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Austerity Versus Stimulus: An Introduction to the Special Issue

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The Great Recession or Global Financial Crisis of 2007-2008 began with the collapse of several major financial institutions in both Europe and the United States. This crisis had a major impact on the well-being of citizens around the world, including the U.S. and Europe, where unemployment soared, many thriving but marginal small businesses were shuttered, and homelessness skyrocketed as highly indebted families were unable to meet their mortgage obligations. Small investors lost heavily, and as savings and pension funds dramatically declined in value, the incomes of many older people fell. Throughout Europe and the U.S., new housing developments were frozen, public spending was severely cut with negative implications for health care and education, and credit became virtually unavailable after having been plentiful in the 1990s and early 2000s.

In the U.S., approximately $700 billion was authorized by the Bush administration to prevent a collapse of more financial institutions after Lehman Brothers was allowed to default in 2008. The then newly elected Obama administration allocated around $800 billion to its stimulus program, and in addition, two large automotive manufacturing firms (General Motors and Chrysler) were saved. Ford was given a line of credit which it did not use (Nanto, 2009).

At least on the surface, it appeared that by 2010 the most dramatic elements of the financial crisis has eased somewhat in the U.S. For instance, the unemployment rate dropped from

9.2% in 2009 to 7.3% in late-2013. The Dow Jones Industrial Average went from 6,626 in March 2009 to more than 16,000 in November 2013, a high that broke the record of 13,806 set in October 2007. Beneath the surface, however, the impact of the recession continues to lead to even greater income inequality: the September 2013 U.S. unemployment rate of 7.2% was 2.2 points higher than the same month in 2005; inflation-adjusted 2012 median household income (the latest figure available) fell to $51,017 (the lowest inflation-adjusted annual income since 1995) or 8.3% below 2007. While median income fell, income inequality worsened. The U.S. Census Bureau's measure of inequality, the Gini index, remained at almost 0.48 (a 1.00 is 'perfect' inequality) in 2012, which was unchanged from the record high set in 2011. Inequality represents an upward trend from 1967, when the Gini coefficient was 0.40 (Ruffing, 2013). Moreover, the 0.46 U.S. Gini coefficient in 2003 was significantly higher than in other comparable industrial countries, including the United Kingdom (0.34); Germany (0.28); France (0.27); Canada (0.32); and Italy (0.33) (United Nations University, 2013). The harsh economic conditions experienced by many Americans—i.e., high unemployment, high levels of poverty, and declining living standards—also characterize the lives of hundreds of millions of people across the globe.

The initial response of the Eurozone to the 2007-2008 recession involved the bailout of major banks and the extension of credit to several sovereign governments. The cost of these bailouts amounted to hundreds of billions of Euros. To maintain the integrity of the Euro currency, numerous banks, as well as governments of member states that were facing escalating bond rates, were rescued. Of these, the governments of Greece and Cyprus attracted international attention because of the severity of the conditions attached to the loans (He, Jacobs, Kuper, & Ligthart, 2013).

In other parts of the world, such as China, the government launched a major stimulus initiative worth $586 billion to soften the impact of declining export sales to Western countries. The stimulus package was directed to areas such as housing, transportation, health, education, infrastructure, industrial subsidies, and tax cuts. The largest portion of the stimulus was directed at public infrastructure, reconstruction work in disaster areas, housing, social programs, and technology advancement. Similarly, the government of Brazil intervened to promote economic growth, and has invested heavily in social protection, and particularly in its famed *Bolsa Familia* program. The *Bolsa Familia* is a conditional cash transfer program that provides financial aid to poor Brazilian families. Similar to U.S. welfare reform, eligible families must ensure their children attend school (free education is provided if parents cannot afford it) and are vaccinated. More recently, the newly elected government of Japan under Prime Minister Abe's leadership has adopted a massive stimulus program designed to reflate the economy.

As the fiscal situation appeared to be stabilizing, if not easing, criticisms of government responses to the crisis accelerated. In the U.S., controversy increased when the Obama administration and the Congress enacted the Affordable Care Act (Obamacare), which many conservatives believe will further increase the national debt. By the 2012 election, the debate had become highly polarized. The Tea Party movement and its allies in Congress campaigned vigorously against the President's policies, which they claimed were plunging the nation into long-term economic stagnation. On the other hand, many of the President's supporters as well as progressive columnists and economists, such as Paul Krugman, complained that the government had not done enough to reverse the effects of the Great Recession. The populist Occupy movement, which camped in public areas such as Zuccotti Park near Wall Street, helped drive the debate by juxtaposing the enormous benefits that accrue to the wealthiest one percent compared to the stagnating and falling incomes of the vast majority of the population. Writing in the *Wall Street Journal*, entrepreneur Tom Perkins (2014) compared the discrimination against America's 1% to the plight of Jews in Nazi Germany, including Kristallnacht.

These different perspectives, which reflect the wider austerity versus stimulus debate, were present during the U.S. presidential election of 2012, and appeared to have had some impact on its outcome. For instance, Obama's decision to rescue the automobile industry increased his support in swing industrial states, while Romney's contention that allowing inefficient firms to go bankrupt was compatible with the American market system, rang hollow in the light of his earlier support of the Wall Street financial bailouts. At the same time, many Americans remain skeptical of the idea that the government should increase the national debt in an attempt to stimulate economic growth. The idea that everyone should sacrifice to balance the budget has implications not only for the country's continuous political struggles, but also for the very core of social policy and social well-being.

This argument has been used with some success by the Conservative Coalition government in Britain, which has used the recession and the resulting deficit as a cover for retrenching social programs. Some venerable programs, including the universal child benefit program introduced on the recommendation of the famed Beveridge Report, became means-tested, and other social assistance programs were capped. The previous Labour government's innovative matched savings Child Trust Fund was simply abolished (Allen, 2010). The rhetoric (and resonance) of shared sacrifice in the face of the recession appeared to have muted public protest. Carefully crafted by U.S.-based think tanks, the ideological message was simplified into a folksy household maxim: "Like families, a government should not overspend and must live within its means." Lost within this homespun wisdom was an important point: Government spending is not like family spending, and the economy is far more complex than an individual family budget.

In contrast to the UK, Mediterranean countries, such as Greece and Spain, had little patience for self-sacrifice. The idea of sacrifice has little resonance among the millions of people who lost their livelihoods and cope as best they can with the daily challenge of social deprivation. Here the social services can barely cope with the devastating social consequences of the crisis. By mid-2013 the Greek unemployment rate reached an unprecedented 27.6% (under 25 youth unemployment was 55%), the overall poverty rate was 20%, and health conditions were threatened as hospitals and clinics ran out of supplies. Educated and skilled Greek workers are migrating in search of employment, thereby diminishing the human capital needed to rebuild the economy (Gow, 2012).

This special issue of the *Journal of Sociology and Social Welfare* examines the austerity versus stimulus debate and its effects in an international context. Framed by the events of the recent Great Recession, the special issue not only seeks to examine governmental responses that reflect the austerity versus stimulus debate, but more broadly examines the way wider ideological currents and changing social and economic realities have affected social policies around the world. The long-term trend away from Keynesian interventionism and "welfare statism" towards greater individual and familial responsibility, the use of markets and the commercialization of welfare, all contributed to a fragmented and less effective system of provision that failed to respond to the crisis as Keynesians had originally intended. Nor did the adoption of market-based social policies in the last few decades ensure social well-being as neoliberals had predicted. The experiences of the countries represented in this special issue offer interesting and cautionary lessons for social policy in the future.

The special issue begins with an introductory article by James Midgley, which examines the theoretical basis for the austerity versus stimulus debate and discusses the policy options derived from analyses of the causes of economic cycles. Drawing on the history of economic thought, Midgley shows that the current debate is rooted in accounts of the workings of market economies that go back to the 18th century and which offer very different normative interpretations of the role of the state in economic affairs. These analyses continue to shape policy approaches today, and although generally classed either as neoliberal or Keynesian, the situation is much more complicated than this simple dichotomy suggests. Offering a nuanced account of the austerity versus stimulus debate and its implications for both economic and social policy, the paper discusses the way social welfare policies and programs in different countries have failed to respond adequately to the serious social consequences of the recent crisis. The article concludes by arguing that ideology and power play a crucial role in determining how nations address pressing social needs in recessionary times.

This is followed by Howard Karger's article "Does Europe's Debt Crisis Spell the End of the Keynesian Welfare State?" which examines the belief held by many European bankers, investors and economists that the global financial crisis and the debt problem was caused by the spending and borrowing required to maintain overly generous welfare programs, a bloated public sector, high pension levels and too many generous subsidies. Based on the idea of 'expansionary austerity,' their solution lies in Draconian austerity measures designed to discipline economies through severely cutting government budgets and social programs. This article then examines the austerity programs adopted by several indebted European nations, the rejection of Keynesian economics, the introduction of (International Monetary Fund [IMF]-like) Structural Adjustment Programs into the European context, and the social and political dangers that can result from implementing austerity measures that lead to the erosion of benefits, entitlements and social rights.

Fiona Dukelow and Mairéad Considine analyze the impact of austerity on the Irish social protection system. The analysis examines Ireland's wider financial and economic crisis and its status as an "early adopter" of an austerity response which has continued under European Union/IMF intervention. The authors focus on how the crisis instigated a discussion around the cost and design of the social protection system, which led to a strategy of retrenchment and reform. Three core elements in this narrative—generosity, sustainability and suitability are identified.

Ijin Hong discusses recent developments in the Italian welfare state. In particular, Hong examines how the unaddressed regional and intergenerational inequalities left the Italian welfare unprepared for the 2008 economic crisis. Neoliberal austerity measures adopted to address the risk of economic default contributed to the further worsening of living conditions for the Italians. The article attempts to understand Italy's neoliberal shift by describing main social policy reforms, visiting previous academic research on welfare outcomes, and by finding a new interpretive frame for understanding the shift.

David Miller and M. C. (Terry) Hokenstad's article on "Deficit-Driven Austerity Policies" examines the impact of quasi-austerity policies on local government and the provision of social welfare and other services in the U.S. The authors discuss austerity policies and the welfare state in relationship to reduced revenue sharing with local communities, where the effects are the most noticeable and detrimental.

Lengwe-Katembula Mwansa and Gloria Jacques examine the successful initiatives made by Botswana in terms of good governance, and meeting the social needs of the population in the context of the Millennium Development Goals. Most dramatically, Botswana was able to lower its poverty rate from 47% in 1990 to 20.7% in 2010. The authors also examine the future challenges facing Botswana's economy and the provision of social need to its citizens.

Lenore Matthew's contribution, "The Global Financial Crisis and Stimulus in Brazil," examines how the onset of the 2008 Global Financial Crisis (GFC) slowed Brazil's economic growth and threatened the goal of decreasing poverty and inequality. To counter the effects of the crisis, the Brazilian government implemented a growth-with-equity stimulus plan that targeted poor families with the goal of building human capital. The article examines the impact of the stimulus package and suggests that it had positive effects on the economy, but mixed results when it came to the well-being of the poor. Matthew contends that real improvements in the life of the poor may be less positive than is reflected in governmental reports.

Lastly, Greg Marston's paper examines Queensland, Australia, where the government has instituted severe austerity measures using fear tactics and rhetoric that seems to come straight out of the American Tea Party. Specifically, the fear was that unless public debt was slashed and the public service sector downsized, Queensland would become the Spain of Australia. This comparison was built on a false sense of crisis that helped to mask neoliberal economic reform. In addition, the newly-elected Queensland government also passed laws limiting civil liberties and political freedoms. This paper discusses the resistance to authoritarianism and austerity and the impact this had on the population and social services.

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Austerity Versus Stimulus: Theoretical Perspectives and Policy Implications

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Attempts to respond to the negative social and economic effects of the Great Recession have been cast in terms of the austerity versus stimulus debate. Although oversimplified, this debate reflects wider theoretical analyses of market economies and normative prescriptions for enhancing their functioning. Referencing the historical evolution of economic thought, these theories and their policy implications for responding to recessions are summarized and their relevance for social welfare is examined in the light of recent events.

Key words: *austerity, stimulus, social welfare, Great Recession, economic thought*

The austerity versus stimulus debate has become prominent since the onset of the Great Recession in the autumn of 2007. Advocates of austerity policies urge governments to retrench public spending, ease taxes and regulations and adopt other measures that will restore business confidence prompting entrepreneurship, investment and economic revitalization. On the other hand, advocates of stimulus policies urge governments to increase public spending through borrowing in order to create employment, maintain incomes and stimulate consumption so that demand for goods and services will increase and foster growth and prosperity.

However, it is simplistic to reduce the debate to these polar opposites, since few governments have, in fact, taken a clear position on either austerity or stimulus, and some have adopted measures that give expression to both positions. In addition, many have responded haphazardly to the recent recession, and often their responses have been shaped by electoral pressures. Economists themselves are divided on which