The theory, practice, and purpose of fiscal restraint since the 1970s

Heather Whiteside

Austerity through fiscal restraint – government debt reduction and deficit elimination – is en vogue once again. As of 2012, all but four members of the G-20 have declared this to be a leading policy priority and one which is scheduled to take precedence well into the current decade (see G-20 2012). At the extreme, dealing with an acute sovereign debt crisis in Greece has meant the application of seven austerity packages between 2010 and 2013 alone, each one employing some combination of public sector freezes and cuts applied to budgets, services, programmes, and employment. Worldwide, social reaction to austerity runs the gamut, from marches, demonstrations and protest to general strikes and political party organizing around anti-austerity platforms. Though its promoters tout austerity’s tools as technocratic imperatives for resolving debt and budgetary disequilibrium, accompanying structural reform of the public sector, affecting both employees’ livelihoods and the welfare of society in general, suggests there is clearly much more at stake than a narrow interpretation of austerity will allow. The politics of austerity are entrenching and (re)asserting processes of neoliberalization at global, national, and urban scales, much as they did during earlier iterations of fiscal restraint beginning in the 1970s. In this sense, the history and hegemony of neoliberalism is intrinsically intertwined with that of austerity, and the recent return of fiscal consolidation is both unique to its context and part of a longer historical trend. Austerity is a signature of the neoliberal era much as neoliberalism can be understood as austerity.

This chapter examines the decades-long connection between neoliberalism and austerity, with a particular emphasis on its recent return to prominence. Attention is paid to temporal dynamics (the appeal of and to austerity over time), spatial effects (the scalar impact of austerity, particularly downloading onto municipal or local authorities), and socio-institutional reforms (policies and programmes). Neoliberal-era fiscal restraint works in league with other key attributes of its political economy such as financialization and privatization; however, as an overview of the relevant discursive, institutional, and material attributes of austerity, this chapter is able only to briefly discuss this complexity. Given the interconnection between austerity and neoliberalism more broadly, themes raised in other chapters of this book are germane here as well, including Plehwe on hegemony, Craig on development, Springer on violence, and MacLeavy on welfare reforms. This chapter proceeds in two parts, divided, with obvious overlap and interrelation, between the economics and politics of austerity over the neoliberal period.
Austerity economics

Austerity budgets are those which reduce the cyclically adjusted fiscal deficit, achieved by raising revenue (through taxation and growth) and/or cutting government spending. The resurgence of austerity today is unique to its context – the 2008 global financial crisis and its aftermath – but is equally part of a longer historical trend. Mark Blyth (2013a) traces austerity’s classical origins in the liberal political and economic tradition from John Locke to Adam Smith and beyond. Blyth sums up the Lockean liberal dilemma as being that while the public good necessities private activities be free from government intrusion – including private property being safe from expropriation via taxation – such safety comes at the cost of sufficiently funding the state so it is capable of protecting freedom and private property (ibid.: 106). The inherent tension and liberal distaste for the accumulation of public debt leads Adam Smith to advocate for ‘parsimony over prodigality’, claiming that parsimony is both an engine of growth in capitalism and a way for government to avoid inflation, excessive taxation, and debt default (ibid.: 110–13).

More directly, austerity policies today repackage and re-employ pre-existing (pre-2008 crisis) neoclassical strategies initially aimed at resolving stagflation in the 1970s; fiscal austerity as of late is but the most recent episode of public sector belt tightening over the neoliberal period. During the post-war Keynesian era, countercyclical government spending was held as an important tool of aggregate demand stimulation during economic downturns. These ideas were replaced in the neoliberal era with the notion that fiscal restraint can be a driver of economic growth and prosperity. Austerity gained prominence in the late 1970s/early 1980s as a solution to the problem of ‘stagflation’ which vexed the established Philips curve-derived policy orthodoxy at the time by providing a simple explanation: government spending on the welfare state in the global North was hurting growth by ‘crowding out’ private spending and creating inflation through excess government borrowing in order to finance budget deficits.

In the 1990s the neoclassical rationale was further refined by orthodox economists. Under the ‘expansionary fiscal consolidation thesis’ (associated with the Bocconi School) it was argued that austerity was not only a solution to macroeconomic problems, but also had a positive impact on expectations which generated its own virtuous cycle. The elimination of public sector deficits, though potentially painful in the short run, would boost investor confidence, reduce borrowing costs, stimulate private sector growth and lead to lower unemployment (e.g. Alesina and Perotti 1995; Alesina et al. 1998; Alesina and Ardagna 1998; Giavazzi and Pagano 1990). This hypothesis has also been referred to as ‘expansionary austerity’ (Guajardo et al. 2011). Whereas Keynesian theory dealt a critical blow to Say’s Law (that notion that supply produces its own demand) and supported several decades of demand-driven growth policy formulation, fiscal consolidation supplies an argument in favour of austerity: supply creates demand and investor confidence is what drives growth. Controlling and reducing government spending, austerians argue, will tame inflation and improve investor confidence.

It is within the context of this received wisdom that a 2010 study by Harvard economists Carmen Reinhart and Kenneth Rogoff was marshalled as a ‘common sense’ rationale for terminating a widespread but short-lived experiment with quasi-Keynesian stimulus spending following the global financial crisis of 2008. Using a 40-country 200-year dataset, Reinhart and Rogoff (2010) found that where government debt exceeds 90 per cent of GDP, the average rate of economic growth is adversely affected.

The ideas being circulated by elite economists were seized upon in 2010. Blyth (2013a) describes this as originating with German authorities and within the European Central Bank in the lead-up to the June 2010 G-20 meeting. Irwin (2013) locates its return slightly earlier at the
Neoliberalism as austerity

G-7 finance ministers’ meeting in February 2010. The end of stimulus and return to austerity was equally foreshadowed by comments such as those by Canada’s Finance Minister Jim Flaherty:

We’ll continue to stimulate the economy this year but what is the plan and the Canadian situation to get back to balanced budgets. We’re working on that. I know that… thought is shared by other members of the G7, including the United Kingdom and the United States.

*(Curry and Carmichael 2010: n.p.)*

With the idea that austerity is necessary and beneficial (re-)launched in 2010, it was soon applied to varying degrees and in unique ways within national contexts. Austerity measures in the UK, for example, are comparatively severe, with the British government being described as ‘[leading] the way in voluntary deficit reduction’ (Giles and Bounds 2012: n.p.), with all but a few departmental budgets cut by 25 per cent. In Canada, by contrast, the politics of austerity are not strictly fiscal in nature, given that the federal government aims to balance the budget ‘without raising taxes, cutting transfers to persons, including those for seniors, children and the unemployed, or cutting transfers to other levels of government that support health care and social services’ (Government of Canada 2011: n.p.) and, indeed, overall (nominal) government spending had increased by 2013. Instead, a climate of austerity is being used to justify privatization and structural reform to public sector programmes, pensions, benefits, and civil service employment. Within the USA we see stark examples of the impact of scalar downloading where ‘austerity urbanism’ involves foisting the costs of a global banking and financial crisis and national deregulation onto municipalities and local authorities who are in no position to shoulder these burdens and costs (Peck 2012). Municipal bankruptcies, the theft of workers’ savings (pensions), and the erosion of social programmes compound all manner of pre-existing social disparities (see Beatty and Fothergill 2014; Davidson and Ward 2014; Peck 2014).

Austerity’s return has thus been cast as a response to the 2008 financial crisis, the 2009 temporary experimentation with Keynesian stimulus, and 2010 eurozone debt crisis. Longevity thus far has meant dodging or denying evidence that fiscal consolidation is at least partially responsible for poor growth/recession and social malaise since 2010 (Wolf 2013). Whether imposed (e.g. Greece) or voluntary (e.g. Canada), the implementation of the austerity agenda witnessed across the OECD as of 2010 is leading to dramatic restructuring in the form of more miserly social programmes, cuts to public sector employment, and an expansion of privatization – in other words, enhanced neoliberalization (more on this connection to follow).

As an ahistorical retrospective, within economics circles it is common to now see examples of austerity ‘success-stories’ from the 1980s and 1990s being used to justify fiscal restraint today. For its reduction of government debt from a peak of 117 per cent of GDP in 1986 to 25 per cent of GDP by 2007, Ireland is frequently turned to as an example of how expansive austerity can lead to robust growth. Yet Kinsella (2011: 16–18) shows Celtic tiger growth and debt reduction to be due not to austerity exclusively or even primarily, but instead to a host of other historically contingent factors. This includes: growth in the international economy, fiscal transfers from the EU, the opening up of a single market, a 14 per cent increase in the average industrial wage between 1986 and 1989 and similar public sector wage increases, an income tax amnesty in 1988, and a well-timed currency devaluation in August 1986. In a similar vein, Dellepiane and Hardiman (2012: 13) argue that Ireland’s ‘success’ with austerity was not the result of greater investor confidence, as the expansionary fiscal consolidation literature suggests, but due to currency devaluation (which is now impossible with the euro) and growth in the global
economy which produced demand for Irish exports (which is now absent given virtual economic stagnation since the 2009 great recession).

Dellepiane and Hardiman (ibid.) raise an additional and related concern with the economics of austerity: the need to consider ‘politics in time’ when analysing the results of fiscal consolidation. As they describe, the treatment of austerity through formal mathematical modelling breaks down country experiences into multiple discrete episodes so that changes in a state’s fiscal condition may be examined from one period to the next. This is problematic given that it ignores the highly varied ways in which countries went from large deficits in the 1980s to balanced budgets by the early 2000s. There are, in fact, a range of possible reasons for balanced budgets such as economic growth, increased demand (domestic and international), tax increases, and fiscal restraint. In Canada, austerity in the 1990s was disproportionately angled in favour of cuts to public spending rather than raising revenue through higher taxes. Posner and Sommerfeld (2013: 152) calculate the composition of austerity measures to be 87 per cent spending cuts, 13 per cent revenue increases. In Britain, fiscal consolidation under the Conservatives (1980s–97) occurred mainly through revenue measures (taxation), not restraint (spending cuts); under Labour, austerity took the form of spending and cost control (Dellepiane and Hardiman 2012: 13). In Australia we see the Labor Party initiating the 1990s era of austerity in 1994 through revenue-based measures, but when the Liberal Party took over in 1996 this switched to expenditure cuts, namely health and social security (Posner and Sommerfeld 2013: 151).

However tenuous these ‘success’ stories may be, they do not render austerity economics a ‘failure’. A clear connection between fiscal restraint, economic growth and widespread prosperity remains elusive but the restructuring of state and society through austerity has been highly successful and is, indeed, its long-lasting outcome, perhaps even its intent. In the face of unique crises and contexts, the target of austerity today remains the same: the size of the public sector (as employer and economic actor) and generosity of social programmes. Further, when compared with earlier periods, there is remarkable consistency across time: the notion that austerity solves economic problems, that government excess is somehow at fault or to blame for capitalist crises, that government spending is unsustainable; the solution being more marketization not less. Taming government growth and trimming back the public sector is now, as it was in the past, the aim and implication of fiscal consolidation. The profligacy of government was seldom the underlying cause of public sector deficits and debt accumulated since 2008 – these were, instead, the by-products of the global financial crisis, and subsequent bailouts (auto and finance sectors), stimulus spending, and a period of protracted low growth/recession. Those actors and institutions most responsible for public sector budgetary crises are least burdened with its remedy. This mirrors the situation in the eurozone: a crisis of the euro and of pre-existing EU integration strategies is shifted from bond markets into sovereign debt through taxpayer funded bailouts, and shifted from surplus trading partners (like Germany) to debtors (like Greece).

Ultimately, austerity has less to do with achieving economic growth (on which its track record is abysmal) than it does with shifting blame for economic conditions from market actors to government departments and displacing the burden of adjustment downward within the state, from capital to labour, and from the wealthy to the already-precarious. The economics of austerity thus extend far beyond mere budget balancing. Under the guise of fiscal restraint, austerity effectively redistributes the ‘costs, risks, and burdens of economic failure onto subordinate classes, social groups, and branches of government’ (Peck 2014: 4). Austerity, over the neoliberal period, has been less a reaction to crises or deficits than it has been a governance strategy spatially displacing risk and reward, costs and benefits.

Austerity’s displacement activities also involve shifting the responsibility for financing a capitalist crisis onto labour and taxpayers (within regressive taxation systems) almost exclusively.
In this vein, critical accounts of fiscal austerity often focus on how it is used to punish labour and/or public service recipients for the follies of capital (e.g. Callinicos 2012). Budget cuts and privatization are thus a tool for controlling labour or, as Sam Gindin (2013) writes, for creating a state more autonomous from popular pressure, and the costs associated with the recent capitalist crisis are being socialized in the process. Intrinsically political, the economics of austerity find their counterpart in the politics of neoliberalism – now and over the past four decades.

**Neoliberalism as austerity**

Clarke and Newman (2012) describe the significance of contemporary austerity as being its enabling of greater market-oriented restructuring of the welfare state. This observation holds over time as well. Consider the following quotes:

- ‘The Government will exercise restraint in its own expenditures with particular emphasis on improving effectiveness and efficiency in its existing operations while controlling expansion of new activities…’
- ‘To create the climate necessary for [recovery] the Government will continue to practice fiscal restraint… the Government remains committed to a reduction in the growth of the public sector… All federal programmes will be reviewed to identify those government activities which could be transferred to the private sector.’
- ‘The objectives of imposing more severe restraint on government spending are… to encourage a more vigorous expansion of the private sector by reducing government’s share of the nation’s wealth… to create a leaner and more efficient government… The government is committed to reducing the size of the federal public service… (and) to continued wage restraint in the public sector.’

It would be easily assumed that these are declarations made since 2010. Instead, they were taken from Canadian federal government budget speeches (also known as Speeches from the Throne) dated, respectively, 30 September 1974, 12 October 1976, and 11 October 1978 (taken from Table 4.5 in McBride 1992: 87). Far from a Canadian phenomenon, this moment signalled the start of a concerted and widespread effort to overturn Keynesian hegemony and redefine the role of the state in society.

In a review of 24 OECD countries from 1978–2007, Guichard *et al.* (2007) find that there were 85 episodes of fiscal consolidation. In Australia, for example, these episodes ran from 1979–80, 1986–8, 1994–9, 2002–3; and in the UK from 1979–82, 1988, 1994–9 (ibid.). More broadly, Pierson describes the 1990s as a period of intense pressure within the global North to pursue austerity (2001: 411). Cutbacks were quite rapid in pioneering neoliberal countries such as the UK, though elsewhere, in Canada (as hinted at above through protracted declarations), for example, austerity involved relatively cautious or targeted cost containment measures throughout the 1980s and 1990s (ibid.: 434). For instance, 1980s and 1990s austerity policies included transforming universal into selective programmes, tightening eligibility requirements to qualify for some benefits like unemployment insurance, imposing ceilings on programme costs, forcing programmes to be self-financing or subject to ‘clawbacks’ over a certain benefit level (Houle 1990). Reforms and restraint varied over time, by policy area, and jurisdiction (Banting 2005), tempered by how much popular support a given programme enjoyed. In contrast to austerity in the 1980s, which featured incremental erosion of the social safety net rather than outright dismantling, by the mid-1990s deficit reduction was clearly prioritized. Federal funding to Canadian provinces dropped, provinces cut their budgets accordingly, social
programmes were redesigned to fit with the reality and vision of austerity, and social assistance recipients bore the full brunt of fiscal restraint (McBride and Whiteside 2011). Parallel patterns can be found elsewhere, such as Australia, where the mid-1980s Keating government sought to balance the books through relatively moderate fiscal reforms like deferring personal income tax cuts, adding user fees in education, tightening unemployment benefits, and eliminating a medicare rebate. By the mid-1990s, the Howard government was enacting deep budget cuts and union-busting reforms of riotous proportions (literally: in August 1996 an Australian Council of Trade Unions demonstration led to an attack on Parliament House in Canberra). ‘Repairing’ the 1996 budget meant privatization, cuts to services, taxes and the bureaucracy, and brought ‘the most significant reorganisation of labour market assistance arrangements since the establishment of the Commonwealth Employment Service (CES) in 1946’ (Costello 1996: n.p.).

Despite differences in pace and target, neoliberal policy paradigms since the 1970s have been emphasizing budgetary austerity, the implementation of regressive taxation, tax cuts for corporations, de-/re-regulation in a wide range of areas previously subject to regulation, privatization in forms ranging from sale of assets to the implementation of public–private partnerships, public sector reform through adopting market-like processes such as New Public Management, and liberalization of the economy, in part through the adoption of free trade agreements. Virtually every substantive policy area – from industrial relations and social welfare policy, to employment insurance, education, and health care – reveals some impact of neoliberal changes in fiscal policy.

Using Peck and Tickell’s (2002) familiar ‘roll-back’ and ‘roll-out’ neoliberalization framework, we see austerity at work throughout the neoliberal era. Initially an intellectual project, neoliberalism as a critique of the post-war Keynesian orthodoxy was launched and secured through austerity and monetarism as a ‘solution’ to stagflation. Policy programmes of Ronald Reagan, Margaret Thatcher, Brian Mulroney and other right-wing leaders then led to the ‘roll-back’ phase of neoliberalization: gutting the state and tearing down the Keynesian policy system through painfully high interest rates, ‘slash and burn’ budget balancing and cuts to social spending, regressive taxation, privatizing government entities and activities through asset sales, and granting enhanced investor rights through free trade and deregulation applicable to many key sectors. From roughly the mid-1990s, policies associated with neoliberal ‘roll-out’ begin to emerge. This includes social programme reform (rather than simply programme cuts), tax expenditures as new forms of the welfare state (rather than removing all support), establishing partnerships with the private sector (rather than full-scale privatization), and re-regulation (rather than deregulation). Evolution was driven not only by new forms of neoliberal policy experimentation, but also out of a need to deal with the contradictions and dislocations that result from austerity. This includes problems of legitimacy, social reproduction, and social and economic instability.

The roll-back and roll-out description of neoliberal transformation is joined by others in the early 2000s – ‘inclusive liberalism’ and the ‘social investment approach’ being two of them. Porter and Craig (2004) and Mahon (2008), for example, argue that global institutions such as the OECD and World Bank began to modify their policy position in the 1990s to favour ‘inclusive liberalism’. Inclusive liberalism shares important features with neoliberalism (such as an emphasis on the individual, an allegiance to a capitalist market economy and the protection/expansion of private property, an emphasis on supply-side measures such as taxation, and flexibilization of the labour market), however Mahon (ibid.: 262) argues that these two approaches draw on different elements of classical liberalism, with inclusive liberalism being more oriented towards social liberalism and thus focused more on redesigning the welfare state than on dismantlement. These new reforms emphasize assistance and support services, especially with
Neoliberalism as austerity

respect to taxation and benefits received, and investment in human and social capital. These ideals were absent from neoliberal paradigm in its early stages (Graefe 2006).

Porter and Craig (2004: 390) call this a ‘re-embedding, securing phase in contemporary liberal hegemony’. A defensive component to this new phase is evident as neoliberalism failed in many ways to develop the components necessary to produce the social fix needed to promote widespread prosperity and stability following the global accumulation problems that began in the 1970s (see Jessop 2006). Often due to deep austerity measures, the result was a ‘lost decade’ of international development in the 1980s, debt and financial crises, the erosion of social support, and the rise of violent protests against spending cuts and free trade – all of which created serious social instability and a failure of neoliberalism to gain widespread legitimacy (relative to Keynesianism, at least) (Porter and Craig 2004: 391).

Similarly, with domestic policy transformations, Jensen and Saint Martin (2003) argue that growing concern with the social cohesion problems induced by earlier neoliberal reforms prompted an evolution of social policy in the 1990s. They call this new line of thinking the ‘social investment approach’, which adds an emphasis on social investment and human capital formation to older neoliberal policy elements. In their words,

high rates of inequality, low wages, poor jobs, or temporary deprivation are not a serious problem in and of themselves: they are so only if individuals become trapped in those circumstances or if they foster anti-social, exclusionary behaviours, such as criminality, dropping out, and so on. They become important when they affect future life chances or social cohesion in the present.

(Jensen and Saint Martin 2003: 92)

Thus the social investment approach is not only a departure from the post-war era distributive or consumption-oriented welfare state, but it is also a modification of the neoliberal paradigm; it is selective austerity.

Of course, inequality was not eradicated in this later neoliberal phase; far from it. Income distribution has become ever more unequal (whether measured in terms of market incomes or after tax incomes), there has been over three decades of wage stagnation for all but the most affluent, and wealth has become increasingly concentrated and unequally distributed (McBride and Whiteside 2011). Trends such as these have been linked to capitalist development itself (Marx 1977; Piketty 2014), yet austerity and neoliberalism are also implicated in the enhancement of social and economic inequality.

Concluding remarks

The return of austerity within global policy-making discourse and at various scales within OECD countries as of 2010 involved mobilizing pre-existing neoclassical and neoliberal reasoning and rhetoric favouring fiscal consolidation. Publications by elite economists and consensus among public and private policy promoting institutions and actors globally gave the return to austerity the nudge it needed to make a significant comeback. Jamie Peck (2014) argues that austerity has to be continually ‘pushed’ discursively, given that it is not self-evidently desirable or necessary. However, the appeal of austerity must also be understood within the context outlined by Mark Blyth (2013b): there is now a generation of economists and policy-makers for whom Keynesianism is but ‘a footnote’ in textbooks and in practice. With the notable exception of some vocal New Keynesians/Post-Keynesians like Paul Krugman and Martin Wolf, the relegation of alternative economic paradigms (even those as prominent historically as
Heather Whiteside

Keynesianism) to literal or figurative footnote status suggests a myopia in orthodox economics today and helps explain the ‘common sense’ appeal to austerity.

The appeal of austerity, as explained throughout the chapter, is revealed through its connection with neoliberalism writ large – indeed, the economics of austerity are its politics. More than mere budget balancing, a near global push for fiscal restraint since the 1970s has enabled significant structural reform along neoliberal lines. Key policies and practices associated with austerity include privatization, more miserly social programmes, and financialization, as well as a shift in the social relations of power, a restructuring of the state, and the redistribution of burdens and benefits in society. Often cast as crisis management, austerity surely produces at least as many contradictions as it resolves.

Notes

1 The Philips curve depicts inflation and unemployment as inversely related. Stagflation – simultaneous economic stagnation (which included high unemployment) and inflation – provided an opportunity for neoclassical economists like Milton Friedman to overturn the dominance of Keynesian- and post-Keynesian-inspired macroeconomic policy.

2 For more on austerity’s ‘shape changing’, see Clarke and Newman (2012) for their description of the alchemy of austerity and its manipulation of the concept of crisis.

3 This framework should be understood as a heuristic and not strictly speaking a chronology, yet for the purposes of this chapter it will be applied in a stylized, linear manner.

4 Overtly ideological/right wing-driven efforts such as these were pre-staged in the 1970s by proto-neoliberal or early neoliberal reforms introduced by the likes of James Callaghan (UK) and Jimmy Carter (USA) (see Swarts 2013).

References


Neoliberalism as austerity


