Global austerity alert!

'Looming public budget cuts' after covid-19, and alternative pathways.

May 2021

THE GLOBAL GOALS

1 NO POVERTY

3 GOOD HEALTH AND WELL-BEING

4 QUALITY EDUCATION

10 REDUCED INEQUALITIES

Original article by Isabel Ortiz and Matthew Cummins

in

Third World Economics No.721 16-30 April

Learner Profile

- JC Business Studies
- JC CSPE
- JC Geography
- JC Maths
- Transition Year
- SC Business
- SC Economics
- LCA Social Ed

FINANCIAL JUSTICE IRELAND

PLAIN-ENGLISH ECONOMICS

Irish Aid

WorldWise Global Schools

A 'Plain-English Economics' Classroom-Resource for Post-Primary Schools

Learning Outcomes

Junior Cycle

Business Studies

3.5 Examine the purposes of taxation from a financial, social, legal and ethical perspective.

3.6 Explain how economic growth can impact positively and negatively on society and the environment and justify the promotion of sustainable development.

3.9 Explain the relevance of economic indicators such as inflation, employment rates, interest rates, economic growth, national income and national debt for individuals and the economy.

3.11 Evaluate the benefits and costs of a government economic policy and assess who enjoys the benefits and who bears the costs.

Maths

Estimating, predicting and calculating
Number strand (percentages)
Connections: U.6
Problem solving: U.8, U.9

CSPE

Local and Global Development
2.6 express an informed opinion about the root causes of poverty, both locally and globally

Effecting Global Change
2.8 identify one person and one institution with power and influence in the world today, explaining the role of each

Geography

3.6 identify global patterns of economic development

Senior Cycle

Economics

2.4 Government intervention in the market
Evaluate the economic role of the government in a mixed economy
Evaluate how and why the government may use various interventions and incentives, such as taxation and legislation, to influence the price and quantity outcomes in particular markets

3.3 Market failure
determine and debate how governments can overcome market failure using factors such as taxation, regulation and direct government intervention

4.1 National Income
investigate data patterns in Ireland's national income, price level, unemployment rate, government expenditure and national debt over a period of time

4.3 Fiscal policy and the budget framework debate the purpose and impact of taxation on the economy as a whole, explaining how tax policy can be used to address inequality

5.1 Economic growth and development
explain how countries and regions can be profiled by income, wealth and equality

Leaving Cert Applied - Social Education

Unit 2: Forces and Interests
The student will be able to identify forces/interests which have an effect on particular issues.

Unit 3: Making Links
The student will be able to make local to global links.
The student will be able to relate the importance of issues and current affairs to their daily lives

Unit 5: Making Connections
The student will be able to make connections between human rights and contemporary issues
The student will be able to give examples of contemporary issues, both local and global, where human rights are under threat.

Student Instructions

Read this online with a copy book beside you, or have it printed.

What we 'translated'

Report

Initiative for Policy Dialogue (IPD) / Global Social Justice (GSJ)
International Confederation of Trade Unions (ITUC)
Public Services International (PSI) / Arab Watch Coalition (AWC)
The Bretton Woods Project (BWP) / Third World Network (TNW)

GLOBAL AUSTERITY ALERT

LOOMING BUDGET CUTS IN 2021-25 AND ALTERNATIVE PATHWAYS

Isabel Ortiz
Matthew Cummins

Working Paper
April 2021

Article

OPINION I Economic policy

Global austerity alert sounded

After COVID-19's devastating impacts, looming public budget cuts will only cause more unnecessary suffering and hardship.

by Isabel Ortiz and Matthew Cummins

What's happening?

A major study was released recently, and in it were some shocking trends. Even though people all around the world need lots of support from governments (for example the Pandemic Unemployment Payment or ‘PUP’ in Ireland), most governments are planning on cutting spending.

If these plans go ahead:

- Budget cuts are expected in 154 countries in 2021, and as many as 159 countries in 2022 (say the IMF)

- 85% of the global population will be living under austerity conditions by 2022 until 2025 if these plans go ahead.

The IMF has recommended many of these changes.

Source: emmaclancy.com

IMF

The IMF was set up in 1944 with the aim of creating global economic stability and improved global cooperation after World War II. It is funded by its 189 member countries, which pay a subscription when they join. This amount is based on the size of the country's economy, which also determines the size of their vote. The bigger the country's GDP (Gross Domestic Product), the bigger the vote.The US has 17% of the votes with 4.25% of the global population, while Ireland has 0.5% of the share. The entire continent of Africa has 6% of the vote with 16% of the global population. The headquarters is in Washington D.C., and the leader is always from the United States. The IMF is often referred to as the 'lender of last resort' because its loans often come with conditions. For example, the IMF was one third of the Troika (the IMF, European Central Bank and European Commission) that demanded Ireland self-inflict austerity policies after the 2008/2009 banking crisis. Ireland's water charges are an example of this attempt by the IMF to force countries to adopt certain policies in order to pay its debts.

World Bank

The World Bank was set up in 1944 and was initially called 'The International Bank for Reconstruction and Development'. Its purpose was to rebuild the economies of Global North countries after World War 2. It's goal now is to end extreme poverty and promote shared prosperity. It lends countries money for development projects, and provides technical assistance to primarily Southern countries. Each member government is a shareholder of the Bank, and the number of shares it has (in other words how much influence it has) is determined by the size of its economy as represented by GDP. The most powerful and influential members are the G8 countries - Canada, France, Germany, Italy, Russia, the United Kingdom and the United States - which have the most seats on the board of directors at the Bank and collectively represent 48% of the votes. Like the IMF, its loans come with conditions, such as trade liberalisation (removing barriers to trade and encouraging free trade), privatisation (selling state owned assets to the private sector) and cuts to public services. The leader of the IMF is always an EU citizen.

These are two of the key institutions that determine the rules of the global economy. The US has veto power at both of these institutions. The Global South, representing 85% of the world population, has less than half the votes at these two institutions.

This represents a fundamental power imbalance and democratic deficit, with serious consequences.

<u>Why</u> are governments cutting spending?

1. To reduce their spending deficit

'**Fiscal deficit**' is gobbledegook but basically means that a government is spending more than they are taking in.

If you have €100 coming in in year 1, and you spend €110 in year 1, what is your deficit? Answer this before continuing!

Yes, now you have a €10 deficit. That means that at the start of Year 2, your debt is €10. If in Year 2 you have €150 coming in, but spend €200. What is your deficit for Year 2?

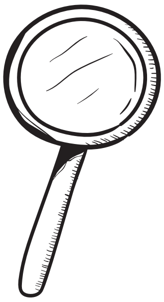
The answer is €50!
Do you know what your debt is at the end of Year 2?

It's €10 (deficit from Year 1) + €50 (deficit from Year 2) = €60.

2. To reduce their national debt

Government debt is the accumulated debt over a number of years. Governments compare their national debt to their national income to get a 'Debt-to-GDP' ratio. This ratio is often what is used by the IMF and World Bank to decide whether or not to give loans to countries in need, and what interest rate to charge (see ______).

In countries that use the Euro, they need to keep this ratio to 60%, and if they don't, the European Commission makes them make adjustments to their spending. This is via an agreement called the Stability and Growth Pact, but we won't talk anymore about that in this resource!



Find out the definition of GDP and put it in the box below:

GDP stands for....

and means...

3. Because their GDP has decreased

All around the world, national income or GDP has decreased because of the reduced economic activity caused by Covid-19.

If GDP decreases, debt looks higher, and this looks worse for governments.

Think about it, if I am a country, and I spend €90 every year, and in Year 1 I bring in €100, what percentage is my debt to GDP?

That's right, it's 90%. If in Y2 my spending has increased to €110, what is my debt to GDP?

It is 110%.

If in Y3 my income is reduced to €80, and my spending is still €110, now what is my debt to GDP?

It's 137.5% (110% of 80). My spending has not increased, but because my income has, then my debt increases.

Because income or GDP has decreased so massively due to Covid-19, and because they have had to spend lots more than usual, governments are worried because all of a sudden their debt has become much bigger!

<u>How</u> do governments reduce their debt and deficit?

Can you think of some ways that governments reduce their debt?

Find in your dictionary the definition of austerity and economic austerity and write them below:

What kinds of things do governments usually spend money on?

What might happen if funding for essential services is cut, and taxes are increased? What types of people might be affected negatively?

Method #1: Tax

One of the main ways governments get revenue is by taxing its population, and this increase in revenue reduces the deficit and therefore the debt.

Method #2: Cut Public Spending

Another way governments reduce deficit and therefore debt is by reducing their spending.

Think about it, if they have €100 coming in, and usually they spend €110, they can reduce their spending in order to progress towards balancing their accounts.

If they usually have €100 coming in via taxes, exports etc., and they want to **increase** this so that they can spend on services, what might they do?

They might raise taxes.

An issue arises if both of these things happen at once.

When public funding is cut and tax on the everyday person is increased, this is called austerity.

What do you think governments are planning on doing to reduce their debt?

If you said cut spending - you are correct!

More than 40 governments are forecasted to spend less than the (already low) pre-pandemic levels. Their budgets are 12% smaller on average this year (2021-22) than those in 2018-19 before COVID-19. Many of these countries are so-called ‘developing’ countries which need lots of support to ensure good public services. These include Ecuador, Equatorial Guinea, Kiribati, Liberia, Libya, Republic of Congo, South Sudan, Yemen, Zambia and Zimbabwe, and more.

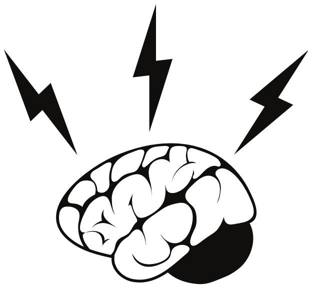
Does austerity work?

After the 2008 financial crisis, from 2010 to 2019, billions of people around the world were negatively impacted by austerity policies. Things like social welfare payments were reduced, support for vulnerable people to buy fuel or food was reduced, funding into healthcare and education was reduced, third level fees were increased, and public companies were privatized (sold to private companies) which reduced job security and associated benefits that were reducing profit for private companies.

Austerity has been criticised widely. It’s logic can mean that it makes things worse, economically and socially. For example, as people are taxed more, they have less money to spend going out and buying things etc. This means that national income (GDP) can decrease. When this happens, employers can become worried, and they are also strained because people aren’t as active in the economy. Businesses may need to close then, and this causes unemployment. The government then needs to support those who are unemployed, which costs the government money! Throughout all this, investors are just saving their money, because they are afraid that if they invest, they will lose money, since people aren’t generally able to spend much or be very active in the economy. Can you see how austerity could be the medicine that harms the patient?

This statement, that austerity is medicine that harms the patient, is actually quite literal! In many countries, public services were downsized or privatized, including health. The weak state of public health systems – overburdened, underfunded and understaffed from a decade of budget cuts – aggravated health inequalities and made populations more vulnerable to Covid-19.

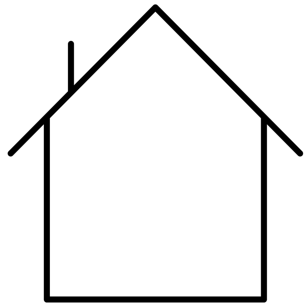
What could governments do instead of austerity to reduce their national debt? *Brainstorm!*



Think of all of the different types of taxes, and think about what you would tax if you were in government.

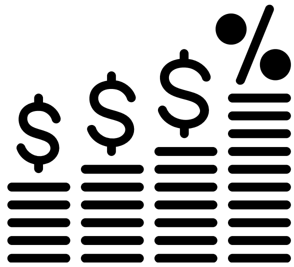
The authors of the report and article have a few suggestions:

Increase wealth, corporate and property tax



Firstly, governments can increase taxes on wealth and property. For example, inheritance might be taxes, or sites that are laying idle (like all the empty houses around Dublin) might be taxed. Also, corporations could be taxed more than they currently are. Activities that harm the environment and climate could be taxed more, to encourage those businesses to change. For example, in Bolivia, Mongolia and Zambia, tax from mining is used to pay for pensions and child benefit!

Restructure existing loans



A second thing that could happen is that interest on existing debt could be reduced. Interest is essentially a charge that is paid to the lender, for the service of them giving you a loan. Sometimes this interest is really high, and it's even higher if your debt to GDP is high (which really encourages a debt spiral to take off!) Governments could negotiate for lower interest rates so that their debt is lower.

Prevent tax flight

Third, they could prevent tax money from leaving the country. There is a huge push from many countries to have companies pay tax in the country where they produce their product. This can be summarised as 'tax should be paid where the product is made'. Today, huge corporations have lots of little companies dotted around the world. Their headquarters could be in one country with a low tax rate, but they might use labour or resources from a different country where wages are lower, or where the resource (like cotton or wood) is plentiful. However because the HQ is registered somewhere else, profits are registered somewhere else, and tax is not paid is the country which provides the labour or resources. If this didn't happen, countries like Zambia etc. (mentioned earlier) would have lots more tax coming in.

Access more loans or request increased aid

A fourth option is to take out more loans to pay off existing debts, or to ask for more aid from around the world.

Finally, governments could stop spending in certain areas that don't benefit the public at large! Below is a list of areas. Discuss with your partner which you would keep, which you would reduce, which you would increase and which you would scrap if you were in a debt crisis in government.

- Military spending
- Bank bailouts (when banks are given money so they don't collapse)
- Education
- Healthcare
- Child benefit
- Social welfare ('the dole')

What can we do?

#EndAusterity is a global campaign to stop austerity measures that have negative social impacts. Since 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 prioritize policies that advance gender justice, reduce inequality, and put people and planet first.

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WorldWise Global Schools

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The ideas, opinions and comments in this resource are entirely the responsibility of its authors and do not necessarily represent or reflect WorldWise Global Schools and/or Irish Aid policy.

Sources

THE TRUE COST OF AUSTERITY AND INEQUALITY
Ireland Case Study

https://www.oxfamireland.org/sites/default/files/upload/pdfs/austerity-ireland-case-study.pdf

GLOBAL AUSTERITY ALERT LOOMING BUDGET CUTS IN 2021-25 AND ALTERNATIVE PATHWAYS

https://policydialogue.org/files/publications/papers/Global-Austerity-Alert-Ortiz-Cummins-2021-final.pdf

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https://www.twn.my/title2/twe/2021/721.pdf