermine business confidence – and hence investment – leading to extended periods of involuntary unemployment; in this context, there is a positive role for counter-cyclical government spending.

Using this logic, Sawyer (“The Tragedy of UK Fiscal Policy in the Aftermath of the Financial Crisis”, 2012) argues that in the current context, efforts to reduce the deficit should be postponed

until the recovery is fully underway because it is only then that such efforts can succeed. This is as the consequence of multiplier effects of additional government spending when the economy is operating significantly below capacity. During a period of economic expansion, employment and income grow together, contributing to increasing tax receipts relative to public expenditure and reducing national debt as a proportion of GDP. By contrast, when the economy is severely depressed, as it currently is, fiscal retrenchment will only deepen and extend the recession.

In short, until there are *real* signs of economic recovery, providing businesses with confidence that the returns from increasing investment and employment will be adequate, confidence cannot be expected to lead the recovery. The point here is that it is the immediate past and current experiences – *not* long term rational expectations – which determine investor and consumer confidence and, by extension, their current action; and when this confidence is low (as it currently is), austerity can be expected to reinforce pessimism, adding further twists to the vicious cycle of falling demand, investment, employment and incomes.

### ***From Private to Public Debt Crisis***

Coates (“Dire Consequences: the Conservative Recapture of America’s Political Narrative?” 2012) argues that the neo-liberal interpretation has misrepresented the causes of the financial crisis and resulting world recession; and in so doing, it has captured the foreground of the current policy debate. The initial return to Keynesianism, which steadied the world economy in the wake of the crisis, was short-lived. Further – largely in response to the financial markets’ increasingly negative attitude towards high levels of sovereign debt – there was a sharp change in policy tack, from stimulus to austerity. However, as is frequently the case with markets, the negativity had self-fulfilling consequences: it translated into higher borrowing costs, which, in turn, made debt increasingly burdensome, further fuelling the markets’ nervousness and feeding the vicious speculative cycle. The neo-liberal view gives priority to the reduction of fiscal deficits as the route to recovery. This, it is argued, soothes the sensitive bond markets and keeps the cost of borrowing down, encouraging private *productive* investment, whilst cutting back on such *unproductive* public sector spending as transport, education and health.

Whilst the academic debate has focused primarily on the theorized economic effects of a policy of austerity rather than stimulus – supported by an observed inverse correlation between public debt-to-GDP ratios and GDP growth – policymakers (although not all politicians) are beginning to accept that austerity is slowing growth and hindering recovery (Konzelmann, 2014). But they also recognise that, despite having been rescued from meltdown (for which they, themselves, were largely responsible), the global financial markets are now demanding austerity – not because of its *economic* effects, but as “credible” evidence that governments are serious about managing their budgets and re-paying their debts. Moreover, because indebted governments are heavily reliant on the financial markets for funding, they are vulnerable to pressure from speculative investors seeking short-term gains. The irony, however, is that in the current context of prolonged economic recession, further austerity can only depress GDP and increase public debt, prolonging the negative market responses and intensifying the crisis. The likely effect of this is a social and political backlash if governments continue to pander to the interests of the financial sector by avoiding the re-regulation demanded by the current parlous state of both the financial system and the real economy.

Thus, what had begun as a largely *private* debt crisis morphed into a *sovereign* debt crisis as investors refused to lend to governments they judged to be actually or potentially insolvent. And

in an effort to calm the bond markets, Central Banks and the International Monetary Fund (IMF) imposed tough austerity measures as a condition for their financial support, effectively shifting the onus of the crisis from the financial sector to the state.<sup>1</sup>

### **The Politics of Austerity**

As this suggests, one recurring theme in the articles for this special issue is the politics of contemporary austerity – from the functioning of the democratic system, to the multiple ways that politicians have embraced certain academic research, to the narrative framing of austerity policies as without alternatives. Europe’s financial and sovereign state crises have been as damaging for democracy as it has been for some of the Eurozone countries’ economies. In 2011, Italy’s elected prime minister was replaced by Mario Monti, an economist and former European commissioner, who was brought in to provide technocratic approaches to politically sensitive budget cuts and in so doing, to reassure market analysts monitoring Italy’s public debt. Likewise, in Greece, Lucas Papademos, a former Governor of the Bank of Greece, was appointed as the Greek Prime Minister to implement tough austerity measures that never received public backing. As Skelton (2011) argues both examples have upended the democratic process and produced a “government of the technocrats, by the technocrats, for the technocrats.” This feeling was further reinforced for many when the EU institutions pushed through further austerity measures in Greece, despite the public’s strong rejection of these policies in a referendum in 2015.

The US has seen similar effects on the democratic process, albeit at a different scale. Peck (“Pushing Austerity: State Failure, Municipal Bankruptcy and the Crises of Fiscal Federalism in the USA”, 2014) details the relationship between a well-orchestrated public narrative of the profligate state and the justification for severe levels of state and municipal austerity. He details the ideological assault of a conservative political and intellectual infrastructure which produced a “self-fulfilling narrative of state crisis.” Thus, the US federal state has offloaded “the costs and risks of market failure” to the state and city, on a scale which has contributed to a number of cities – such as Detroit, Vallejo and Sacramento – declaring bankruptcy. Peck examines the national political and policy context whereby cities with large debts were forced to declare municipal bankruptcy under Chapter 9 of the US bankruptcy code. This entailed the imposition of a city manager to replace an elected mayor in order to bypass local political pressures in order to implement city-level austerity cuts. Peck argues that this city-level version of austerity was appointed not just to impose unpopular cuts, but to punish public sector unions, renegotiate public sector pension obligations and restructure public sector service delivery. Thus, together, these measures are intended to produce not only a selective dismantling of the state and local government, but a “*deunionized* nightwatchman state.”

Davidson and Ward (““Picking up the Pieces’: Austerity Urbanism, California and Fiscal Crisis” 2014) examine the politics of this selective dismantling of the local state in great detail. They argue that California cities were at the forefront of a speculative urbanism whereby “cities speculate on future economic growth by borrowing against predicted future revenue streams to

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<sup>1</sup> It is important to note that from an economic perspective it matters greatly whether a country has control over its currency because countries that do – like the US and UK – are not operationally constrained by their budget; if necessary, they can borrow from the Central Bank to assure bondholders that they will not default. By contrast, Eurozone members neither issue their own currency nor have a floating exchange rate; they are therefore vulnerable to speculative raids by financial exchange traders and they are subject to the conditionalities – i.e., austerity – imposed by lenders, including the European Central Bank and the International Monetary Fund (IMF).

make this growth more likely” (Davidson and Ward, 2014: 84) They argue that the municipal bankruptcies in California created a new political landscape “where *just the threat of going broke* can be used to impose draconian neo-liberal reforms” (Davidson and Ward, 2014: 85) Thus, formally untouchable public services, such as fire and police, street lighting and cleaning, are now routinely targeted by cities burdened with high levels of debt.

Others also highlight the larger political economy as contemporary austerity and argue that austerity is a class project that seeks to roll back the welfare state. Crotty (“The Great Austerity War: What Caused the US Deficit Crisis and Who Should Pay to Fix It?”, 2012) and Callinicos (“Commentary: Contradictions of Austerity”, 2012) suggest that a case for austerity can only be made if it is considered as part of the evolution of capitalism and the balance of power within it towards wealthy households, economically dominant firms (especially financial ones), conservative politicians and right-wing activists. They argue that the historical and comparative evidence does not support the “Treasury view” that government deficits and public debt squeeze-out private sector expenditure and are therefore economically damaging. Similarly, in the case of the Eurozone, Palley (“Europe's Crisis without End: The Consequences of Neoliberalism”, 2013) argues that – rather than being the cause of the Eurozone crisis – the public debt crisis is merely the latest stage. But its appearance has permitted neo-liberal politicians to push their long-standing agenda of fiscal austerity and their attack on the social democratic welfare state. Thus, the class analytics of austerity suggest that austerity is more explicable as a project that seeks to roll back the welfare state and, in so doing, shift power between classes.

The process of financialisation and the economic interests that drive it are perhaps most observable in the micro-state of Iceland. Wade and Sigurgeirsdottir’s analysis (“Iceland’s Rise, Fall, Stabilisation and Beyond”, 2012) of the evolution of the political economy of Iceland demonstrates the social forces leading up to the financial crisis. They demonstrate how well-organized elites made use of neo-liberal ideology to not only liberalise and financialise the markets in which they held dominant positions; they also used it to justify the advantages they subsequently derived. However, when the inevitable crisis arrived, a new left-wing government – a coalition of social democrats and a left-green movement – came into power and the banks were allowed to go bankrupt. There were cuts in public spending; and these were relatively less severe than in other post-crisis countries because of a very sharp devaluation of the krona, that led to a growth in natural resource exports. However, Wade and Sigurgeirsdottir conclude that Iceland’s future remains uncertain, as the old political elite waits in the wings, eager to resume the strategy of becoming an international financial centre and exporter of raw materials.

### ***All in it together? Austerity for whom?***

The UK’s chancellor, George Osborne, famously claimed that the costs of austerity were evenly spread throughout society; that in his words “we are all in it together”. However, a number of authors challenge this by highlighting the uneven distribution of the burdens of austerity. As noted above, Crotty (2012) and Callinicos (2012) highlight the broad political economy of class divisions in understanding the form and structure of contemporary austerity. This theme is extended in Peck (2014) and Davidson and Ward (2014) which highlight how public sector workers have been under constant attack in austerity budget cuts. Public sector workers’ relatively protected position in the labour market - with stable jobs, strong unions, and good pensions – made them the ideological target of the austerians at the national and local levels of

government. Lobo and Adua (“State Rescaling and Local Governments’ Austerity Policies Across the USA, 2001–2008”, 2011) come to similar conclusions in their detailed study of county-level responses to budget cuts in the US, including the lay-offs and hiring freezes, service cuts and privatization. They find that “counties with a higher proportion of unionized employees are more likely to report lay-offs and hiring freezes” and that “more professionalized and unionized governments are more likely to have privatized a service” (Lobo and Adua, 2011: 428-30). They conclude, “austerity policy is clearly related to public sector unionization. Hiring freezes, lay-offs and service cuts are reported more frequently by counties with a higher proportion of organized workers” (Lobo and Adua, 2011: 432). However, other divisions were just as clear, based on race, age, and gender.

Donald et al. (“Austerity in the City: Economic Crisis and Urban Service Decline?”, 2014) argue that the spatial and social polarisation of poverty in US cities has intensified under austerity. They examine racially segregated neighbourhoods with concentrated poverty levels in San Francisco and show that not only is average income lower, but that this has increased since the financial crisis. They also argue that these racially segregated neighbourhoods have fewer resources such as good schools and open spaces; host unwanted land uses such as contaminated sites, and disproportionately higher exposure to pollution. Thus, “income and racial inequality are inter-woven and reinforced with poor schooling, less healthy environments and less well-being on the neighbourhood scale” (Donald et al., 2014: 8).

Davidson and Ward (2014) and Donald et al. (2014) also argue that many of the cities and states witnessing the most extreme forms of austerity have suffered from structural problems associated with a long history of deindustrialization, racial segregation and discrimination and anaemic growth. The history of race, discrimination and segregation is intimately tied up with the history of deindustrialisation in a city such as Detroit, and the bankruptcies of Detroit, Michigan, and the withdrawal of direct democracy are interpreted and understood by many through the prism of race (Davidson and Ward, 2014).

Donald et al.’s (2014) work also highlights how the young have been disproportionately hurt by austerity measures in the UK and in the US. Both countries have seen an increase in child poverty since the onset of austerity budget cuts. There is a myriad of ways in which the financial crisis affects the young – though reduced education budgets, reductions in benefits to low income families, and reduced youth service provision. They state: “the UK(‘s) progress on reducing child poverty has fallen back, in part in response to austerity cutbacks in programmes designed to help poor families and children access goods including heating, food, decent housing and the basics” (Donald et al., 2014: 10).

The uneven effects of austerity are also seen in the gendered implications of cuts to the welfare system. MacLeavy (“A ‘New Politics’ of Austerity, Workfare and Gender? The UK Coalition Government’s Welfare Reform Proposals”, 2011) examines the then-proposed changes to the UK’s welfare system. She argues that women were the primary beneficiaries of the modern welfare state and that the reforms to the UK welfare regime under contemporary austerity measures undermine women’s financial security and autonomy. This, in turn, undermines support for their dual roles in production and social reproduction, or care work and paid work. She finds women as a group are particularly reliant on benefits and tax credits and that “middle-class parents struggling to reconcile work and family life will suffer a loss of income from lower limits for tax credits, whilst unemployed single parents face heightened expectations to

participate rather than withdraw from the paid labour market whilst performing care” (MacLeavy, 2011: 360). Glasmeier and Lee-Chuvala (“Austerity in America: Gender and Community Consequences of Restructuring the Public Sector”, 2011) make a similar argument in the US context – they argue that women have been an important beneficiary of the expansion of welfare state – particularly in the public sector and the “semi-public economy”. They conclude that “this era (of austerity) will have its biggest impact over the long run on jobs currently occupied by women, many of whom support families and children” (Glasmeier and Lee-Chuvala 2011: 471).

### **The Geography of Austerity**

Another key theme emerging from the papers in this virtual issue is the geography of austerity policies and their uneven impact across Europe and the United States. Scholars in this virtual issue write about all scales of this geography, ranging from the individual to the neighbourhood to the city to the region/state to the nation-state to the European Union and Eurozone.

In Europe, for example, Kitson et al., (“The Geographies of Austerity”, 2011) document through maps of regional unemployment during the depths of the 2008-2010 recession how the largest negative effects are found in the weaker economic regions of the European Union. They argue that many of the state-induced austerity responses have slowed the recovery of many of these weaker regions. Most notable is the emergence of a very pronounced core-periphery model where the southern countries of Spain, Portugal, Italy and Greece are in a much weaker position than their Northern European counterparts like Germany and Austria. These pronounced patterns of the core-periphery model have continued unabated in subsequent years (Eurostat, 2016).

This isn’t just an academic observation, they note, but rather “[t]he diversity of experience across the regions of Europe since the onset of the crisis and subsequent austerity responses represents a significant setback to one of the most central goals of the Union, namely to reduce regional variations in inequality and opportunity” (Kitson et al., 2011, p. 294). Indeed, since they wrote that paper five years ago, there has been an unprecedented surge of Euroskeptics and outright anti-EU politicians and political platforms, most notable the recent debate and referendum in Britain over exiting the EU (Stewart, 2016).

The United States has also seen a highly differentiated spatial impact of austerity policies. As several authors note in these articles, the subprime mortgage crisis which triggered the banking crisis and then the recession and subsequent state-austerity responses was not US-wide but rather rooted in particular cities and regions across the states of Florida, Nevada, California and Michigan. California, in particular was “ground zero” for the Great Recession and sub-prime mortgage crisis (Bardhan and Walker, “California Shrugged: Fountainhead of the Great Recession”, 2011, Davidson and Ward, 2014). The impact of the subprime crisis was not consistent within states either, as clearly there were certain areas that were hit and others left untouched.

Even before the sub-prime mortgage crisis, states and local governments were setting austerity policies across the United States. Both Peck (2014) and Davidson and Ward (2014) note how the post-crisis round of austerity responses is really part of a “widening and deepening” of a longer-term trend of neo-liberalism. A more detailed analysis is Lobao and Adua (2011) research on the geography of local austerity policies in the US between 2001 and 2008 from over 1,700 counties. They found unique features of local bureaucracies, particularly administrative staff and

unionized workers, and governance pressures as significant in setting particular austerity policy responses.

A further level of geography is found at the individual and intra-urban level, as austerity policies have not just affected certain cities but particular neighbourhoods and people within them. Donald et al. (2014) found examples of the growth of significant inequality at the neighbourhood level and the increase of extreme-poverty neighbourhoods across the US in general. Similarly in the UK, at the scale of the individual, group and neighbourhood level, Beatty and Fothergill (“The Local and Regional Impact of the UK’s Welfare Reforms”, 2014) have detailed the uneven nature of the welfare cuts that make up the UK government’s attempts to roll back the state’s support of the poor and unemployed. They found that national reforms to welfare have hit the low income and out-of work households most sharply. They show the impacts are most severe in the same regions that have undergone the worst of the economic restructuring during the past several decades, so Britain’s older industrial towns like Blackpool and some of the poorer London boroughs are hit the hardest.

### **Conclusion**

Austerity is a threat to the whole of society as it not only creates sharp societal divisions but also threatens the foundations of democratic institutions and economic prosperity for all. Clearly, the burden of austerity is unevenly distributed – as workers in the public sector and the people and places which rely on public services and welfare benefits have been especially hard hit. The articles in this special issue also highlight how the impacts of austerity have affected populations differently across all countries and regions. In the final analysis the only way an economy can pay off its debts is by harnessing the productive capability of the majority to produce and add value. The authors in this special issue reveal – and a modicum of common sense confirms – that debt repayment cannot be readily achieved, if at all, by savagely cutting expenditure, creating unemployment, slowing economic growth and impoverishing swathes of a country’s population. The only effective way forward is a re-balancing of the economy away from a reliance on financial services and the demotion of finance to its role as the servant of enterprise, rather than its master.

There are recent signs that the policy consensus around austerity is slowly disintegrating. At the recent G7 meeting in April 2016, national leaders seemed to agree to disagree on the best way forward – whether to encourage investment-led development or to continue to pursue austerity policies. Perhaps even more telling, a recent in-house article by IMF economists warn that an important part of the neoliberal agenda appears to have been “somewhat overplayed” (Ostry, et al., 2016). Ostry, Loungani and Furceri argue that the benefits of austerity, across a range of countries, are difficult to establish, inequality has risen as a result of austerity, and that increased inequality hurts the level and sustainability of growth. They go on to argue that although some countries have “little choice” in whether to pursue austerity policies, countries with a strong record of fiscal responsibility, such as the US, the UK, and Germany, do have the latitude “to decide *not* to raise taxes or cut productive spending when the debt level is high” (Ostry, et al., 2016: 40). Further, they argue that the *costs* of lowering debt may be higher than potential benefits, since fiscal consolidation has produced lower levels of output, rather than higher levels. They conclude, “in the case of fiscal consolidation, the short-run costs in terms of lower output and welfare and higher unemployment have been underplayed, and the desirability for countries with ample fiscal space of simply living with high debt and allowing debt ratios to decline organically through growth is underappreciated” (ibid). We see in this, perhaps optimistically,

the beginnings of the international consensus starting to break down. This series of articles certainly contribute to this debate.

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