Calls for more cuts in state budgets in Europe have not fallen silent. Many politicians hold on to these politics despite the increasingly visible detrimental social and economic effects. The dangerous idea which has inspired these reforms is not often enough named and critically analysed: austerity.

**What is Austerity?**
The reduction of state deficits is the alleged main goal of the politics of austerity. Supporters of austerity believe that state debt is the biggest economic problem of our time and thus must be reduced by cutting state spending. Underlying is an ideology of reducing the state as an actor in markets and the expansion of the power of the private market through privatization and deregulation.

One of the key assumptions of the politics of austerity is that state misbehaviour causes economic crises. Cutting state spending, deregulations and privatizations are supposed to win back the trust of the markets and support investments. The promise is that this will lead to economic growth.

Here lies a key weakness: State debt is a result not cause of the crisis. In fact, unequal income and wealth distribution, deregulated financial markets and imbalances in the economies of the Eurozone were the real triggers of the crisis. They caused an indebtedness of the mass and the establishment of bubbles on financial markets. Once this fragile system broke down, the financial and economic crisis began to unfold. The politics of austerity are thus merely tackling the symptoms, not the causes which even become exacerbated.

**The Reality of the politics of austerity**
The EU is also based on strong budget- and deficit rules, written down in the Maastricht Treaty, the fiscal pact and the six pack. The so-called Troika, consisting of the EU, IMF and European Central Bank, enforced austerity as the main crisis response in Europe.

**Reality of Austerity**
- Rising unemployment
- Austerity
- Decline in consumption and demand
- Failing to meet saving targets
- Recession
- Increase in household deficit

**Theory of Austerity**
- Assumption: Austerity is the way out of the crisis
- Decline of household deficit
- Falling unemployment
- Private investment
- “Business confidence”
- Recovery
The implementation of austerity measures often leads to a drastic decrease in the social and economic situation. Rising unemployment rates and decreasing household budgets as an effect from lower wages, cut welfare payments and social services, result in a recession. That weakens employment and consumption, causing lower tax income for the state and a further increase in state debt. Followingly, states repeatedly fail saving goals and need to request further bailout packages. For if states, citizens and companies all save at the same time, the economy stagnates. The economists Jourda and Taylor found that cutting state spending which corresponds to 1% of GDP leads to a loss in economic growth of 4% of GDP over five years. It becomes clear: The politics of austerity prolong the crisis instead of ending it.

The use of austerity for tackling the crisis in Europe led to massive cuts in welfare states: Education budgets, social benefits or contributions for health services were decreased. The consequences are disastrous: While in 2008 one in five Europeans was at risk of poverty and social exclusion, this rose to one in four in 2013. Young people, migrants and lone parents are hit the hardest by this increase. Growing poverty on the one side and rapidly accumulating wealth and incomes on the other also widened economic inequality.

Austerity measures often include increases in mass taxes, privatizations of public companies and labour shedding. This agenda resulted in a stagnating economy and contributed to the increase in unemployment in the Eurozone from 7.6% in 2008 to 12.0% in 2013. In Spain, Portugal and Ireland the rates doubled, in Greece they even tripled.

Political consequences

The far-reaching effects of austerity are visible in politics all over Europe. Racism and anti-EU feelings have gained more ground and reached a new extent with the Brexit. Hopelessness and anxiety about the future lay the foundations for right-wing propaganda, which has won more support in many countries such as Austria. The frustration of people can also be turned into hope, allowing progressive politics. Alternatives to austerity must be demonstrated to increase the support for a social Europe.

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Example 2: Health policy in Greece

In Greece public health expenditure 2009-2013 was reduced by 5.3 billion, a decrease of 32%. Austerity measures included the closing of health centers, cuts of hospital budgets by up to 50%, reductions of staff and increases in prescription charges. 2.5 million Greeks were suddenly without free access to the health system, which was guaranteed only up to one year after the job loss by a newly introduced law. Many people also could not afford health insurance, insurance coverage rates fell from 100% to only 86% of the Greek population. This health crisis showed disastrous consequences: Life expectancy fell from 81 to 78 years in the course of the crisis. Suicide rates increased from 2010 to 2011 by 40% and also HIV infections among drug addicts tripled.

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Example 3: Education policy in Spain

The education sector was severely affected by cuts in Spain. The budget was reduced by 20% (570 million) from 2011 to 2014. The allowances for students from poor and disadvantaged families have been cut from 169 to 5.2 million. Likewise, subsidies for textbooks have been removed and libraries closed. Moreover, class sizes were increased by 10%, while teaching staff has been reduced and hours increased of those teachers remaining. In the meanwhile, private schools were promoted and many teachers switched to those.

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Example 1: Tax policy in the United Kingdom

In the UK, the tax system was reformed under austerity. VAT was raised from 17.5 to 20% and taxes on alcohol, tobacco and fuel were increased as well. At the other end of the income distribution, the tax for the highest incomes of 50% was reduced to 45% in 2013. Corporate taxes were also gradually lowered from 30% in 2008 to 20% in 2016. This contributed to an increase in income and wealth inequality.

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There is No Alternative!

There is no lack in suggestions for a better economic and social policy. On the page www.solvingthecrisis.eu you can find a well-illustrated collection of possible reforms.

The University of Bath also created a Policy Brief on alternatives to austerity, which can be downloaded as a PDF on http://goo.gl/mZIRC2.

The German Friedrich-Ebert-Stiftung produced a longer paper which outlines growth strategies for each country (in German): http://goo.gl/aDbfc3.