Global Austerity Alert: Looming Budget Cuts in 2021-25 and Alternative Pathways

Executive Summary

This paper warns of an emerging post-pandemic fiscal austerity shock—one that is far more premature and severe than the one that followed the global financial crisis—and presents alternative options to ensure that populations do not yet again have to suffer from austerity cuts. It does so by: (i) examining IMF government expenditure projections until 2025; (ii) summarizing the most common austerity measures to be avoided given their negative social impacts; and (iii) calling on governments to urgently create fiscal space to finance an equitable socio-economic recovery and progress toward human rights and the Sustainable Development Goals (SDGs).

Analysis of expenditure projections shows that austerity cuts are expected in 154 countries in 2021, and as many as 159 countries in 2022. The trend continues at least until 2025, with an average of 139 countries each year, according to IMF projections contained in the October 2020 World Economic Outlook database. Austerity is projected to affect 5.6 billion persons in 2021 or about 75% of the global population, rising to 6.6 billion or 85% of the world population in 2022. By 2025, 6.3 billion people or 78% of the total population may still be living under austerity.

Since 2008, two major global crises led to short periods of fiscal expansion, limited to one or two years, followed by long periods of socially-painful austerity. This happened in 2008-09, at the beginning of the global financial and economic crisis, and then in 2020, during the first waves of COVID-19. After short periods of fiscal expansion, governments—advised by the IMF, the G20 and others—rapidly scaled back much needed public support with adverse consequences for the majority of the population.

History is now repeating itself. The high levels of expenditures needed to cope with the pandemic and the resulting socioeconomic crisis have left governments with growing fiscal deficits and debt. However, rather than continuing to explore financing options to provide direly-needed support for people and the economy, governments are entering into another period of fiscal austerity.

The post-pandemic shock appears to be much more intense than the one that followed the global financial and economic crisis. The average expenditure contraction in 2021 is projected at 3.3% of GDP, which is nearly double the size of the previous crisis, and 1.7% of GDP in 2022. Even more worrisome is the commonplace of excessive budget contraction, defined as spending less than the (already low) pre-pandemic levels. Nearly 50 governments are projected to be spending less in 2021-22 than in 2018-19, by an average of 2.9% of GDP. When looking at real changes, more than 40 governments are forecasted to have budgets that are 12% smaller in 2021-22 than in 2018-19, on average, including countries with high developmental needs like Ecuador, Equatorial Guinea, Kiribati, Liberia, Libya, Republic of Congo, South Sudan, Yemen, Zambia and Zimbabwe.

The dangers of early and overly-aggressive austerity are clear from the past decade of adjustment. From 2010-19, billions of lives were upended by reduced pensions and social security benefits; lower subsidies, including for food, fertilizers and fuel; wage bill cuts and caps, which hampered

the delivery of public services like education, health, social work, water and public transport; the rationalization and narrow-targeting of social protection programs so that only the poorest populations received smaller and smaller benefits, while most people were excluded; and less employment security for workers, as labor regulations were dismantled. In many countries, public services were downsized and/or privatized, including health. A lot of governments also introduced regressive revenue-generation measures, like consumption taxes, which further reduced disposable household income, after the significant job losses caused by lesser economic activity. Fiscal austerity also proved to be a deadly policy: The weak state of public health systems—overburdened, underfunded and understaffed from a decade of austerity—aggravated health inequalities and made populations vulnerable to COVID-19.

Today, it is imperative to watch out for austerity measures that generate negative social outcomes. These include: (i) wage bill cuts or caps; (ii) lower subsidies; (iii) pension and social security reforms; (iv) rationalizing and narrow-targeting of social assistance/safety nets; (v) labor flexibilization reforms; (vi) higher consumption taxes or value added taxes (VAT); and (vii) privatizations and public private partnerships (PPPs). These austerity measures have detrimental social impacts and must be avoided, there are alternatives. After COVID-19's devastating impact on countries, austerity will only cause more unnecessary suffering and hardship on populations.

Austerity is not inevitable; there are alternative pathways, even in the poorest countries. The following financing or fiscal space options are supported by policy statements of both the United Nations and the international financial institutions: (i) increasing tax revenues; (ii) expanding social security coverage and contributory revenues, for social protection; (iii) borrowing or restructuring/reducing existing debt; (iv) eliminating illicit financial flows; (v) re-allocating public expenditures; (vi) using fiscal and central bank foreign exchange reserves; (vii) lobbying for increased aid and transfers; and (viii) adopting a more accommodative macroeconomic framework. Expenditure and financing decisions that affect the lives of millions of people cannot be taken behind closed doors at the Ministry of Finance: All options should be carefully examined, including the potential risks and trade-offs, and considered in an inclusive national social dialogue. National social dialogue is best to articulate optimal solutions in macroeconomic and fiscal policy, the need for job and income security and human rights.

There is a global campaign to stop austerity measures that have negative social impacts: #EndAusterity . In 2020, more than 500 organizations and academics from 87 countries have called on the IMF and Ministries of Finance to immediately stop austerity, and instead support policies that advance gender justice, reduce inequality, and put people and planet first. Actionable steps include: (i) identify if your government is reducing expenditures, or planning to in the near future; (ii) in the event of austerity, articulate alternative demands for post-pandemic recovery; (iii) call for national social dialogue, which is informed by a rapid assessment of the social impacts of the different policy options and their financing; and (iv) agree optimal policies through inclusive national social dialogue with representatives from trade unions, employers, civil society groups and other relevant stakeholders. Given the importance of recovery from COVID-19, it is imperative that governments explore all possible alternatives to expand fiscal space to promote sustainable socio-economic development, human rights, decent work, universal social protection and quality public services—and to achieve long-term prosperity for all.