Austerity Politics

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Overview

- The politics of austerity is related to, but not reducible to, the 2007–8 financial crisis. Disputes over austerity are embedded in competing ideological and political preferences regarding the appropriate relationship between the market, state and society.
- In the UK this has manifested in disagreement over whether austerity is necessary at all and/or contestation over the means by which austerity policy should be enacted.
- At the core of debates over austerity politics is the question of whether government should emphasise spending cuts or tax rises, and this inevitably raises distributional questions regarding who pays for and who is entitled to access specific welfare state services.
- The UK Coalition government (2010–15) developed a simple, but compelling, austerity narrative that cut through competing economic theories and proposals by connecting their preferred policy to ‘everyday’ personal experience of money management and broader societal norms about individual self-reliance and social obligations.
- The austerity narrative has legitimated a restructuring of the welfare state in line with neo-Liberal preferences, but is potentially threatened by the emergence of movements and political parties who oppose austerity and challenge the discursive narrative of austerity.
Global Financial Crisis and ‘Austerity’

In the wake of the global 2007–8 financial crisis governments and central banks in Europe, the USA and Asia coordinated the implementation of economic and social policy measures intended to stimulate stricken economies so as to prevent a severe recession turning into complete economic collapse. At the time it seemed the return of Keynesian economics, with governments willing to increase spending and/or reduce taxes and interest rates to sustain demand for goods and services and hence support employment, in the context of global economic downturn might herald a definitive break with the prevailing neo-Liberal political economy and usher in a new period of social democracy (see Chapters 9, 11 and 19). As we now know, the turn to Keynes (see Chapter 18) was a limited, pragmatic and temporary move to stabilise the global economy. As the immediate danger of collapse receded, the notion that the state and public spending could be a force for economic growth was rapidly displaced. Long-standing advocates of neo-Liberalism recovered their composure and launched a concerted campaign that successfully re-presented the mispricing of risk, market failure and a colossal banking crisis as a crisis of state solvency, originating in public spending. The re-location of the crisis from the private to the public sector via bank bailouts had, of course, rapidly increased public debt in the UK and in other states. This transformed political and public debate so that the parameters of policy narrowed to a focus of how governments should go about cutting public spending to reduce deficits and pay off their debts.

This chapter explores the politics of austerity through a focus on the UK. The first section clarifies what we mean by austerity. The second section outlines the shift from mild Keynesian stimulus under Labour (2008–10) to austerity and resurgent neo-Liberalism under the UK Coalition (2010–15). Section three considers how the Coalition sold this shift through the development of a simple, yet seductive, austerity narrative that taps into societal beliefs about personal responsibility and social obligation through reference to ‘everyday’ money management practices and popular concerns about ‘worklessness’. The final section reflects on the potential fragility of austerity in the face of emergent opposition and the potential consequences.

The Theory of Austerity

The term austerity denotes the imposition of a period of public spending restraint or reduction and/or increase in taxes. The ostensible intention of austerity is to tackle the deficit and/or public debt (Box 21.1). Proponents of austerity regard high deficits as a source of instability as they contribute to public debt, and high levels of public debt as a percentage of Gross Domestic Product (GDP) are regarded as a drag on growth and a source of instability. It limits room for manoeuvre in an economic downturn and raises the cost of borrowing from investors who, regarding the state as a credit risk, demand higher interest rates. As a consequence, debt payments over time take up a growing portion of public expenditure.

Amongst contemporary proponents of austerity, spending cuts rather than tax rises have been favoured as the means to ‘balance the books’. The 2010–15 UK Conservative–Liberal Coalition government, for example, achieved over 80 per cent of adjustment through spending cuts and only 20 per cent through tax rises (see below). Other UK

Box 21.1 Deficit and Public Debt

- The deficit refers to the annual difference between the revenue raised (for example, taxes, charges, licences, sale of assets) and the revenue spent by the state (for example, health services, education, pensions). The deficit is typically covered by borrowing money via sale of state-issued bonds that are purchased by, and provide an income stream to, investors.
- The public debt refers to the total accumulated stock of debt that is outstanding.
political parties, committed to alternative austerity packages, have proposed different spending reductions/tax increases (for example, Labour’s proposed mansion tax rather than the Conservative cuts to social security). Advocates of emphasising public spending reductions argue that limiting the use of tax rises or greater borrowing signals to business and citizens that future levels of taxation will remain where they are or decline. Effectively the aim is to place a limit on the state’s current and future claim on the income of business and citizens. The presumption is that, as these actors realise they are able to keep a greater portion of their resources to spend as they choose, this will generate the confidence necessary to stimulate the business investment and citizen consumption that will drive economic recovery. Policymakers aim to support this consolidation of public spending through monetary policy in an approach known as expansionary fiscal contraction (Box 21.2).

As a policy prescription, the notion that a state should not spend more than it raises in revenue is intuitively appealing. Yet austerity is one of those ‘common-sense’ propositions whose assumptions are strongly contested.

Challenges to the Theoretical Basis of Austerity

The underlying economics of austerity have been challenged by economists and other social scientists from outside (for example, Keynesian and more radical perspectives) the neo-Liberal tradition where austerity finds its strongest contemporary champions. To simplify somewhat, opponents of austerity contend that public spending reductions made in the midst of a recession, when business and citizens are already reigning in their spending and paying down their debts, removes the last pillar supporting economic demand. As austerity reduces expenditure on public services (including benefit payments), the collective demand for goods and services in the economy must also decline as the state purchases less from business directly (for example, services to the NHS) or indirectly (personal spending by people in receipt of tax credits or out-of-work benefits). The result is that business is again forced to reduce its outlays, making some staff unemployed. As this declining investment and consumption cascades through the economy, confidence collapses and rising unemployment places additional demands on the state. These must be financed either by raising taxes or by further spending cuts (at the risk of further constraining economic activity) or more borrowing to make up the difference. The latter creates a short-term rise in the deficit, which, of course, runs counter to the objectives of advocates of austerity.

For critics of austerity, however, expanding state borrowing in a crisis is not a problem as it leads to greater economic growth. The objection of austerity supporters to borrowing is misplaced and is an example of a fallacy of composition, whereby what may be desirable for an individual cannot simply be scaled up for society as a whole. In this case, the fallacy of composition associated with austerity is known as the paradox of thrift. So while it may be sensible for an individual citizen to save money and pay down debt in response to an economic crisis, this does not make sense when aggregated to a societal level. If all citizens, all business and the government seek to reduce spending at the same time, then economic demand collapses and recession deepens, because one person’s spending is another person’s income.

Box 21.2 Expansionary Fiscal Contraction

- As austerity rules out fiscal policy as the means to restore economic growth, policymakers instead look to monetary policy (supply and cost of money/credit). A straightforward example is the reduction of interest rates to historic lows by the Bank of England, US Federal Reserve Bank and the European Central Bank.
- Through low interest rates central banks attempt to prevent debt defaults and offset fiscal contraction (spending cuts) by enabling business and consumers to borrow at cheaper rates for investment/consumption (hence, ‘expansionary fiscal contraction’).
An alternative approach (see below) informed by Keynesian ideas advocates the reverse of the austerity position. Instead of cutting spending governments could use fiscal policy (borrowing to increase spending and cutting taxes) to drive economic expansion in the short term. Once the economy achieves sustained growth the state then begins to pay down the deficit and public debt, with the latter becoming less of a concern as it automatically shrinks as a proportion of GDP as the economy expands.

From Emergency Keynesianism to the Return of Neo-Liberalism

What was perhaps most striking about the imposition of austerity and its accompanying politics is that the financial crisis raised serious questions about the viability of neo-Liberal policy notions of self-correcting markets and minimal state intervention. Between 2008 and 2010, the UK Labour government under Gordon Brown briefly rediscovered Keynes and implemented a mild state stimulus package to prevent economic collapse. Spending on social security benefits was allowed to rise in response to declines in individual income resulting from unemployment or wage cuts (this is known as benefit payments functioning as an ‘automatic stabiliser’), and introduced additional measures to encourage economic activity. These included targeted tax cuts (for example, Value Added Tax) and the car scrappage scheme (a £2,000 subsidy to individuals to exchange their old car for a new one). The aim was to prioritise economic stability, and once recovery had been ‘locked in’ to then pay down the deficit and public debt. Whilst Labour was committed to bringing about a reduction in state spending the key point is that this would occur once economic growth was accelerating, which is in line with the broad Keynesian position of paying down debt in the good times, while allowing increases in public spending and borrowing during downturns.

Labour went into the 2010 general election proposing a ratio of 2:1 spending cuts to tax rises and a moderate pace of deficit reduction, with tighter spending beginning in 2011 to be complete by 2016–17. In contrast, the Conservative Party entered the 2010 general election campaign committed to a ratio of 4:1 spending cuts to tax rises and a faster pace of tightening, beginning in 2010 with the deficit eliminated by 2015–16.

The Coalition government reaffirmed deficit reduction as the number one priority and that adjustment should fall mainly on reductions in spending, not tax increases. Continued economic instability and a conscious decision to slow the pace of austerity (an implicit concession to the Keynesian position to help growth) meant the original 2015–16 deficit target was missed and pushed back to 2018–19. The Coalition did successfully achieve their intended 4:1 ratio, with 82 per cent of consolidation by 2015 coming through reductions in public expenditure rather than tax rises. Public services have, therefore, experienced sustained retrenchment, though the extent and nature of this vary by policy sector (for example, health, education, social security, social care) and constituent country due to the degree of authority the governments in Scotland, Wales and Northern Ireland have to formulate their own policies and exercise control over spending (see Chapters 22–25).

To an extent the UK Coalition government’s approach (2010–15) and the Conservative approach (2015–present) continue policies embarked upon by Labour, but also marks a step change in the opening up of public services to competition and intensification of benefit conditionality and erosion of entitlement to working age benefits (see Chapters 7, 47 and 56). The important point is that austerity has been utilised as a means for advancing long-standing neo-Liberal preferences for expansion of private sector involvement in public services and residualisation of social security for working age people. This is commensurate with pursuit of a long-term goal to shift expectations about what individuals can expect the state to provide and realising a leaner, more targeted, safety net welfare state.

The Austerity Narrative and the Legitimation of Welfare State Restructuring

Opponents of both austerity and welfare state restructuring have found themselves hampered by the discursive construction of austerity as the only ‘credible’ economic policy and as morally desirable. The UK Coalition government constructed a powerful, sophisticated (if simplistic)
austerity narrative by weaving together threads concerning the supposed main challenges facing the UK. First, the financial crisis was reinterpreted so that it was transformed from being a problem of private sector banking practices and market failure, into a problem caused by extravagant, ineffective public spending by the state. Not only was spending viewed as excessive, but also it was presented as failing to solve the social problems it sought to rectify. Nowhere was this more clearly articulated than in the UK Coalition’s identification of state spending on working age social security benefits as both contributing to, and resulting from, public spending (see Chapter 56).

In this sense, the austerity story is powerful not simply because it is conveyed by a coterie of elite politicians. The capacity to frame a policy issue so that interpretations of the problem and possible solutions align with and favour core ideological preferences cannot simply be imposed. It relies on the ability of political actors to connect their preferred story to particular threads of ideas, experiences and perceptions already held by the public. The analogy drawn by the Coalition between UK state deficits and public debt and individuals’ credit card debts is an apposite example.

It’s like going on a spending binge with a credit card and having absolutely no idea how you are going to meet the interest. That is what Labour are about. They have learnt absolutely nothing in the past five years. It’s still more borrowing, more spending, more debt (Prime Minister David Cameron, quoted in Mason, 4 January 2015)

Though misleading in the sense that an individual does not have the authority to levy taxes or issue the currency and cannot borrow at the same low interest rates as the UK, the use of the credit card analogy is politically astute. Research indicates the public interpret policy debates about debt and economic growth by drawing on personal experience. The credit card analogy works because it reworks a potentially complicated matter of economic policy as a ‘big’ version of personal finance embedding austerity in a morality tale about only spending what you can afford. Given that repayment of debts is viewed as a socially responsible obligation and individual indebtedness is difficult to solve through more borrowing, the implication is that solving the deficit and debt require everyone (citizen and state) to tighten their belts and live within their means. So far the austerity narrative (Box 21.3) has proved a politically and economically seductive story with which to legitimate reforms. The question arises though as to whether the cumulative effect of year-on-year spending reductions and welfare state reform will begin to undermine public acquiescence to austerity.

Emerging Issues

In ruling out deficit financing and emphasising spending cuts over tax rises, the Coalition ensured that the immediate cost of austerity has been borne by those who tend to rely most heavily on public services and social transfers, especially working age claimants of out-of-work benefits. Given that expenditure on these benefits is less than half of total state spending on social security, the possibility of achieving substantial further savings from this area implies severe cuts and substantial restructuring of what the state offers to working age people.

The distributional effects of restructuring have already generated opposition by old (trades unions) and new (for example, Disabled People Against Cuts, Boycott Workfare and UK Uncut) social movements (see Chapter 14). Meanwhile, the electoral dynamics in Scotland, Wales and Northern Ireland, where the Conservative Party is a marginal electoral force, has created space for anti-austerity parties and ideas. Both the Scottish National Party and Plaid Cymru, for example, went into the 2015 general election articulating an anti-austerity narrative. If austerity measures persist, it may well deepen the emerging political divisions between Scotland, Wales, Northern Ireland and England, and pose a threat to the continuation of the UK as a single nation-state.

Guide to Further Sources

For an accessible overview of the history and contemporary relevance of the political economy of austerity, see M. Blyth (2013), Austerity: The
Box 21.3 Summary of the Austerity Narrative of the 2010–15 Coalition Government

Economic problem definition
- Deficit and debt resulted from public spending that was too high under Labour.
- Size of deficit/debt risk to economic credibility of UK.
- Imperils capacity to attract investment and raises cost of borrowing.
- Borrowing ‘crowds’ out business and consumer spending as they ‘save’ in anticipation of future tax rises. Cannot borrow your way out of debt (credit card analogy).

Moral problem
- State was irresponsibly living beyond its means. Social obligation to now pay for the ‘good times’ of easy money. Borrowing more just adds to the debt, imposing burden on future generations.
- Public spending masked underlying causes of social problems such as ‘worklessness and welfare dependency’, which contributed to high spending.
- State should minimise not maximise taxation, as money is that of individual/business.

Policy solution
- Paying down deficit/debt protects credibility of UK state.
- Reducing spending will restore confidence of business and consumers.
- Economic and moral case for reforms that prevent ‘welfare dependency’. The state must promote self-reliance through strengthened conditionality; benefit sanctions and curtailment of entitlements, and value of out-of-work benefits.
- Labour’s profligacy means scope for efficiencies and economic case for the state doing less overall and for innovation (markets) in public services to save money and improve effectiveness.


The debate about austerity is often infused with comparisons to personal finance and half-truths, misdirection and confusion about the nature, scale and distributive function of various aspects of the welfare state. A good example of the use of personal finance as metaphor can be found in R. Mason (2015), ‘Cameron says Tories’ £25bn spending cuts are necessary and reasonable’, The Guardian, 4 January. Accessible research into how the public interpret the austerity analogies deployed by political elites can be found in L. Stanley (2014), “‘We’re reaping what we sowed’: everyday crisis narratives and acquiescence to the age of austerity”, New Political Economy, 19:6, 895–917. For clarity on the size, scope and role of the UK welfare state and the problem with dichotomous categorisation by politicians and media of society into taxpayers and claimants, see J. Hills (2015), Good Times, Bad Times: The Welfare Myth of Them and Us, Bristol: Policy Press.
Review and Assignment Questions

1. What do we mean when we talk about austerity?
2. How does the politics of austerity policy construct cuts in public spending as both necessary and desirable?
3. Is the UK deficit and public debt comparable to the position of an individual who is heavily indebted to a credit card company?
4. Describe the paradox of thrift?
5. Critically discuss the implications of austerity politics for the welfare state.

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