



**Initiative for Policy Dialogue  
The South Centre**



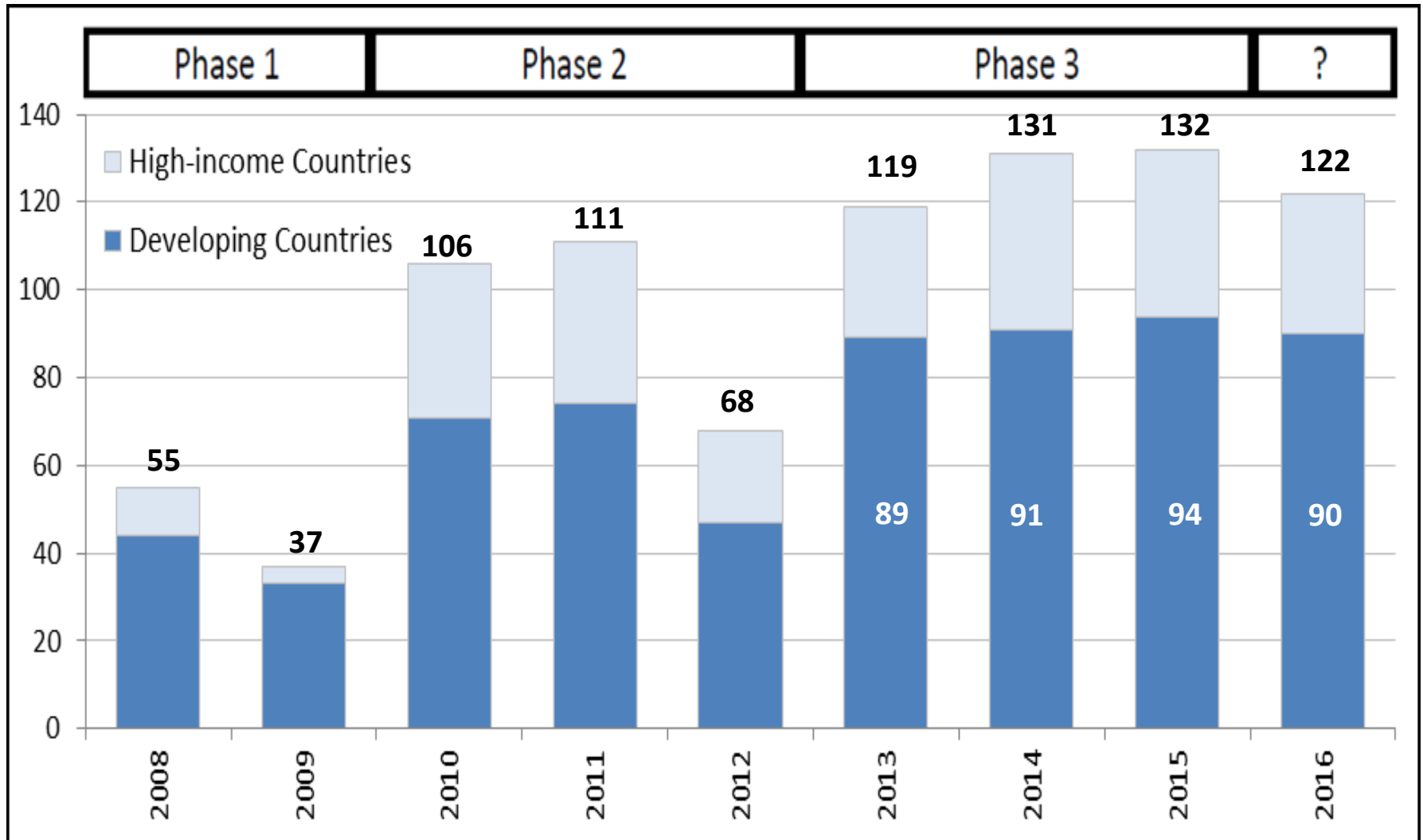
# **THE AGE OF AUSTERITY**

## **A Review of Public Expenditures and Adjustment Measures in 181 Countries**

**Isabel Ortiz and Matthew Cummins**  
**IMF-World Bank Spring Meetings CSO Policy Forum**  
**Washington DC, 20 April 2013**

# Phases of the Crisis (2008-2015)

Number of Countries Contracting Public Expenditures as a % GDP, 2008-16



Source: Ortiz and Cummins.2013. *The Age of Austerity*. IPD and the South Centre - based on IMF's *World Economic Outlook* (October 2012)

# Crisis Phase I (2008-09): Fiscal Expansion

**Changes in Total Government Spending, 2008-09 avg. over 2005-07 avg.**  
(in % of GDP)

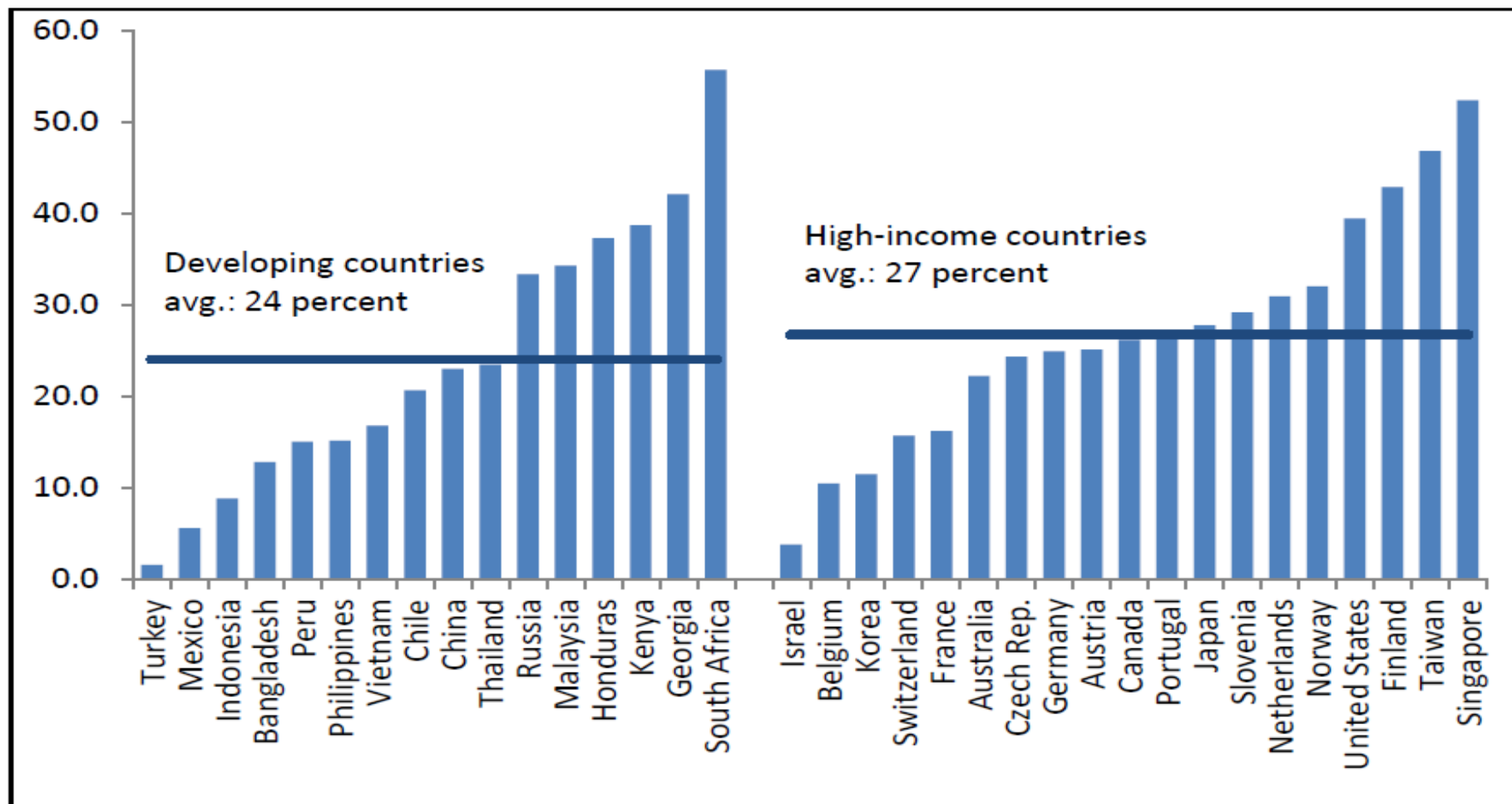
Developing Region / Income Group	Total Sample		Contracted		Expanded	
	# of countries	Avg. spending $\Delta$	# of countries	Avg. spending $\Delta$	# of countries	Avg. spending $\Delta$
East Asia and Pacific	19	3.1	3	-2.1	16	4.1
Eastern Europe and Central Asia	23	3.9	2	-2.2	21	4.4
Latin America and Caribbean	28	1.7	7	-1.5	21	2.8
Middle East and North Africa	11	3.6	4	-1.0	7	6.3
South Asia	8	1.1	2	-1.2	6	1.9
Sub-Saharan Africa	43	2.0	13	-3.5	30	4.4
Low-income	32	2.1	8	-3.0	24	3.8
Lower-middle-income	49	2.5	13	-1.9	36	4.1
Upper-middle-income	51	2.8	10	-2.4	41	4.1
Developing countries	132	2.5	31	-2.3	<b>101</b>	<b>4.0</b>
High-income countries	49	3.1	6	-1.2	<b>43</b>	<b>3.7</b>
All countries	181	2.7	37	-2.2	<b>144</b>	<b>3.9</b>

Source: Ortiz and Cummins.2013. *The Age of Austerity*. IPD and the South Centre - based on IMF's *World Economic Outlook* (October 2012)

# Crisis Phase I (2008-09) – Fiscal Stimulus Plans

- \$2.4 trillion fiscal stimulus plans in 50 countries

## Social Protection in Fiscal Stimulus Plans 2008-09



Source: Ortiz and Cummins, *A Recovery for All*, UNICEF, 2012

# Crisis Phase II (2010-12): Onset of Fiscal Contraction

**Changes in Total Government Spending, 2010-12 avg. over 2008-09 avg.**  
(in % of GDP)

Developing Region / Income Group	Total Sample		Contracted		Expanded	
	# of countries	Avg. spending $\Delta$	# of countries	Avg. spending $\Delta$	# of countries	Avg. spending $\Delta$
East Asia and Pacific	19	2.2	6	-1.5	13	3.8
Eastern Europe and Central Asia	23	-0.9	17	-2.1	6	2.5
Latin America and Caribbean	28	1.2	9	-1.9	19	2.6
Middle East and North Africa	11	-2.1	8	-4.3	3	3.8
South Asia	8	0.8	3	-1.6	5	2.3
Sub-Saharan Africa	43	1.0	13	-3.7	30	3.0
Low-income	32	1.7	8	-2.2	24	3.1
Lower-middle-income	49	0.2	23	-2.9	26	3.0
Upper-middle-income	51	0.2	25	-2.6	26	2.9
Developing countries	132	0.6	<b>56</b>	<b>-2.7</b>	76	3.0
High-income countries	49	0.7	<b>17</b>	<b>-1.0</b>	32	1.7
All countries	181	0.6	<b>73</b>	<b>-2.3</b>	108	2.6

# Crisis Phase III, 2013-15: Intensification of Fiscal Contraction

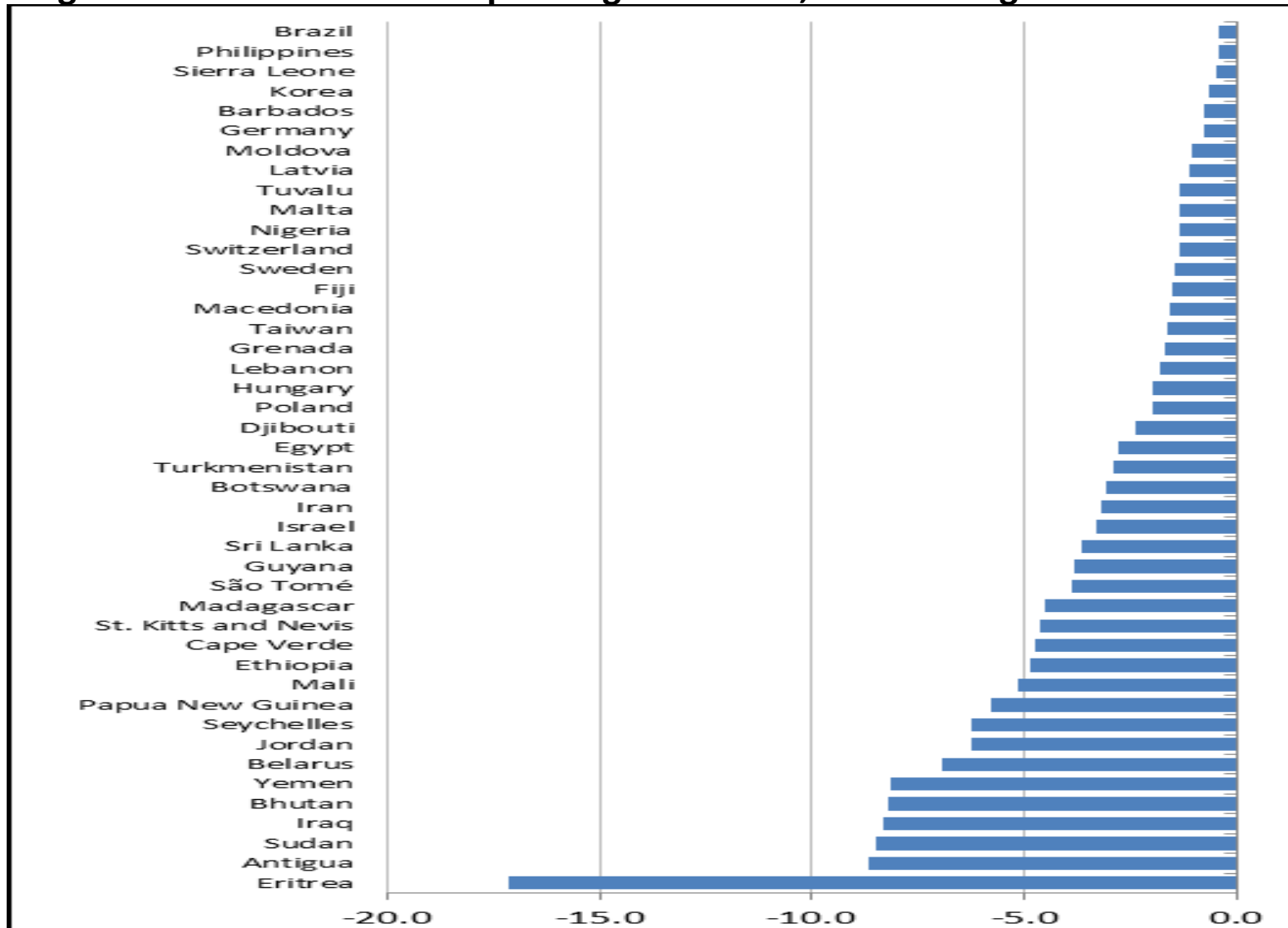
Changes in Total Government Spending, 2013-15 avg. over 2008-09 avg.  
(in % of GDP)

Developing Region / Income Group	Total Sample		Contracting		Expanding	
	# of countries	Avg. spending $\Delta$	# of countries	Avg. spending $\Delta$	# of countries	Avg. spending $\Delta$
East Asia and Pacific	19	1.2	8	-2.7	11	4.0
Eastern Europe and Central Asia	23	-2.1	18	-3.4	5	2.8
Latin America and Caribbean	28	0.8	11	-2.4	17	2.9
Middle East and North Africa	11	-3.3	8	-6.2	3	4.4
South Asia	8	0.9	4	-3.0	4	4.9
Sub-Saharan Africa	43	0.2	19	-4.2	24	3.6
Low-income	32	1.9	11	-2.3	21	4.0
Lower-middle-income	49	-0.9	27	-4.3	22	3.3
Upper-middle-income	51	-0.8	30	-3.7	21	3.2
Developing countries	132	-0.2	<b>68</b>	<b>-3.7</b>	64	3.5
High-income countries	49	-0.3	<b>26</b>	<b>-2.2</b>	23	1.8
All countries	181	-0.2	<b>94</b>	<b>-3.3</b>	87	3.1

Source: Ortiz and Cummins *The Age of Austerity* 2013 based on IMF's *World Economic Outlook* (October 2012)

# A quarter of countries excessive contraction (expenditures below pre-crisis levels)

Changes in Total Government Spending as a %GDP, 2013-15 avg. over 2005-07 avg.



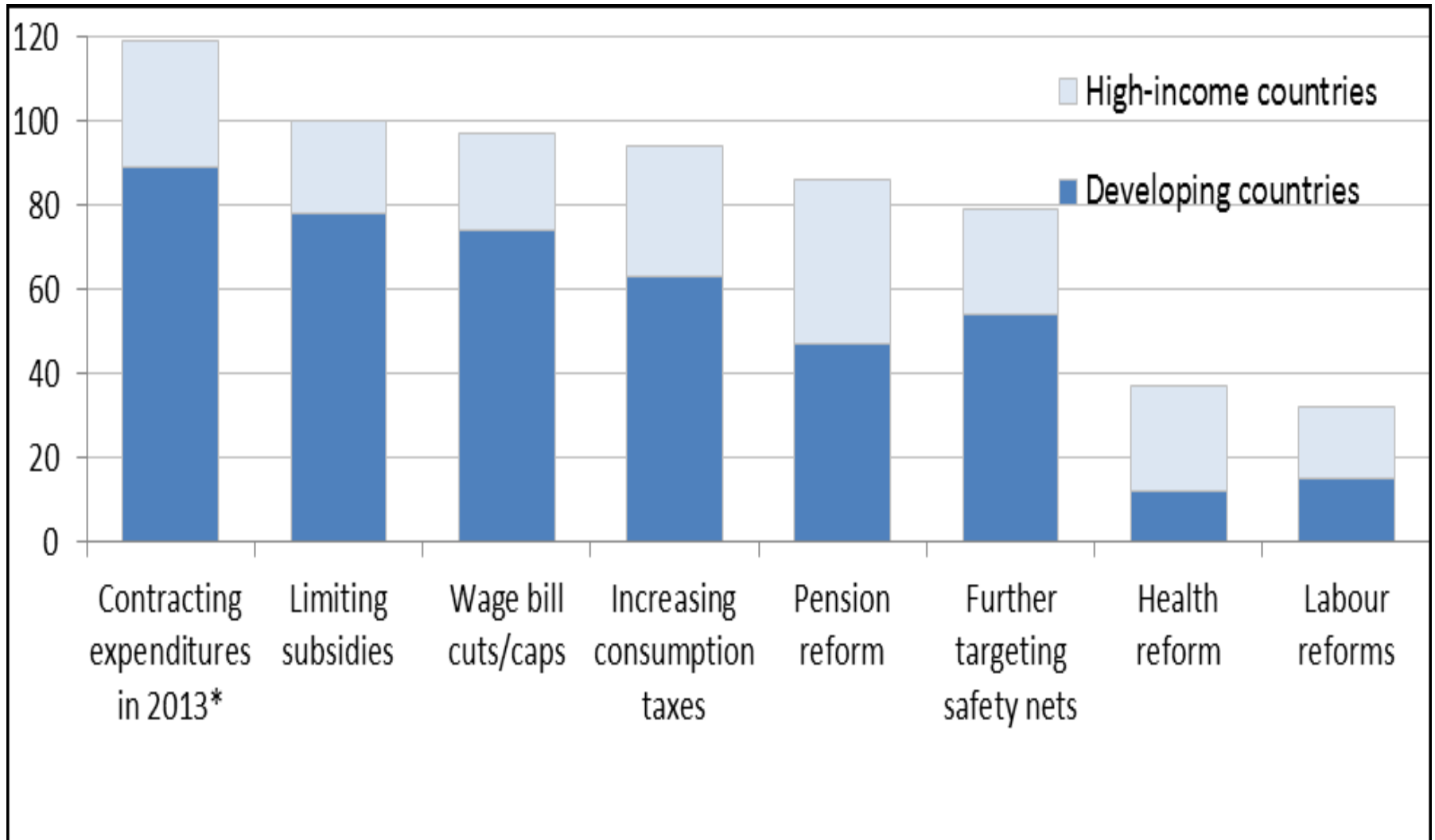
# Crisis Phase III (2013-15): Intensification of Fiscal Contraction

Changes in Total Government Spending, 2013-15 avg. over 2005-07 avg.  
(in % of GDP)

Developing Region / Income Group	Total Sample		Contracted		Expanded	
	# of countries	Avg. spending $\Delta$	# of countries	Avg. spending $\Delta$	# of countries	Avg. spending $\Delta$
East Asia and Pacific	19	4.3	4	-2.3	15	6.0
Eastern Europe and Central Asia	23	1.8	5	-2.7	18	3.0
Latin America and Caribbean	28	2.5	4	-3.6	24	3.5
Middle East and North Africa	11	0.4	7	-4.7	4	9.2
South Asia	8	2.1	2	-5.9	6	4.7
Sub-Saharan Africa	43	2.2	11	-5.4	32	4.8
Low-income	32	4.0	5	-6.4	27	5.9
Lower-middle-income	49	1.6	15	-4.3	34	4.2
Upper-middle-income	51	2.0	13	-3.5	38	3.8
Developing countries	132	2.3	<b>33</b>	<b>-4.3</b>	<b>99</b>	<b>4.5</b>
High-income countries	49	2.7	<b>11</b>	<b>-1.8</b>	<b>38</b>	<b>4.1</b>
All countries	181	2.4	<b>44</b>	<b>-3.7</b>	<b>137</b>	<b>4.4</b>



# How are Countries Adjusting? Austerity Measures in 174 Countries, 2010-13



Source: Ortiz and Cummins. 2013. *The Age of Austerity*. IPD and the South Centre – based on 314 IMF country reports 2010-2013

# Main Adjustment Measures by Region, 2010-13 (number of countries)

Developing Region / Aggregates	Limiting subsidies	Wage bill cuts/caps	Increasing consumption taxes	Pension reform	Rationalizing targeting safety nets	Health reform	Labor Reform
East Asia and the Pacific	12	13	8	4	9	0	2
Eastern Europe and Central Asia	9	15	13	16	15	9	6
Latin America and Caribbean	11	14	13	12	11	0	1
Middle East and North Africa	9	7	7	5	5	3	1
South Asia	6	4	4	1	4	0	2
Sub-Saharan Africa	31	22	18	9	11	0	3
Developing countries	78	75	63	47	55	12	15
High-income countries	22	23	31	39	25	25	17
All countries	100	98	94	86	80	37	32

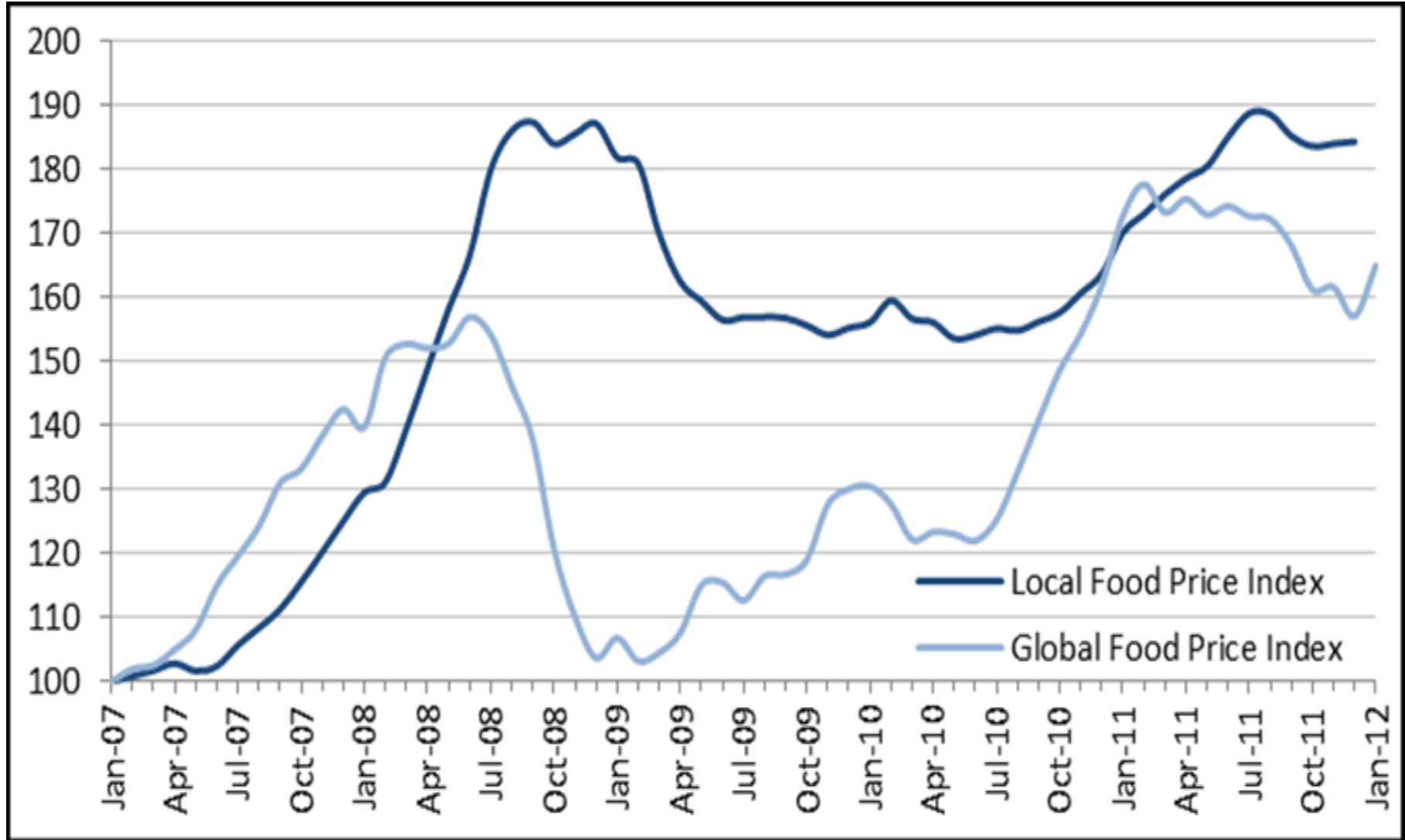
Source: Ortiz and Cummins. 2013. *The Age of Austerity*. IPD and the South Centre – based on 314 IMF country reports 2010-2013

# Reducing or Eliminating Subsidies

- 100 countries (78 developing and 22 high-income)
- Predominately on fuel, but also on electricity, food and agricultural inputs like seeds, fertilizer and pesticides that can sustain local production
- However, food and energy prices hover near record highs; if basic subsidies are withdrawn, food and transport costs increase and can become unaffordable for many households. Higher energy prices also tend to contract economic activities.
- Hunger and malnutrition => irreversible impacts on children
- In recent years, food protests have erupted in Algeria, Bangladesh, Burkina Faso, Egypt, India, Iraq, Jordan, Morocco, Mozambique, Nigeria, Senegal, Syria, Tunisia, Uganda and Yemen, to name but a few.

# Removing Food Subsidies despite High Food Prices

Local and Global Food Price Indices, Jan. 2007 to Jan. 2012



Source: Ortiz and Cummins, *A Recovery for All*, UNICEF, 2012

# Wage Bill Cuts or Caps

- 98 countries (74 developing and 23 high-income)
- As recurrent expenditures, like salaries, tend to be the largest component of national budgets, reducing the wage bill is a very common adjustment measure
- This policy stance may translate into salaries being reduced or eroded in real value, payments in arrears, hiring freezes and/or employment retrenchment, all of which can adversely impact the delivery of public services.
- Only a very limited number of low-income countries are expanding the number of health and education workers (e.g. Central African Rep, Gambia, Lao PDR, Mozambique, Niger). Elsewhere, policy discussions focus on “necessary” adjustments to the wage bill to achieve cost-savings

# Increasing Consumption Taxes

- 94 countries (63 developing and 31 high-income) considering options to boost revenue by raising VAT or sales tax rates or removing exemptions.
- However, increasing the cost of basic goods and services can erode the already limited incomes of marginalized groups and stifle economic activity. Since this policy does not differentiate between consumers, it can be regressive, shifting the tax burden to families in the bottom income quintiles of society and exacerbating inequalities.
- Alternatively, progressive tax approaches should be considered, such as taxes on income, inheritance, property and corporations, including the financial sector.

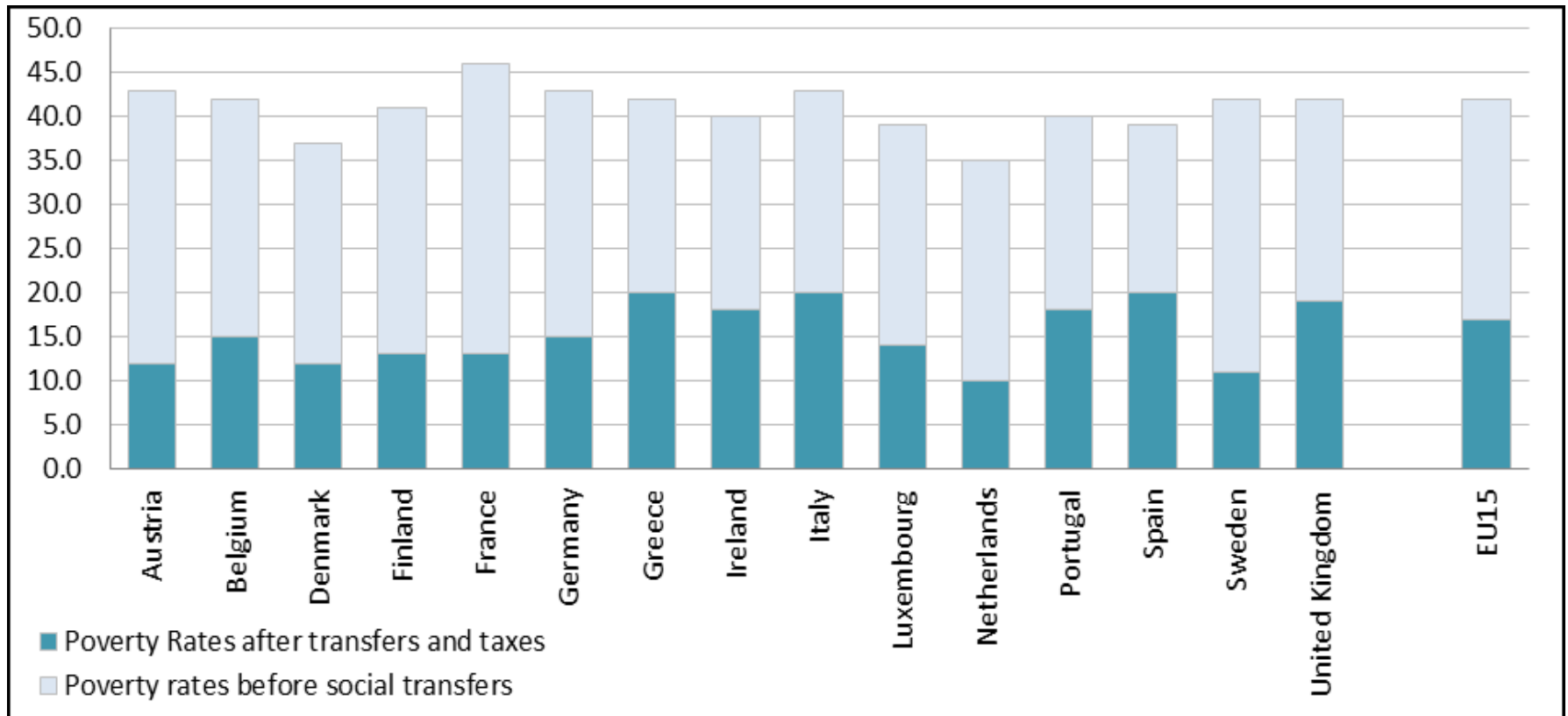
# Pension and Health Reforms

- Pension reforms considered in 86 countries (47 developing and 39 high-income) such as through raising contribution rates, increasing eligibility periods, prolonging the retirement age and/or lowering benefits.
- Exceptions: a small number of countries are reversing earlier pension reforms (Argentina, Bolivia, Chile, Hungary and Poland) which had privatized their pension systems in the 1990s.
- Health reforms in 37 countries (12 developing, 25 high income), generally increasing fees and co-payments paid by patients along with cost-saving measures in public health centers.
- The main risk of these two adjustment measures is straightforward: vulnerable groups are excluded from receiving benefits or assistance is diminished at a time when their needs are greatest.

# Increasing Poverty in High-Income Europe

In 2011, poverty had increased by 5.0% in Austria, 4.7% in Belgium, 8.5% in France, 8.6% in Greece, 6.5% in Italy, 11.7% in Spain and 5.2% in Sweden.

**Poverty Rates in EU15 Before and After Social Transfers and Taxes, 2009**





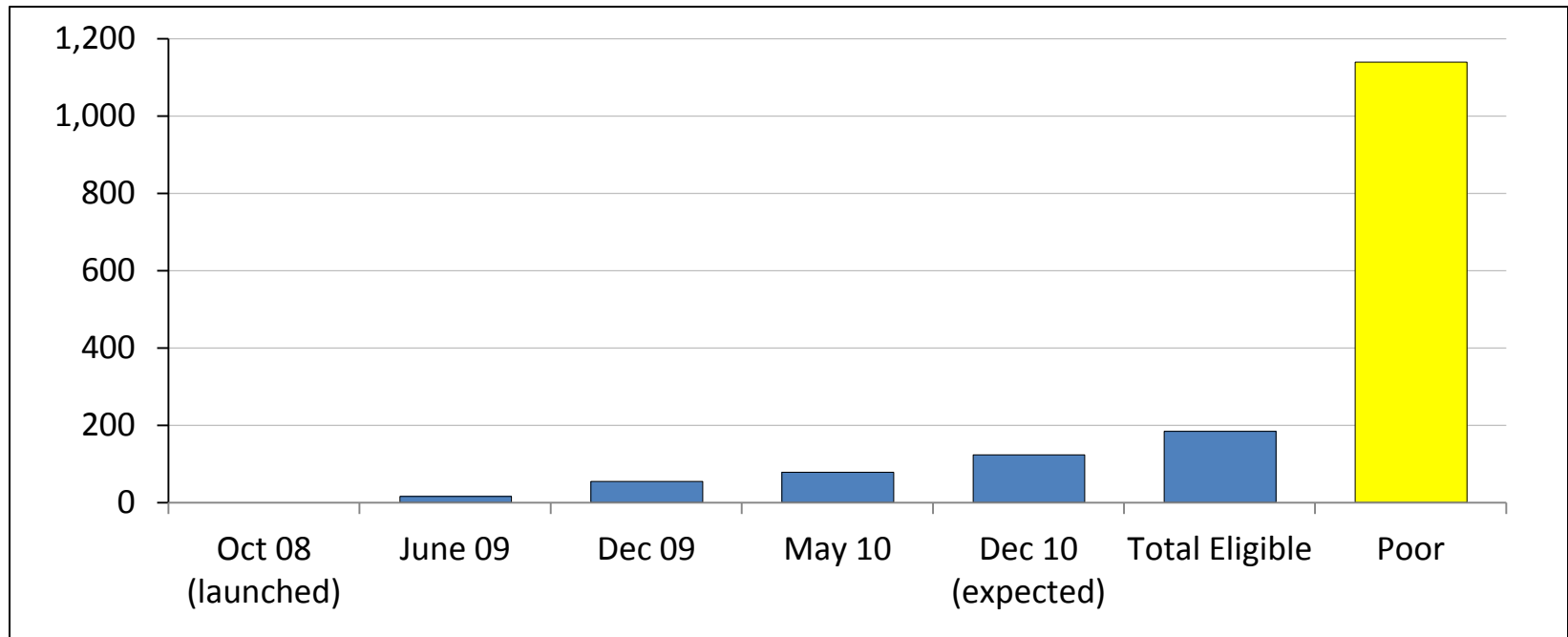
# Rationalizing and Further Targeting of Safety Nets

- 80 countries (55 developing and 25 high-income)
- IMF reports generally associate targeting social programs to poverty reduction, including in countries with large population below poverty line – where the logic of targeting to the poorest of the poor is weak.
- Overall, policymakers should consider that, in times of crisis, it is important to scale up social investments instead of scaling down.
- A strong case can be made to extend a **social protection floor** for children, elderly, persons with disabilities

	<b>% total population poor</b>	<b>% rural population poor</b>
<b>Gambia</b>	48.4	73.9
<b>Haiti</b>	77	—
<b>Mali</b>	43.6	50.6
<b>Mauritania</b>	42	59.4
<b>Nicaragua</b>	42.5	63.3
<b>Senegal</b>	46.7	57.1
<b>Sudan</b>	50.6	56.7
<b>Timor Leste</b>	49.9	—
<b>Togo</b>	58.7	73.7
<b>Zambia</b>	60.5	77.9

# Targeting Social Assistance: The Case of Moldova

Beneficiaries under New Social Assistance System in Moldova (in thousands of persons)



- Means testing is costly, absorbs an average of 15% of total program costs;
- It is administratively complex and requires significant civil service capacity, which is often lacking in lower income countries;
- It can lead to large under-coverage; the scope of the target often focus on the extreme poor, leaving many vulnerable persons excluded by design from receiving benefits when their need for public assistance is high

# Labor Flexibilization Reforms

- 32 countries (15 developing and 17 high income)
- Reforms generally include revisions on minimum wages, limiting salary adjustments to cost of living benchmarks, decentralizing collective bargaining, and easing firing and compensation arrangements at the enterprise level.
- Labor market reforms are supposedly aimed at supporting business in the context of recession, compensating for the underperformance of the financial sector.
- However, available evidence suggests that labor market flexibilization will not generate decent jobs; on the contrary, in a context of economic contraction, it is likely to generate labor market “precarization,” depress domestic incomes and ultimately hinder recovery efforts.

# A Crisis of Social Support

- Vulnerable households are most impacted by austerity measures, and are bearing the costs of a “recovery” that has largely excluded them.
  - They were left behind prior to the crisis
  - They were severely affected during the crisis
  - They are now suffering from adjustment measures and from lack of employment due to reduced economic growth.
- The deployment of vast public resources to rescue the financial sector forced taxpayers to absorb the losses, caused sovereign debt to increase, and, ultimately, hindered global economic growth. Now the cost of adjustment has been passed on to populations, many who have been coping with fewer jobs, lower income and reduced access to public goods and services for more than five years.

# Economic Decisions Have Important Distributional Impacts That Must Be Considered By Decision-makers

- Economic policies often designed behind doors, without adequate consideration of their distributional impacts
- Ministers of Finance/Planning must look at social consequences of decisions on employment, welfare, etc.
- A set of alternative policy options for an equitable socio-economic recovery should be publicly discussed in national dialogues and coordinated internationally

# Risks to Socio-Economic Recovery – The Need for a Policy Shift

- United Nations: Austerity is likely to bring the global economy into further recession. Called on governments for concerted policy action to support development goals
- Policy shift started in a few Asian and Latin American countries 2012-13 . Concern on low growth and demand for their exports:
  - Building internal markets (minimum wage policies, social protection, subsidies, social services, etc)
  - New round of fiscal stimulus to be invested in infrastructure, tax incentives -- the amounts are small for sustained recovery (\$0.38 trillion in 2012, compare to \$2.4 trillion fiscal stimulus in 2008) but a sign of policy change



# Thank You

## Download:

*“The Age of Austerity – A Review of Public Expenditures and Adjustment Measures in 181 Countries.”* 2013. New York and Geneva: IPD and South Centre

[http://policydialogue.org/files/publications/Age\\_of\\_Austerity\\_Ortiz\\_and\\_Cummins.pdf](http://policydialogue.org/files/publications/Age_of_Austerity_Ortiz_and_Cummins.pdf)

*“A Recovery for All”.* 2012. New York: UNICEF Policy and Practice. <http://arecoveryforall.blogspot.com/>