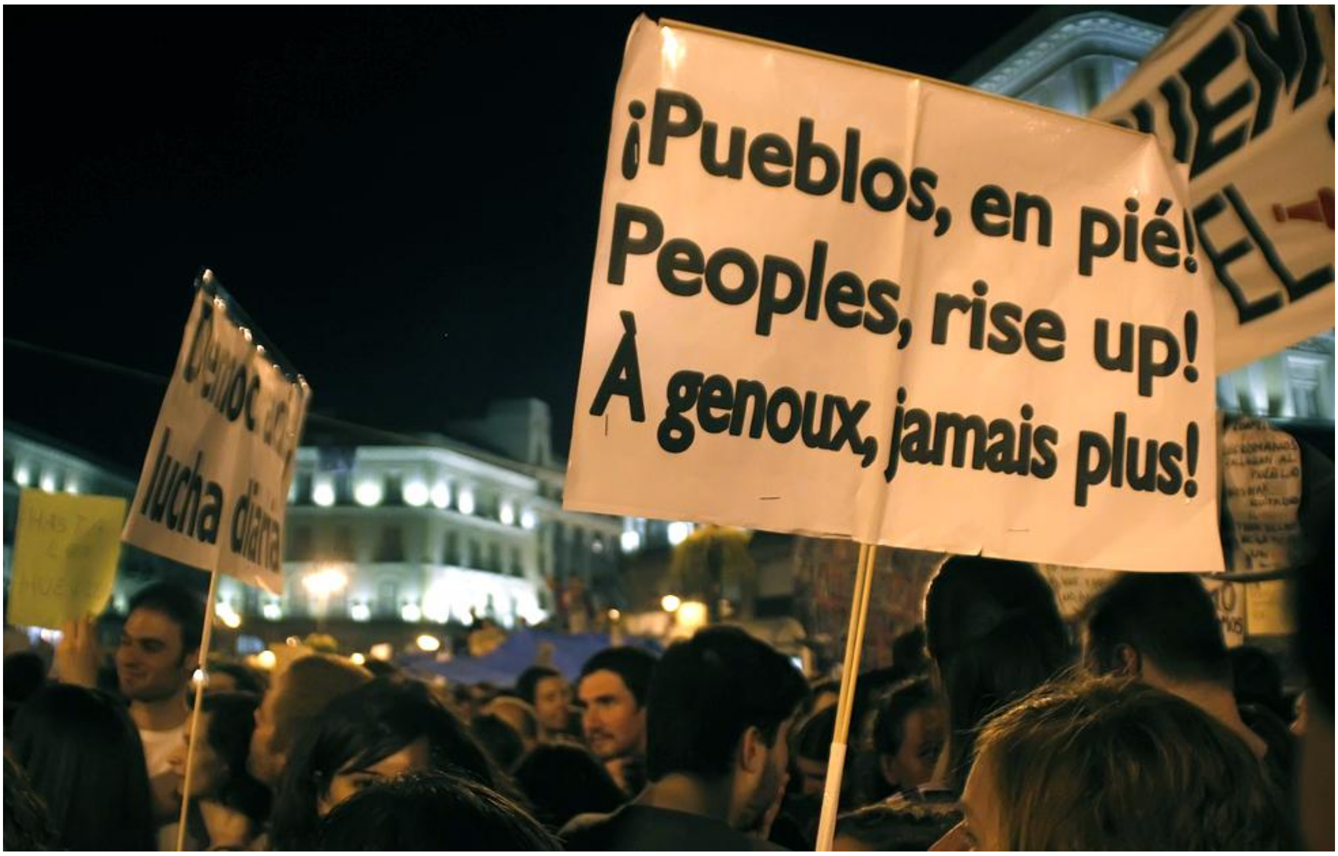

A 15M Movement protest against austerity measures in Madrid, May 2011. © Miguel Parra

A CAUTIONARY TALE

The true cost of austerity and inequality in Europe

European austerity programmes have dismantled the mechanisms that reduce inequality and enable equitable growth. With inequality and poverty on the rise, Europe is facing a lost decade. An additional 15 to 25 million people across Europe could face the prospect of living in poverty by 2025 if austerity measures continue. Oxfam knows this because it has seen it before. The austerity programmes bear a striking resemblance to the ruinous structural adjustment policies imposed on Latin America, South-East Asia, and sub-Saharan African in the 1980s and 1990s. These policies were a failure: a medicine that sought to cure the disease by killing the patient. They cannot be allowed to happen again. Oxfam calls on the governments of Europe to turn away from austerity measures and instead choose a path of inclusive growth that delivers better outcomes for people, communities, and the environment.

OXFAM

The wave of economic austerity that has swept Europe in the wake of the Great Recession is at risk of doing serious and permanent damage to the continent's long-cherished social model. As economists, including my-self, have long predicted, austerity has only crippled Europe's growth, with improvements in fiscal positions that are always disappointing. Worse, it is contributing to inequality that will make economic weakness longer-lived, and needlessly contributes to the suffering of the jobless and the poor for many years. Oxfam's report, *A Cautionary Tale: The true cost of austerity and inequality in Europe*, makes an important contribution to assessing the high and long-lasting costs of these ill-conceived policies.

Professor Joseph Stiglitz,

Nobel Laureate in Economics and former Chief Economist at the World Bank

SUMMARY

Europe has often seen itself as a place where the social contract balances growth with development. A place where public services aim to ensure everyone has access to a high-quality education and no one need live in fear of falling ill. A place where the rights of workers, and particularly of women, are respected and supported, and where societies care for the weakest and the poorest; where the market has been harnessed to benefit society, rather than the other way round.

With inequality and poverty on the rise, Europe is facing a lost decade.

However, this idyllic social model has been under threat for some time; income inequality was increasing in many countries even before the financial crisis began. Now, the European model is under attack from ill-conceived austerity policies sold to the public as the cost of a stable, growing economy, for which all are being asked to pay. Left unchecked, these measures will undermine Europe's social gains, creating divided countries and a divided continent, and entrenching poverty for a generation.

The unprecedented bailout of Europe's financial institutions may have saved its banking system, but it also significantly increased public debts. They assumed that austerity policies – singularly focused on balancing budgets and reducing deficits – would restore market confidence and ultimately lead to job creation and renewed economies. In most countries, this has not happened. After almost three years, austerity is failing on its own terms and continues to exact high social costs. The experiences of the UK, Spain, Portugal, and Greece shows that the harsher the austerity, the higher the increase in debt ratio.[1] A blind focus on reducing debt above all else has ignored the fact that growth can still occur during relatively high levels of debt and that any new growth in the economy must be inclusive and for the benefit of all.

Oxfam has seen the impact of austerity measures before.

Austerity programmes implemented across Europe – based on short-sighted, regressive taxes and deep spending cuts, particularly to public services, such as education, health and social security – have dismantled the mechanisms that reduce inequality and enable equitable growth. The poorest have been hit hardest, as the burden of responsibility for the excesses of past decades is passed to those most vulnerable and least to blame. Now, leading proponents of austerity, such as the International Monetary Fund (IMF), are beginning to recognize that harsh austerity measures have not led to the expected results, and have harmed both growth and equality.[2]

European nations are suffering record levels of long-term and youth unemployment, with a generation of young people facing years of joblessness to come. As the real value of average incomes continues to plummet, falling fastest in countries that have implemented aggressive spending cuts, even those in work can look to a future where they are significantly poorer than their parents. Almost one in 10 working households in Europe now lives in poverty.

In 2011, 120 million people across the EU faced the prospect of living in poverty. Oxfam calculates this could rise by at least 15 million, and by as much as 25 million, as a result of continued austerity measures. Women will be the hardest hit. All the while, the richest have seen their share of total income grow, as the poorest are seeing theirs fall. If current trends continue some countries in Europe will soon have levels of inequality that rank among the highest in the world.

Throughout Oxfam's history it has campaigned not just to highlight poverty and suffering, but, just as importantly, to highlight the policies and politics that are creating this poverty. Oxfam can no longer stand by while such poverty and suffering are being created in Europe, and, through falling European aid budgets and lower consumer spending, all over the world.

The European experience bears striking similarities to the structural adjustment policies imposed on Latin America, South-East Asia, and sub-Saharan African in the 1980s and 1990s. Countries in these regions received financial bailouts from the IMF and the World Bank after agreeing to adopt a range of policies including public-spending cuts, the nationalization of private debt, reductions in wages, and a debt management model in which repayments to creditors of commercial banks took precedence over measures to ensure social and economic recovery. These policies were a failure; a medicine that sought to cure the disease by killing the patient.

An additional 15 to 25 million people across Europe could face the prospect of living in poverty by 2025 if austerity measures continue.

As part of global civil society, Oxfam fought hard against these policies, which forced the pain of economic slowdown on to those least able to bear it. Structural adjustment policies led to stagnating incomes and rising poverty in many countries, scarring generations across the world. Poverty in Indonesia took 10 years to return to pre-crisis levels. In Latin America, the incomes of ordinary people were the same in the mid-1990s as they had been in 1980. Vital services, such as education and health, were cut back or privatized, excluding the poorest and particularly harming women. Meanwhile, the share of income of the richest in society increased rapidly.

It could take between 10 to 25 years for poverty to return to pre-2008 levels in Europe.

In spite of this cautionary tale, austerity is being aggressively pursued in Europe, with scant regard for the lessons of the past. These lessons suggest a bleak future for Europe's poorest people, and warn of the harmful impacts for society as a whole.

SUMMARY RECOMMENDATIONS

It does not have to be this way. There are clear alternatives to the current policy of austerity. For a start, the problem of the European public debt must be tackled through a transparent arbitration process, which might include debt restructuring or cancellation. Further, the underlying flaws in the financial system, which the economic crisis brought to light, must be also addressed.

Oxfam calls on European governments to do more than merely adjust existing austerity measures.

European governments must:

1. **Invest in people and economic growth:**
   - prioritize an economic stimulus programme, promoting investments and capital spending;
   - target employment creation;
   - Protect EU and member states' overseas development aid budgets.

2. **Invest in public services:**
   - guarantee public, universal, high-quality education for all;
   - protect public, universal, high-quality health care and develop social protection systems that enable the most vulnerable to live with dignity and lift themselves out of poverty.

3. **Strengthen institutional democracy:**
   - promote greater participation in democratic processes by all stakeholders;
   - ensure greater transparency and accountability of political processes;
   - improve workplace democracy, including better employee representation and opportunities for greater shared ownership.

4. **Build fair tax systems:**
   - implement progressive taxation reforms, including a tax on wealth stocks and a Financial Transaction Tax;
   - tackle tax avoidance and evasion, including transparency and exchange of financial information, new international tax rules listing tax havens.

Europe can ill-afford to continue along the path of austerity and must act now to implement these recommendations. Maintaining the current course will lead to a decade of rising inequality, and risk further financial crises and social unrest. Given the stakes, the economic, ethical, and financial argument for change could not be stronger. Without it, we face the prospect of a lost European decade. We need a new economic and social model that invests in people, strengthens democratic institutions, and delivers a fair, progressive fiscal system fit for the twenty-first century. Oxfam is proud to stand with civil society in envisaging a new model of prosperity built on social justice and environmental sustainability.

NOTES

All web links were last accessed in July 2013, unless otherwise stated.

[1] W. Easterly, T. Irwin and L. Serven (2008) 'Walking up the down escalator: Public investment and fiscal stability', World Bank Research Observer, vol. 23, issue 1, p. 37, https://openknowledge.worldbank.org/bitstream/handle/10986/4414/wbro_23_1_37.pdf?sequence=1

[2] L. Ball et al (2013) 'The Distributional Effects of Fiscal Consolidation', IMF working paper, http://www.imf.org/external/pubs/cat/longres.aspx?sk=40699. This paper concluded that fiscal consolidation in 17 OECD countries between 1978 and 2009 had significant distributional effects by raising inequality, decreasing wage income share and increasing long-term unemployment.

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For further information on the issues raised in this paper please e-mail advocacy@oxfaminternational.org

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