THE COST OF AUSTERITY: LESSONS FOR SOUTH AFRICA

DRAFT

October 2019

by

Busi Sibeko

For the Institute for Economic Justice

Contributions by

Gilad Isaacs
ABOUT THE AUTHOR(S) AND ACKNOWLEDGMENTS

Busi Sibeko is a researcher at the Institute for Economic Justice where she works on the Budget Justice programme

Gilad Isaacs is the Co-Director of the Institute for Economic Justice and contributed to this paper.

CORRESPONDING AUTHOR:

Busi Sibeko – busi.sibeko@iej.org.za

KEYWORDS:

Austerity, budget, South Africa.

RECOMMENDED CITATION


ISBN

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For further information contact: info@iej.org.za
EXECUTIVE SUMMARY

Austerity as fiscal policy

The last decade has seen fierce contestation over the scope and nature of government expenditure. In the wake of the global financial crisis of 2007/8, governments across the world implemented harsh austerity programmes. This is, of course, not the first time that austerity policies have dominated fiscal policy making. For example, the Structural Adjustment Programmes (SAPs) imposed by the International Monetary Fund (IMF) and others across the developing world in the 1980s included severe austerity measures. However, austerity is currently being dislodged from its dominant policy position as governments across the world increasingly rejecting this approach, while others face mass unrest in response to austerity policies.

Austerity is defined as fiscal policy implemented by a state aimed at solving debt and growth problems during a period of economic stagnation which results in economic deterioration. In an effort to “balance the budget”, commonly implemented austerity policies by the state include: spending cuts, regressive tax increases, or a combination of both. Austerity has been used to legitimise a desire to shrink the (social welfare) role of the state, deregulate labour markets, emphasise private markets as the drivers of growth, and enable a reconfiguration in the interests of capital, particularly the financial sector. There is no credible evidence that debt is growth retarding above a particular level, as proponents of austerity have claimed.

There is, however, abundant international evidence that shows how austerity leads to rising unemployment, falling incomes and increased inequality. The most marginalised groups in society, including women, children, minorities, migrants and the poor, feel the biggest impacts. In the 1980s austerity – as a part of Structural Adjustment Programmes (SAPs) – led to a lost decade in Latin America and Africa, as per capita growth turned negative compared to robust growth in the two decades prior.

The social costs of austerity are enormous and clearly undermine rights realisation. For example, following the implementation of austerity in the wake of the Eurozone crisis in Greece, cases of HIV infection leapt by 52% when the government cut its budget for a needle-exchange programme targeting drug addicts and suicides spiked by up to 36%. In Ireland, Portugal and Spain, unemployment rose significantly, in the United Kingdom wage growth has been stagnant for the majority while social services were slashed.

Austerity has simply failed on its own terms. During economic recessions, there is shrinking private-sector expenditure. Cutting expenditure or increasing (particularly regressive) taxes (when tax revenue is already falling due to the economic climate), depresses tax revenue and/or spending in private and public sectors – which determine the growth and size of GDP. Because debt levels are measured as a ratio of debt to GDP, if measures to tackle debt lead to, or exacerbate, poor economic growth, then debt relative to the (shrinking) GDP will go up, not down. Austerity is self-defeating during recessionary times, as it multiplies the effect of shrinking private-sector expenditure.

Austerity in South Africa

In spite of this evidence, South Africa is deepening its implementation of austerity policies. Despite commitments to counter-cyclical policies in the 2014-2019 Medium Term Strategic
Framework (MTSF), between 2014/15 and 2018/19, South Africa’s average non-interest expenditure growth – spending on government goods, services and salaries upon which many South Africans are reliant – barely kept up with population growth. This spending grew at an average rate of 1.8% over five years, compared to population growth of 1.6%. Average non-interest expenditure growth in the last three years has been 0.9%, well below population growth for that period. What this means is that, despite the massive social challenges in areas such as health and education that face South Africa, spending per person on meeting these needs has fallen in recent years. The increase in the VAT rate from 14 to 15% as of April 2018 also represents a clearly retrogressive austerity measure, reducing the incomes of poor and low-income households.

Austerity has undermined the realisation of constitutionally-enshrined rights. For example, despite servicing 83% of the population, health spending per uninsured person has only increased by 1.7% on average (in real terms) from 2014/15 to 2018/19, in the context of a rising burden of disease and high medical price inflation. This accounts for a range of negative health outcomes. Similarly, in education, learner spending has been steadily decreasing for years – it fell by 8% in real terms from R17 822 in 2010 to R16 435 in 2017. This is despite 78% of Grade 4 learners being unable to read for meaning.

Although debt levels are used to justify austerity, South Africa’s debt is not high by international norms. According to the International Monetary Fund, emerging market and middle-income country debt levels are projected to reach, on average, 61.2% in 2024, while advanced country debt averaged 104.0% of GDP in 2019. South Africa’s debt-to-GDP ratio currently sits below this projected level and is expected to peak at 60.2% in 2023/24, although it is likely that new debt projections will be announced showing slightly higher levels. Eskom is over-burdened with debt and needs to be dealt with decisively. At the same time, long-term tax trends are regressive and there remains space to raise additional funds. Corruption poses a significant threat to the fiscus both because it results in the diverting of resources away from critical social needs and because it undermines tax revenue collection.

**Stimulus not austerity**

There is a need for innovative approaches to help South Africa avoid a fiscal trap which sees a downward spiral of mutually reinforcing economic stagnation, low revenues, and spending cutbacks. At the same time, South Africa needs to put people's needs, the promotion of equality and the realisation of rights, as key fiscal policy objectives. This is not a choice – it is a constitutional obligation.

In this context we propose six principles for a fiscal plan for South Africa:

1. It is stimulus not austerity that is needed to get the wheels of the South African economy turning.
2. Stimulus and growth must not be considered independently from equity and sustainability.
3. Debt must be addressed logically in a medium-term framework.
4. Progressive taxation must raise additional revenue.
5. Additional resources must be “crowded in” without an excessive reliance on the private sector.
6. Fiscal policy must promote long-term structural transformation.
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1 INTRODUCTION: AUSTERITY AS FISCAL POLICY

The last decade has seen fierce contestation over the scope and nature of government expenditure. In the wake of the global financial crisis of 2007/8, governments across the world implemented harsh austerity programmes (defined below). This is, of course, not the first time that austerity policies have dominated fiscal policy making. For example, the Structural Adjustment Programmes (SAPs) imposed, in the 1980s, by the International Monetary Fund (IMF) and others across the developing world, and in Africa in particular, included severe austerity measures. In South Africa, the current phase of austerity is a dangerous echo of the immediate post-Apartheid period which saw stringent limits on government spending in an attempt to curb perceived high levels of debt. Although austerity has been the dominant policy position of the last decade, governments across the world are increasingly rejecting this approach, while others are facing mass unrest in response to austerity policies. South Africa’s macroeconomic policy stance is racing rapidly in the opposite direction.

Amongst economists and economic policy makers, the debate on stimulus versus “fiscal consolidation” has prevailed for more than a century – it is a clash that has defined modern economics. The stimulus camp has advocated counter-cyclical policies: fiscal stimulus during the “bust” (recessionary times) and fiscal caution during the “boom” (periods of economic growth) – the classic Keynesian position. Supporters of fiscal consolidation, on the other hand, have argued that the government should, in certain circumstances, tighten its budget even during recessionary times.¹

Austerity is defined as fiscal policy implemented by a state aimed at solving debt and growth problems during a period of economic stagnation. In an effort to “balance the budget”, commonly implemented austerity policies by the state include: spending cuts, regressive tax increases, or a combination of both. This causes economic harm. The rationale for austerity is that savings (as a result of expenditure cuts) leads to investment, and high public sector borrowing “crowds out” such savings. Governments also implement austerity measures to demonstrate commitment to “fiscal discipline” in an effort to appease creditors and credit rating agencies. The implementation of austerity is indicated by, but not limited to:

- Regressive tax policies;
- Government spending which is not increasing in real terms (that is, after inflation);
- Reassignment of funds away from investments in the public sector;

¹ Austerity and fiscal consolidation are often used interchangeably. Wren-Lewis proposes that we consider austerity as fiscal consolidation that results in economic harm (more specifically for him involuntary unemployment or a noticeably more negative output gap). This distinction is useful as it allows for the fact that fiscal consolidation – the reduction of public spending – can be legitimate in certain circumstances. It also highlights how “austerity is generally completely unnecessary, because fiscal consolidation can be delayed until a time when monetary policy is capable of offsetting it”. Wren-Lewis, Simon (2015). Defining austerity. “mainly macro” blog. https://mainlymacro.blogspot.com/2015/12/defining-austerity.html
• Cyclically adjusted deficit (government borrowing adjusted for cyclical variations) shrinks;
• Policies which fail to close the gap between a country’s actual and potential GDP; and
• Tight monetary policy (i.e. high interest rates) and an overvalued exchange rate.

The choice of austerity is not purely a technical one, it also reflects a political process. Austerity policies have been part of the neoliberal toolkit which is characterised by stabilisation, liberalisation, privatisation, and rationalisation. Within this paradigm, the free market is seen to be the most efficient allocator of resources. Therefore, nations should aspire to reduce or eliminate “redistributive taxation and deficit spending, controls on international exchange, [trade barriers], economic regulation, public goods and service provisions, and active fiscal and monetary policies”. Through International Financial Institutions (IFIs), the Maastricht treaty and the World Trade Organisation (WTO), neoliberalism has become the hegemonic political discourse. There has been an emphatic turn towards neoliberalism in political-economic practices and thinking since the 1970s.

2 A BRIEF HISTORY OF AUSTERITY

The logic of austerity hinges on the assertion that public debt (government borrowing) – either always or once it reaches a certain level – has negative economic consequences. Such negative views on public debt under capitalism date back to early political economists such as Adam Smith. Their views echo (albeit in different contexts and terms) those advanced today: that (excessive) government debt undermines business confidence, is an integrational cost transfer, and crowds out savings or private-sector spending. In most instances this was (implicitly or explicitly) linked to an antipathy towards (high levels of) government expenditure. In the 20th century this took on the tone of moralisation: that saving is a virtue and spending is vice. The Austrian view, closely associated with Joseph Schumpeter, also saw austerity as inevitable in the logic of capitalism. This became the ‘treasury view’ in the United Kingdom and was fiercely challenged by Keynes. Such austerity arguments were almost totally discredited by the Great Depression and the effective use of counter-cyclical stimulus measures.

While the Keynesian paradigm dominated until the 1970s, the crises of that decade and the dismantling of the “Bretton Woods system” of economic regulation, saw austerity return to the mainstream in the 1980s, with the rise of neoliberalism whose premise was stabilisation, liberalisation, privatisation, and rationalisation. In exchange for loans, the
IMF demanded austerity measures in countries faced with debt problems. Their structural SAPs saw the imposition of austerity across Sub-Saharan Africa and Latin America. This was a clear demonstration of what Naomi Klein has called the “shock doctrine” – the opportunistic and cynical use of economic crisis to implement far reaching economic “reforms”.

Following the 2007/8 financial crisis, many countries, particularly in Europe, implemented austerity, this time with new moral trappings. A concerted effort has been made to redefine the global financial crisis into a supposed “fiscal crisis”. There has been a “moral appeal of shared sacrifice and suffering, freedom, collective obligation, to correct the failures of the fiscal crisis – i.e. the poor should accept social welfare cuts for the better of the whole”. The public has been made to believe that there is no other alternative but austerity, leading to a “disaffected consent”.

To validate this policy approach, economists have been enlisted to prove the negative impact of “excessive” public debt. In 2010, the World Bank conducted a study called “Finding The Tipping Point - When Sovereign Debt Turns Bad”. The study asserted that the tipping point – the point at which debt has a negative impact on growth – occurs when the debt-to-GDP ratio exceeds 77% for an extended period of time. Every percentage point of debt above this level supposedly costs the country 1.7% in economic growth. The purported tipping point for emerging market countries was claimed to be 64%. If the debt-to-GDP ratio is higher, it will slow growth by 2% each year. It is argued that creditors then start demanding higher interest rates to compensate them for the higher risk because that’s when creditors become concerned that the country will default on its debt. When countries turn to the IMF for new loans they are then required to implement austerity measures.

In the same month as the World Bank study, Reinhart and Rogoff, two American-based academics, claimed that rising levels of government debt are associated with much weaker rates of economic growth, indeed negative ones. In their book they argue that a 90% debt-to-GDP ratio threshold applies. This influential claim was utilised by austerity-minded politicians, particularly in Britain and Europe, to advocate for austerity policies.

However, this “evidence” was revealed to be statistically inaccurate. In 2013, Herndon, Ash and Pollin challenged Reinhart and Rogoff’s study finding that that there were...
“coding errors, selective exclusion of available data, and unconventional weighting of summary statistics” which “lead to serious errors that inaccurately represent the relationship between public debt and GDP growth among 20 advanced economies in the post-war period”. This was widely accepted as a debunking of the Reinhart and Rogoff research, and by extension the claims made by the World Bank, causing great embarrassment. Subsequent studies have further debunked the World Bank and Reinhart and Rogoff’s research. Many have argued that any correspondence between debt levels and poor economic growth could just as easily be caused by the reverse – it is the weak economic growth that leads to the high debt levels. As Paul Krugman said:

What the Reinhart-Rogoff affair shows is the extent to which austerity has been sold on false pretenses. For three years, the turn to austerity has been presented not as a choice but as a necessity. Economic research, austerity advocates insisted, showed that terrible things happen once debt exceeds 90% of G.D.P. But "economic research" showed no such thing; a couple of economists made that assertion, while many others disagreed. Policy makers abandoned the unemployed and turned to austerity because they wanted to, not because they had to.

The reality is that a consensus on how much debt is too much does not exist. Austerity has been used to legitimise a desire to shrink the (social welfare) role of the state, deregulate labour markets, emphasise private markets as the drivers of growth, and enable a reconfiguration in the interests of capital, particularly finance capital.

In the global economic discourse there seems to be a gradual return to Keynesian fiscal policy after years of austerity. It has even been argued that the global crisis has induced a ‘Keynesian turn’ within the IMF. Cornel finds that the 2008 Great Recession changed...
the neoclassical policy preference and that countries now have more room to negotiate with the IMF on fiscal policies.\textsuperscript{21}

3 INTERNATIONAL EVIDENCE: THE CONSEQUENCES OF AUSTERITY

The debate over austerity is far from purely academic as austerity has many devastating, implications for people’s lives, in particular the poor and low- and middle-income households. Table 1 in the appendix summarises a wide range of empirical literature that has assessed the impact of austerity around the world. Across a number of countries austerity has led to rising unemployment, falling incomes and increased inequality. In addition, austerity has resoundingly failed to solve the problem it purportedly sought to address: rising debt levels. The reality for most countries has been that “the interaction between the austerity measures and structural reforms generated a downward spiral of shrinking GDP and continued increases in sovereign debt”.\textsuperscript{22}

The argument against austerity is simple: austerity is self-defeating during recessionary times. During economic recessions, there is shrinking private-sector expenditure. Cutting expenditure or increasing (particularly regressive) taxes (when tax revenue is already falling due to the economic climate), depresses tax revenue and/or spending in private and public sectors – which determine the growth and size of GDP. Because debt levels are measured as a ratio of debt to GDP, if measures to tackle debt lead to, or exacerbate, poor economic growth, then debt relative to the (shrinking) GDP will go up, not down. Austerity is self-defeating during recessionary times, as it multiplies the effect of shrinking private-sector expenditure.

\textsuperscript{21} Cornel, B. 2014 Op cit

The cost of austerity: Lessons for South Africa.
October 2019

The case study on Greece below illustrate the devastating impacts of austerity.

**Case Study: Austerity in Greece**

The Greek crisis started in late 2009, triggered by the turmoil of the Great Recession, structural weaknesses in the Greek economy, monetary policy inflexibility (being a member of the Eurozone), irresponsible lending to the Greek government by European banks, and revelations that previous data on government debt levels and deficits had been underreported by the Greek government. The European Union, IMF and European Central Bank (the infamous “troika”) imposed austerity measures during the Greek debt crisis.

**Austerity measures implemented included:**

- Reduction in overall government employment by 150,000.
- Lower public employees’ wages by 17%.
- Reduction in pension benefits.
- Removal of the fuel subsidy.
- Tax reform (reorganisation of its revenue collection agency to crack down on evaders) and tax cuts at a time of falling public expenditure.

**Documented outcomes included:**

- Layoffs, tax hikes, and reduced social benefits reduced economic growth.
- Austerity measures destroyed around 25% of Greece’s GDP.
- By 2012, Greece's debt-to-GDP ratio had *increased* to 175%, one of the highest in the world.
- Bondholders had to accept a 75% reduction in what they were owed.
- Greece’s recession was made worse by austerity and included a 25% unemployment rate, political chaos, and a weak banking system.
- Increased rate in suicides.
- Between 2009 and 2016, unmet health needs for financial reasons tripled in Greece, going from 4% to 12%.

The above illustrates not only short-term harm on the economy and people’s lives by the long-run negative impacts of austerity (notwithstanding protestations by neoclassical economists that fiscal spending trends only have short-run impacts) without any proof of purported long-run benefits. Not only is public spending essential to stabilise aggregate demand in the short-term but reducing investment in physical and human capital in the short-term has lasting negative consequences for economic growth. This has certainly been the experience of SAPs across the developing world, as discussed in the box below.
Case Study: The lost decade in Sub-Saharan African and Latin America

The 1980s saw austerity implemented across countries in Sub-Saharan Africa and Latin America. This followed various debt problems, often the consequence of reckless lending by developed-country banks and changes in monetary policy in those countries. These austerity measures led to a “lost-decade” of poor economic growth.

Before austerity:

- Sub-Saharan Africa: Between 1961 and 1980, annual economic growth averaged 4.24% and per capita growth at 1.47%.
- Latin America: Between 1961 and 1975, annual growth per capita averaged 3.15%.

Austerity measures implemented in Sub-Saharan Africa included:

- Controlling budget deficits.
- Privatising public sector companies and services.
- Dissolving parastatals.
- Eliminating subsidies.
- Cutting public support for social services.

Documented outcomes in Sub-Saharan Africa include:

- Between 1981 and 1995, growth fell to an average of 2.3% and per capita growth to an average of -0.37%.
- Greater inequality, redistributing income away from labour.
- Current account deficit grew from 4% of GDP in the 1970s to 7.2% of GDP in the early 1980s.
- Real wages fell by a 25% on average across Africa in the 1980s.
- The perpetuation of debt, the ‘debt trap’.
- In the 1980s, SAPS may have led to a disorganisation of civil services, in terms of numbers, wages, motivation. Hence the IFIs launched a ‘second generation’ of civil service reforms in the 1990s, focused on incentives.
- Examples: In Côte d’Ivoire, between 1990 and 1995, per capita spending on education fell by 35%, debt burden still grew by 139%. In Uganda, healthcare service prices rose much faster than the rate of inflation as the market was allowed to dictate the charges patients paid.

Austerity measures implemented in Latin American included:

- Spending cuts: Between 1980 and 2000, Latin America’s public spending was among the world’s lowest, at around 20% of GDP.

Documented outcomes in Latin America include:

- Between 1980 and 1985, per capita growth was almost negative 9%. Between 1975 and 1990, average per capita growth was only 0.5%.
- Per-capita income fell throughout the region, reaching a level 30% lower than what it would have been had growth followed the 1951-80 trend.
- A dramatic increase in inequality after 1980, with the average national Gini coefficient rising from 0.50 to over 0.53 by 2003.
- Vital social services became subject to fees, which pushed them beyond the means of many.
Some economists have argued that, as a result of austerity, the United Kingdom (UK) recovered quickly from the 2007/8 financial crisis, making the UK one of the fastest growing economies in the G7 in 2016. However, the Resolution Foundation has found that the implementation of austerity after the financial crisis has induced unequal recovery. The top 1% of households (households with incomes of £275,000 or more) have fully recovered and seen their share of national income return to pre-2007 levels. In contrast, 99% of UK households find it more difficult to make ends meet, particularly due to cuts in social security programmes, social care services, jobs, wages, pensions, etc.23

This illustrates how austerity has helped to displace the harm caused by the crisis onto the general public. As is well known, the global financial crisis saw national economies spend enormous amounts of money to bail out financial institutions facing collapse, often as a result of their own irresponsible practices, while shifting the burden of paying for the crisis onto ordinary citizens. Austerity exacerbated the crisis and, consequently, the ability of individuals to exercise their human rights, and that of States to fulfil their obligations to protect those rights, [was] diminished. This is particularly true for the most vulnerable and marginalised groups in society [...] who suffer from decreasing access to work and social welfare programmes, and reduced affordability of food, housing, water, medical care and other basic necessities.24

Austerity policies dismantled the mechanisms that “reduce inequality and enable equitable growth”.25 When people needed the welfare and social protection systems the most, they were crumbling, as a result of fiscal cutbacks.26 This hurts women and the vulnerable hardest as the “existing structural inequalities, including gender and ethnic inequalities, mean that poor women from marginalised groups have been disproportionately affected”.27 Women carry more of a burden in social provisioning and require more access to public services which austerity takes away.28 In addition, women, who are more represented in the public sector, are displaced from their jobs as a result of austerity.29 Austerity has meant that access and entitlement conditions are made more stringent and at the same time benefit amounts are reduced and social assistance protection is decreased.30


27 Gomes, V. A. B 2015. Op cit


“Argentine women have been more severely impacted by low-quality employment, budget cuts and poor execution of budgets, inflation, and poverty.” 31

In *The Body Economic: Why Austerity Kills*, Stuckler and Basu argue that the price of austerity should be calculated in human lives.32 They illustrate how austerity can lead to public health crises. In a series of historical case studies stretching from 1930s America, to Russia and Indonesia in the 1990s, to present-day Greece, Britain, Spain, and the US, Stuckler and Basu reveal that government mismanagement of financial strife has resulted in a grim array of human tragedies, from suicides to HIV infections.33 For instance, in Greece, cases of HIV infection leapt by 52% between January and May 2011 when the government cut its budget for a needle-exchange programme targeting drug addicts. Branas et al. conclude that “select austerity-related events in Greece corresponded to statistically significant increases for suicides overall, as well as for suicides among men and women”.34 Their health policy research paper shows that in October 2008, as Greece entered into a recession, suicides among men spiked by 13% and remained at a higher level in the months that followed. With a new round of austerity measures in June 2011, suicides among both men and women increased by 36%.35

Across case studies, where cuts in health budgets are implemented, increasing numbers of people are unable to access care.36 In Spain, for example, austerity has resulted in unbearably long waiting lists and forced patients to ration their medication to save costs”.37 In addition, Spain, stripped undocumented migrants (estimated at some 873 000 people) of the right to public healthcare with only limited exceptions for children and women (this has subsequently been reinstated).38

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4 AUSTERITY AND HUMAN RIGHTS NORMS

The human cost of austerity is clear in the examples given above. For this reason, austerity has become a concern of human rights practitioners across the world. Researchers, activists and economists who have conducted research on the impacts of austerity on human rights, are in agreement that austerity has had rights-retarding impacts. A number of tools have been developed to assist in evaluating the impact of austerity and assessing its permissibility under international law and agreements.

The International Covenant on Economic, Social and Cultural Rights (ICESCR), adopted by the United Nations in 1966, was the first multilateral treaty to refer to government budgets and human rights. CESCR explains:

For some rights, General Comments have identified concrete investment priorities. For instance, on education, States should provide free primary education for all... Importantly, the Committee has asserted that States must demonstrate that “every effort has been made to use all resources that are at its disposition in an effort to satisfy, as a matter of priority those obligations”. Arguably, one of the most well established allocation-related obligations is that States must avoid budgetary cuts that are “deliberatively retrogressive”. The burden rests on the State to show cuts “can be justified by reference to the totality of the rights provided for in the Covenant and by the fact that full use was made of available resources” (emphasis added).

South Africa’s intergovernmental fiscal policy is meant to reflect the constitutional framework, in particular Chapter 13 of the Bill of Rights. The Bill of Rights includes second-generation (socio-economic) rights, such as the right to food, water, housing, healthcare, and social security. The government has an obligation to ensure that these rights are realised, immediately or progressively. In this regard, budget expenditure is a crucial instrument. The Constitution also enshrines the principles of transparency vis-à-vis budgets. Chapter 13 stipulates that the “National, provincial and municipal budgets and budgetary processes must promote transparency, accountability and the effective

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40 Assessing the impact of budgets on realising human rights has been led by civil society organisations (CSOs) and unions. Civil society has developed methodologies to assess government budgets and how their implementation has advanced or retarded the realisation of human rights. More work is yet to be done in measuring and revealing the costs of austerity through intersectional lenses.
41 International Budget Partnership.2019. https://www.internationalbudget.org/who-we-are/history/
43 These rights are sometimes posed as competing, as the Parliament of the Republic of South Africa says: “[t]he main purpose of a budget is to ensure that the unlimited needs are prioritised in order of importance. This allows one to plan expenditure in such a way that priority areas (such as housing, education and healthcare) can be met”. Parliament of South Africa https://www.parliament.gov.za/storage/app/media/EducationPubs/23.02.16_Budget_Pamphlet.pdf
financial management of the economy, debt and the public sector”.

The National Treasury has lauded its efforts to ensure budget transparency, with South Africa ranked first alongside New Zealand on the 2017 global Open Budget Index. While this is an achievement critical for democratic participation, it often obscures that transparency does not automatically result in participation, and that the budget still remains at a far remove from the majority of the population.

Article 2 of the treaty states that government should use the “maximum available resources” to “realise progressively” and “without discrimination” the rights enshrined in the Covenant. The general consensus is that the realisation of human rights is impossible without fiscal policies, including tax measures, that guarantee adequate resources to address inequalities.

The notion of “maximum available resources” is one that is still being refined. However, it includes mobilising resources through both borrowing and taxation, as well as other measures. The ICESCR has encouraged governments to enforce progressive tax systems and combat abusive tax practices and illicit financial flows. The role of tax in rights realisation is also reflected in the United Nations Sustainable Development Goals (SDGs). SDG 17 is to “[s]trengthen domestic resource mobilisation, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection”. In order for human rights to be realised through the provisioning of essential services, the ability of a state to mobilise its own resources and collect taxes is essential.

The issue of debt is crucial to resource mobilisation for the realisation of human rights. SDG 17 emphasises the need to “assist developing countries in attaining long-term debt sustainability through coordinated policies aimed at fostering debt financing, debt relief and debt restructuring, as appropriate, and address the external debt of highly indebted poor countries to reduce debt distress”.

The ICESCR treaty has not excluded fiscal consolidation (policies aimed at reducing government deficits and debt accumulation) as a policy a country can implement. However, the ICESCR has insisted on policies that are compatible with human rights. If a country is to implement fiscal consolidation, it should apply the guidelines shown in the box below.

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Given this framework, austerity, as shown by the evidence above, is likely to be justified infrequently. The ICESCR states that “in order for a State party to be able to attribute its failure to meet at least its minimum core obligations to a lack of available resources it must demonstrate that every effort has been made to use all resources that are at its disposition in an effort to satisfy, as a matter of priority, those minimum obligations”. The combination of rising unemployment, falling incomes and increased inequality, and the associated distributional effects, means that austerity is unlikely to yield human rights benefits that outweigh the costs. Even in the unlikely event that benefits were to be gained in the long run (and the evidence suggests this will not happen), the ethical consideration on the human lives that are affected should deem austerity unviable.

5 AUSTERITY IN SOUTH AFRICA

Since at least 2014/15, the South African government has increasingly moved into austerity mode. From this point, ‘moderate austerity’ was implemented even though, then finance minister, Pravin Gordhan acknowledged in July 2016 that “South Africa cannot rely on austerity measures to reduce public debt and boost economic growth, as previously thought”. In 2018, Deputy President David Mabuza said that the state may

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48 Committee on Economic, Social and Cultural Rights 1990 Op cit
have to implement “surgical and difficult austerity measures”. In its review of the South African government’s performance of its human rights obligations in late 2018, the UN Committee on Economic, Social and Cultural Rights stated that it was “concerned that [South Africa] has introduced austerity measures to relieve the debt level”.

The return to austerity should be viewed in context. First, it occurs following a period of both rising debt levels and economic stagnation. Second, it fits within the broader macroeconomic policy paradigm adopted since 1994. In its Concluding Observations to government, the UN Committee aptly noted, that “the persistence of such inequalities [post-apartheid] signals that the model of economic development pursued by [South Africa] remains insufficiently redistributive”. This observation is based on the fact that the Treasury has made “macroeconomic stability” – generally understood as stable prices, stable interest rates, low deficits and debt levels, predictable economic costs such as tax policies and regulatory regimes, and predictability about future tax and interest rates – the “overriding objective of economic policy”, to the exclusion of other developmental goals such as employment. Such macroeconomic policies, as applied in South Africa, have been in the interests of private capital, and the financial sector in particular, overshadowing other developmental goals.

5.1 AUSTERITY BUDGETS

Despite commitments to counter-cyclical policies in the 2014-2019 Medium Term Strategic Framework (MTSF), between 2014/15 and 2018/19, South Africa’s average non-interest expenditure growth – spending on government goods, services and salaries upon which many South Africans are reliant – barely kept up with population growth. This spending grew at an average rate of 1.8% over five years, compared to population growth of 1.6%, as shown in Table 1 below. Average non-interest expenditure growth in the last three years has been 0.9%, well below population growth for that period. What this means is that, despite the massive social challenges in areas such as health and education that face South Africa, spending per person on meeting these needs has fallen in recent years.

Conje, J. 2018. Mabuza: ‘Surgical and difficult austerity measures’ may be necessary

A video was made about the government’s appearance before the UN Committee, highlighting the subsequent findings of the Committee. To view, visit: https://twitter.com/IEJ_SA/status/1098522871582797829


TABLE 1: CONSOLIDATED REVENUE, NON-INTEREST EXPENDITURE AND POPULATION GROWTH, 2014/15 - 2018/19:54

<table>
<thead>
<tr>
<th></th>
<th>2014/15</th>
<th>2015/16</th>
<th>2016/17</th>
<th>2017/18</th>
<th>2018/19</th>
<th>Average growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue growth</td>
<td>2.7%</td>
<td>5.1%</td>
<td>0.6%</td>
<td>-1.0%</td>
<td>2.7%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Non-interest</td>
<td>1.7%</td>
<td>4.6%</td>
<td>-0.2%</td>
<td>0.3%</td>
<td>2.6%</td>
<td>1.8%</td>
</tr>
<tr>
<td>expenditure growth</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Population growth</td>
<td>1.6%</td>
<td>1.6%</td>
<td>1.6%</td>
<td>1.6%</td>
<td>1.6%</td>
<td>1.6%</td>
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</table>

Source: National Budget Review 2016 -2019

The 2019 Budget projected real expenditure growth to average 2% over the medium term. However, the recent fiscal framework, issued by National Treasury in September 2019, projected full-blown austerity cutbacks: 5% in 2020, 6% in 2021, and 7% in 2022.

The implementation of austerity budgets – that have entailed cuts to social spending – during the fifth democratic administration have severely undermined the provision of essential social services and the realisation of socio-economic rights. These cuts have also been disastrous for developing a capable state that adequately addresses historical inequalities and meets the country’s developmental objectives. Since social expenditure is broadly progressive, cuts have had the effect of widening socio-economic inequality. For example, in health and education:

- Despite servicing 83% of the population, spending per uninsured person has only increased by 1.7% on average (in real terms) from 2014/15 to 2018/19, in the context of a rising burden of disease and high medical price inflation.55
- Learner spending has been steadily decreasing for years, largely unnoticed – it fell by 8% in real terms from R17 822 in 2010 to R16 435 in 2017.56 This is despite 78% of Grade 4 learners being unable to read for meaning.

Expenditure cuts have also been made to infrastructure grants to provinces and municipalities. In 2018, provincial level cuts were made to school building programmes; the upgrading of school infrastructure; low-cost housing budgets; and the maintenance of provincial roads. At local government level the municipal infrastructure grant was cut, which included spending on the provision of bulk water, local roads and public lighting. Grants for electrification, urban development and public transport were also slashed. Health Conditional grant allocations for health facility revitalisation have also been continuously reduced.57 The Budget Review 2018 notes that “the cuts will delay the completion of a number of infrastructure projects”.58 Cuts to spending on services and social security have a disproportionate gender impact because women rely more on these services.

Reducing the public sector wage bill has also been a central tenet of austerity in South Africa – the number of government employees has been cut from 923 646 in 2013 to

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57 MTBPS 2018/19
58 Budget Review 2018.
888 204 in 2017. Monthly payrolls in 2018 showed an average of about 16 000 fewer employees than in the corresponding months of 2015. In Tito Mboweni’s budget speech he said the public sector wage bill “took more than 35 % of consolidated public spending, [and] was not sustainable”. Salaries for public servants have been growing at rates higher than inflation and account for 35% of expenditure in 2017, up from 32.9% in 2007. Following the new public-service wage agreement negotiated in 2018, provincial governments were required to absorb the increases within their current compensation ceilings, which means that they had to internalise the unbudgeted compensation costs. Provincial departments already spend approximately 65% of their expenditure on wages and National Treasury’s arbitrary ceilings for compensation budgets exacerbate existing staff shortages particularly in health and education.

National Treasury plans further cuts to the public sector wage bill over the MTEF, incentivising civil servants to exit by offering them early retirement packages. According to Mboweni, departments are required to realise permanent savings of 50% of the cost attributable to early retirement cases. In December 2018, there were 126 710 public service employees between the ages of 55 and 59 years old. “This initiative is expected to save an estimated R20.3 billion over the 2019 MTEF period, assuming that 30 000 employees take up the offer. This measure contributes to a more sustainable wage bill”.

Austerity has affected all government services. For example, in the 2018/19 financial year, the budget for Legal Aid South Africa, which represents over 700 000 people annually who cannot afford legal representation, was cut by 5%. This will lead to a massive scaling back in service provision. In response, the Legal Aid spokespersons said: “staff numbers would have been reduced and that would affect the service deliveries for people. If the budget cuts continue at 5% per year for the next three years, we will lose R503 million and then we will have to go towards staff consideration and retrench about 10% of our total staff”. Budget cuts to public entities such as these, threaten their ability to fulfil their constitutional obligations.

In addition to the expenditure cuts, the increase in the VAT rate from 14 to 15% as of April 2018, represents a clear retrogressive austerity measure. This increase is projected to raise the share of VAT in the overall tax mix from 24.6% in 2017/2018 to 26.3% in 2020/2021. As expected, this VAT change increases the taxes paid by poor and low-income households, reducing their ability to afford foodstuffs and other essential goods and services necessary for sustaining livelihoods and rights realisation, through lowering disposable incomes. Annual increases in the fuel levy (a tax paid on petrol and diesel that are otherwise VAT exempt) place additional disproportional burdens on poor and low-income households. Transport costs for these households are particularly onerous given

59 National Treasury Budget Review 2018
60 Magubane K. 2019 Retirement helping to ease public wage burden, says Mboweni
61 Nation Treasury Budget Review 2019
62 National Treasury Budget Review 2007-2009
63 National Treasury Budget Review 2019
64 National Treasury Budget Review 2019
65 SABC News. 2018. Legal Aid SA to scale back on assisting the poor
South Africa’s history of apartheid spatial planning, in which poor communities were located on the periphery of cities with inadequate public transportation.\textsuperscript{68}

5.2 MAXIMISING AVAILABLE RESOURCES: AN ANALYSIS OF DEBT IN SOUTH AFRICA

Austerity budgets are justified by National Treasury as a means to curtail debt levels. Despite the well-documented evidence that austerity fails to achieve this, it is also worth asking whether South Africa really faces a ‘debt crisis’.

Leaving aside contingent liabilities (which includes debt by other entities which the government guarantees), South Africa’s debt is moderate by international standards. According to the IMF, emerging market and middle-income country debt levels are projected to reach, on average, 61.2\% in 2024, while advanced country debt averaged at 104.0\% of GDP in 2019.\textsuperscript{69} As shown in Figure 1, South Africa’s debt-to-GDP ratio currently sits below this projected level and is expected to peak at 60.2\% in 2023/24, although it is likely that new debt projections will be announced showing slightly higher levels. The figure also shows how South Africa’s debt projections have been revised upwards in different budgets and MTBPs.\textsuperscript{70}


\textsuperscript{70} These exclude the R29 billion special appropriation for Eskom
Error! Reference source not found. shows that both gross loan debt and debt service costs is expected to increase. At the same time GDP growth in 2018/19 is expected to be a pitiful 0.7%. Debt is likely to go up, not down, relative to the (shrinking) GDP.

TABLE 2 SOUTH AFRICA’S GROSS LOAN DEBT, DEBT SERVICE COSTS AND GDP GROWTH

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<tbody>
<tr>
<td>Gross loan debt</td>
<td>46.5%</td>
<td>48.9%</td>
<td>50.6%</td>
<td>52.7%</td>
<td>55.6%</td>
</tr>
<tr>
<td>Debt-service costs*</td>
<td>3.0%</td>
<td>3.2%</td>
<td>3.3%</td>
<td>3.55</td>
<td>3.6%</td>
</tr>
<tr>
<td>GDP growth</td>
<td>1.9%</td>
<td>0.6%</td>
<td>0.9%</td>
<td>1.3%</td>
<td>0.7%</td>
</tr>
</tbody>
</table>

Source: National Treasury Budget Review 2019

Treasury has expressed concern around borrowing costs and credit rating agencies. While such ratings are a concern, a comparative study shows that South Africa’s debt is below the levels at which comparator countries lost and regained their investment-grade rating.\(^{71}\) The study also shows overwhelmingly evidence that the means through which

\(^{71}\) CESR, IEJ Section 27 Ibid
to reduce debt and regain positive credit ratings is through raising economic growth and GDP levels and not attempting to slash borrowing.

Figure 2 illustrates how South Africa’s debt levels (with and without Eskom guaranteed debt) remains broadly in line with its peers. Between 2018-2020, South Africa’s debt continues to trend upwards as a result of SOEs contingent liabilities and weak revenue collection, amongst other factors.

**FIGURE 2: SOUTH AFRICA’S DEBT RELATIVE TO ITS PEERS**

Some have argued that South Africa needs to reduce its dollar dominated debt which makes South Africa vulnerable to exchange rate fluctuations. However, as shown by the blue segments in Figure 3, South Africa has limited exposure to foreign currency debt. Further, the maturity period – the length of time over which debts have to be paid back – is much greater than the country’s peers, as is shown in Figure 3 below.

**FIGURE 3: SOUTH AFRICA’S EXPOSURE TO FOREIGN-CURRENCY DEBT AND MATURITY STRUCTURE RELATIVE TO PEERS**

Currently, the only potential debt crisis lies with Eskom. This has implications for the national fiscus because based on the approximate R450 billion total debt recorded in Eskom financial statements earlier this year, approximately 62% (R279 billion) of Eskom’s debt is covered by government guarantees. This means that the government is responsible for repaying this debt should Eskom default. Furthermore, the newly revised fiscal framework projects a slightly higher debt-to-GDP ratio than at the time of the 2018 MTBPS to address Eskom “risk”.

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Eskom’s total liabilities have risen steadily over the past 13 years. Eskom’s total financial debt was approximately R441 billion (this represents its debt securities and borrowings) as of its financial year end in March 2019. Eskom’s financial debt has increased substantially from around R30.2 billion in 2005/06. It should be noted that while revenue increases—as a result of tariff hikes—have been sufficient to cover Eskom’s basic operating costs (and sometimes even yielded a small profit), the power utility’s massive debt costs have now pushed Eskom to a record loss, forcing the government to step in and bail it out.72 In the 2019 Budget, Eskom was allocated a bailout of R150 billion over the next 10 years.73 Most recently, the National Assembly approved the Special Appropriations Bill, that granted an allocation of R59 billion to the embattled power utility which consisted of an additional R26 billion in 2019/20 financial year and R33 billion in the 2020/21 financial year.74 At the same time, financial reports of Eskom note irregular expenditure totalling R19 billion since 2012.75

Eskom is not the only SOE that raises concerns. In 2018, it was estimated that over the next 23 years, a total of R630 billion in debt will fall due.76 The government guarantees 54% of this debt, or R340 billion. Over the medium term (the next three years) R155 billion will fall due. Of this, government guarantees R61 billion. Treasury has highlighted that there is a risk that government will be called upon to refinance the debt, although this needs further analysis on a case-by-case basis.

5.3 MAXIMISING AVAILABLE RESOURCES THROUGH TAXATION

Austerity budgets can, therefore, not be based on the need to reduce national government borrowing. However, they are hardly taking place in the context of fiscal surpluses. This is partially due to the failure to maximise available resources via taxation. Weak economic growth is another critical contributor but beyond the scope of this paper.

The South African tax structure, while progressive, is insufficiently so. Regressive trends have contributed towards a failure to optimally raise sufficient resources from the wealthy. These include:

- Personal income tax (PIT) rates have fallen since 1997. For example, someone earning R1 million annually (in 2018 prices paid an effective tax rate of 41% in that year. By 2018, this had fallen to 31%. The progressivity of personal income tax rates in South Africa is the lowest of comparable peer countries Brazil, Peru, Mexico, Ethiopia, Uruguay and Armenia.77

- Corporate income tax (CIT) rates have also fallen dramatically, from 50% in 1990 to 28% in 2018. According to the World Bank and Price Waterhouse Cooper Paying Taxes measure—which takes account of all taxes facing an average middle-

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75 Forthcoming research from the Institute for Economic Justice deals with Eskom in more depth.
76 Compiled by Moneyweb from individual SOE 2018 annual reports.
sized firm as a percentage of profits—South Africa ranks 172 out of 213 countries, where 1 has the highest company tax and 213 the lowest. By this measure, South Africa also has the lowest corporate tax rate in Africa and is in the bottom quarter of emerging markets.

- **Wealth, and income derived therefrom, is under-taxed.** For example: capital gains tax and estate duty (tax on inheritance) rates are comparatively low by international standards and lower than income tax rates; the securities transaction tax (STT) (a tax on sale of shares) raises a small share of income, bonds are excluded and there is no transaction tax on derivatives and other forms of financial transactions; and there is no annual “net wealth tax” that would tax the total value of wealth held in a given year.78

South Africa also offers a number of PIT tax breaks that only benefit higher-income households. In 2015/16, government expenditure on tax breaks for pension and retirement funds and private medical insurance amounted to approximately R52 billion.79 Accounting for inflation, this amount would have sit well above the 2018/19 shortfall.44 These tax breaks only benefit the top three deciles (virtually no one in deciles 1-7 pays PIT) and are concentrated amongst the highest-earning 10% of the population.

While South Africa has made considerable progress in eradicating formal gender-discrimination in its tax system, tax is still not a gender-neutral policy and the blanket application of tax rates and structures has ignored the gender implications for tax. Findings from Budlender et al. show that despite the removal of explicit discrimination there are still some areas of bias in direct and indirect taxes along employment status, number of earners in a household, gender of household head and other household characteristics.80

Corruption and state capture has also limited the ability to maximise available resources. This has placed a massive burden on the fiscus and severely undermined both expenditure and revenue raising. While President Ramaphosa’s administration is taking steps to tackle this, these are subject to ongoing pushback from within the ranks of the African National Congress (ANC).

According to the Auditor General South Africa, in 2017/18, unauthorised expenditure by provincial and national governments increased to R2.1 billion, a 38% rise in comparison to the previous year – 86% was the result of overspending. Fruitless and wasteful expenditure increased by over 200% from the last year to R2.5 billion. Irregular expenditure, the report noted, remained high at R51 billion. Audit results for national and provincial government departments and their entities have regressed overall, with the number of clean audits decreasing to 23% at a national level.

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80 Shier, J. 2010. Op cit
#UniteBehind has highlighted the ramifications of corruption on service delivery, leading protests against the "death, sexual violence, delays, line shutdowns, mismanagement, train crashes, fear, anxiety and pain [that] is the daily lot of the working-class across [the] country". Poor transport delivery has been a result of “billions of rand [that] been looted at PRASA over the last decade”. In 2015, for example, R776 million was looted from the Passenger Rail Agency of South Africa (PRASA) for much-needed new rolling stock. The money was looted through a R3.5 billion contract which was meant to deliver 70 new locomotives to PRASA. In addition to the missing loot, the trains delivered were not compatible with South Africa’s rail lines, deeming them unusable. Scorpio revealed that businesspeople with links to then-president Jacob Zuma were recipients of some of the deal’s proceeds. Corruption is crippling service delivery and development. As the Gauteng premier recently noted:

“Corruption is an enemy of socio-economic development and transformation. It is no small matter. There can be no brighter future for ourselves and our children if we allow entrusted public power, public institutions and public resources to be abused for private gain”.  

The inability to maximise available resources has been further undermined by tax evasion and profit shifting. Former commissioner at the South African Revenue Service (SARS) highlighted this, stating in 2012 that SARS had “detected an increase in the use of cross-border structuring and transfer pricing manipulations by businesses to unfairly and illegally reduce their local tax liabilities”. The Southern Africa – Towards Inclusive Economic Development (SA-Tied) project suggests that 98% of the tax loss is linked to profit shifting by the biggest 10% of multinational corporations. It estimates that the country is losing about R7 billion in tax annually. This is revenue that could, and should, be redirected to social expenditures. South Africa’s large extractive industry is one factor that makes it vulnerable to illicit financial flows. Strengthening SARS is critical for combating tax avoidance and evasion, which remains a major concern. The weakening of SARS – aimed at gutting its capacity to tackle high-profile crime and hence expose both tax evasion and corruption – has had disastrous consequences. Since 2010, there have been ten probes into the allegations surrounding the supposed unlawfully established SARS “rogue unit” and former enforcement boss. This has been a cover for undermining the ability of the High Risk Investigations Unit’s probes into tax avoidance and corruption by politically connected individuals and businesses.

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81 #FixOurTrains https://unitebehind.org.za/campaigns/fix-our-trains/
82 Myburgh, P. & Mantshantsha, S.2019. Gravy Trains, always on time: Cash from Prasa’s R3.5bn locomotives deal also flowed to Jacob Zuma Foundation https://www.dailymaverick.co.za/article/2019-08-18-gravy-trains-always-on-time-cash-from-prasas-r3-5bn-locomotives-deal-also-flowed-to-jacob-zuma-foundation/?fbclid=IwAR1ImYMiYbys3ey3Z4w6zhfCqH8iKCdPDPbOM1n_88-K9VvqfVAX8w3J0h
84 Also known as tax avoidance.
Revenue collection, in the meantime, has fallen short of budget targets over the past five fiscal years. In 2018/19 SARS collected R1.287 trillion which was R14.6 billion (1.1%) short of the revised estimate of R1.302 trillion. The collected revenue is R57.4 billion (4%) lower than the 2019 Budget estimate of R1.345 trillion. SARS attributes the short fall to poor economic performance and higher refund payments, National Treasury lists “administrative challenges at SARS, and increased tax avoidance and evasion” as additional reasons for these shortfalls. Although the Commission Nugent Commission of Inquiry into Tax Administration and Governance by SARS has been completed and the head of SARS has been replaced, many other appointees remain, capacity remains low, and this is a part of the reason for systematic under collection.

It is critical to note the danger that austerity measures may result in a decline in wages, increases in unemployment, and depressed growth, which will further exacerbate current tax revenue trends.

In this context, the erosion of state capacity and the imposition of austerity undermines the legitimacy of the state. As Jonathan Di John notes, “fiscal capacities are needed to build a legitimate state. Democratic elections do not themselves ensure state legitimacy [...] legitimacy comes in large part from government delivery of services that people want and need”. In this regard, the fiscal capacities of the South African government – as well as rampant corruption – are not adequate to build a legitimate state that adequately realises human rights for all.

The extent of the impacts of applying austerity is yet to be fully documented but we already see that austerity is negatively impacting on the realisation of socio-economic rights. Here we give two examples of the devastating impact of austerity on health and education in South Africa.

5.4 IMPACT OF AUSTERITY ON HEALTH

Section 27 of the Constitution of South Africa states that access to healthcare is a basic human right which must be enjoyed by everyone.

Public health spending has increased significantly since 1994 and the government has made progress in improving access to healthcare. Overall outcomes in areas such as infant and maternal mortality have improved and after a disastrous period of delay and denialism by government, the HIV/AIDS programme has expanded exponentially. However, the public healthcare system remains severely overstretched and underfunded.

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Recent years have seen significant budget cuts. This has led to vacant posts and declining standards in many parts of the public health system. In May 2018, the Treatment Action Campaign (TAC) reported that 38 217 posts were not filled. Despite being central to the implementation of primary health care, an estimated 60 000 community healthcare workers remain informally employed and reliant on a paltry stipend with poor equipment and training.\(^{91}\)

Over the last five years, the rate of growth of health expenditure per uninsured person has slowed and in 2016/17, was actually reduced. When annual inflation of around 5% and population growth of 1.6% are accounted for, per capita healthcare spending has essentially stalled.\(^{92}\) This is despite the National Health Insurance (NHI) White Paper recognising that expenditure will have to double if quality healthcare is to be provided to all. Shortfalls in funding have delayed the implementation of the NHI as well as the completion of the Health Market Inquiry. Austerity measures have also contributed to a rapid growth of unfunded commitments or accruals (costs incurred, but in the absence of sufficient funding, rolled over to the following financial year). To meet those financial obligations which are hardest to avoid, such as wages, operational health budgets are cut or invoices simply unpaid. In 2017/18, health departments accounted for 57% of unpaid bills by government. Budget constraints are exacerbated by unauthorised, fruitless, wasteful and irregular expenditure.\(^{93}\) In 2017/18, departments of health had some of the poorest audits.\(^{94}\)

In the 2016 Life Esidimeni tragedy, 143 mentally ill patients lost their lives after being transferred out of a private facility the government had contracted with for decades to a group of unprepared and under-resourced NGOs. The arbitration process that followed found the need to cut costs was a red-herring excuse used by departmental officials attempting to avoid accountability for their bad decision-making. However, there can be no doubt that such disasters are more likely to occur in an under-resourced health system where budgets are constantly strained, than in one where departments have sufficient resources to fulfil their mandates. Furthermore, the government has been ordered to pay R1.2m to the families of each victim. This is one example of the exponentially rising burden of medico-legal claims faced by departments of health. Claims have increased from R28.6 billion in 2015 to R80.4 billion in 2018. Chronic underfunding and staffing shortages contribute to the service failures which lead to medico-legal claims.

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\(^{93}\) National Treasury. 2019. Budget Review.

5.5 IMPACT OF AUSTERITY ON BASIC EDUCATION

The Right to Education: Section 29 (1)(a) of the Constitution - Everyone has the right to basic education, including adult education.

South Africa has made strides in addressing the highly unequal education system inherited from apartheid, where it was key in driving segregation and inequality. South Africa has achieved gender parity in school enrolment. The number of learners who passed matric increased from in 50% in 1994, to 78% in 2018. The current curriculum is universally applied to all, creating a harmonised education system. However, in 2016 Progress in International Reading Literacy Study (PIRLS) has revealed that after four years of schooling, 78% of South African learners cannot read for meaning which compares poorly with the international average of 4%. Grade 4 children in South Africa scored the lowest of the 50 countries participating in this test.

The austerity measures adopted by government in recent years are exacerbating this poor performance. The amount spent on basic education has been decreasing steadily over the last five years. The share of total expenditure has declined from 20.9% in 2013 to 14.4% in 2019 and increases in expenditure have been either below inflation (in 2014/15, 2015/16 and 2018/19) or marginally above inflation. Spending per learner has been steadily decreasing for years, largely unnoticed – it fell in real terms from R17 822 in 2010 to R16 435 in 2017. It has declined by 10% since 2010 because allocations made do not account for the increase in birth rates (between 2003 – 2008) and increased school enrolment in public schools. Also, per capita personnel compensation has been increasing at a rate above inflation, while the increases in government spending are not keeping up with personnel costs.

These cuts include spending on essential infrastructure. The Education Infrastructure Grant (EIG) provides co-funding for the ongoing infrastructure programme in provinces, including the maintenance of existing infrastructure and the building of new infrastructure. Aside from the large increase in 2015/16, funding has been steadily decreasing since 2016/17. In 2018/19, funding dropped by 8.3%. This is because of the R 3.6 billion Cabinet-approved reduction from the grant in 2018 for the following three years. Learners have died in pit toilets due to lack of adequate sanitation in schools. In 2014, Michael Komape drowned in a full pit toilet and again in 2018 Lumka Mtetwa died in a pit toilet.

Austerity cuts also impact the ability to provide education to particularly vulnerable groups of learners. This is the case for learners with disabilities. In November 2015 there were as many as 182,153 children with disabilities in KwaZulu-Natal, but 137,889 (76%) were not receiving any schooling and the special schools are under resourced.

5.6 DOES AUSTERITY IN SOUTH AFRICA COMPLY WITH INTERNATIONAL GUIDELINES?

The imposition of austerity in South Africa should be evaluated against the government’s legal obligations. In this respect, a strong case can be made that South Africa is in violation of both its international and domestic obligations.

Regarding the criteria laid out in the ICESCR that assess the legitimacy of fiscal consolidation (see above), the government has arguably failed on some, if not all, of these criteria. No duration has been set for these measures nor has the purported aim of ensuring “fiscal sustainability” actively considered the protection of human rights. As per the above, a conclusive case for the necessity or reasonableness of austerity has not been made, given South Africa’s moderate debt levels and more progressive taxation options available. It appears that no human rights impact assessment has been conducted and so the case that these measures are proportionate has not been established. As shown above, the measures are discriminatory as they will disadvantage vulnerable groups. Finally, the cuts to key socio-economic expenditure will almost certainly retard the achievement of a minimum core of economic, social and cultural rights.

5.7 AUSTERITY IS A DANGER TO SOUTH AFRICA

Austerity is in place in full force in South Africa. As shown, while Eskom is genuinely overburdened with debt, such expenditure cuts and regressive taxation measures cannot be justified by the middling levels of debt held by the government. At the same time, taxation in South Africa is woefully failing to maximise resources that are available. We see the devastating impact of austerity on the realisation of the right to health and education. The result is that fiscal policy in South Africa is failing to advance social justice, promote equitable economic development that realises socio-economic rights, and ensure a thriving, democratic, environmentally sustainable, and inclusive economy that places the needs of the majority at the centre. In its concluding obligations upon South Africa’s review the Committee on Economic, Social and Cultural Rights stated that it was “concerned that [South Africa] has introduced austerity measures to relieve the debt level” and that this may retard human rights realisation.100

South Africa is implementing austerity despite the large body of international evidence that austerity is not economically viable and exacerbates structural inequalities (as discussed above). This is particularly concerning considering that approximately 2.9 million people were pushed into poverty between 2011 and 2015, and that poverty is

100 A video was made about the government’s appearance before the UN Committee, highlighting the subsequent findings of the Committee. To view, visit: https://twitter.com/IEJ_SA/status/1098522871582797829.
higher for women, and for black South Africans.\textsuperscript{101} A quarter of the population – 13.8 million people – lived in “extreme poverty” in 2015, unable to afford enough food to meet their basic physical needs (with over 60% living in poverty if the Upper Bound Poverty Line is used).\textsuperscript{102} These trends have almost certainly continued since 2015 as the economy has dipped in and out of recession, unemployment has continued to rise and food prices spiked due to the drought. Per capita incomes have fallen, poverty has increased\textsuperscript{103} and unemployment stands at a near 15-year high.\textsuperscript{104} At more than 50% South Africa now has the highest rate of youth unemployment in the world.\textsuperscript{105} Black women in particular, who are more likely to be in low-paid care work and unpaid domestic work, are experiencing the brunt of austerity.\textsuperscript{106}

6 POLICY ALTERNATIVES

There is a need for innovative approaches to help South Africa avoid a fiscal trap which sees a downward spiral of economic stagnation, low revenues, and spending cutbacks, which are mutually reinforcing. At the same time, South Africa needs to put “people's (basic) needs and the promotion of equality as key policy objectives of governments, alongside – and not secondary to – maintaining fiscal discipline and stimulating economic growth”\textsuperscript{107}. Fiscal policy must advance human rights by addressing challenges of inequality and development; this is not a choice, it is a constitutional obligation.

Luckily the tide is turning against austerity. As the United Nations Conference on Trade and Development (UNCTAD) recently wrote in their flagship Trade and Development report: “it is essential for governments across the world to reclaim their policy space and act to boost aggregate demand”.\textsuperscript{108} South Africa can learn from other countries who are relegating austerity to the bin (see, for example, the case study of Portugal below).

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In this context we propose six principles for a fiscal plan for South Africa. These are dealt with in general terms here and will be fleshed out in greater detail in forthcoming policy briefs.

1. **It is stimulus, not austerity, that is needed to get the wheels of the South African economy turning.**

A stimulus package which reprioritises expenditure, and introduces additional spending into the economy must be considered alongside any prudent areas within the current spending plans in which savings can be made without unduly damaging the economy.
This stimulus must include both fiscal and monetary policy measures (the latter beyond the scope of this paper). It is important to note too, that well-targeted stimulus packages pay for themselves over the medium term. Economic growth increases tax revenue and reduces relative debt levels.

In South Africa two modelling exercises have indicated the potential benefit of stimulus package:

- The UNCTAD report estimates that $1 billion spent by the South African government would increase GDP by $1.47 billion.
- A report by Applied Development Research Solutions (ADRS), commissioned by the Department of Trade and Industry, showed that a stimulus package could raise GDP growth rates from a projected 0.8% over the next 12 years to 4.8%.

A stimulus package should target those sectors with large multipliers and/or provide essential social services. It should aim to expand productive activity and crowd-in private sector investment. Due cognisance should be taken of external constraints – i.e. not leading to a weakening current account through boosting sectors that rely on foreign exchange – and internal constraints – i.e. counteract potential inflation through expanding domestic capacity. Frontline services must be protected by rejecting cuts to critical public sector posts, while simultaneously reducing salaries for excessively-paid public sector workers at the upper end of the income distribution, and restructuring the sectors employment profile to shift resources away from the bureaucracy to frontline service delivery. Both social protection and the role of government as a provider of employment in the presence of high unemployment must be boosted. The global challenges, e.g. lower commodity prices, and opportunities, e.g. trade in Africa, should be considered carefully.

2. Stimulus and growth must not be considered independently from equity and sustainability.

Stimulus policies targeted at boosting economic growth must take cognisance of both how rising inequality and negative social outcomes have undermined growth, and how the nature of that growth must be front and centre.

It is now widely recognised that issues of growth and distribution (inequality) cannot be separated. Recent research led by the IMF, find a strong link between growth and distribution, drawing on a growing body of evidence on why inequality might be harmful for an economy. The UNCTAD report shows how the falling wage share – the share of

national income going to wages opposed to profit – has been a leading cause in stagnant global aggregate demand. Under-investment in human capital – through stagnant or falling wages and a reduction in social services – has led to long-term declines in productivity and human wellbeing.

By placing the realisation of constitutionally-enshrined rights at the heart of a stimulus package, the nature of that package, and subsequent growth, will receive due attention.

3. Debt must be addressed logically in a medium-term framework.

We cannot succumb to exaggerated claims of a looming debt crisis. At the same time, unsustainable debt, where it appears, must be dealt with decisively.

Eskom’s debt crisis must be resolved by taking over half of its debt off its balance sheet. Without getting into details here, the process through which this happens must ensure the following: significant debt reduction; not unduly burden the fiscus; bond holders must share in the pain; actively support a just transition for workers and communities; maintain the developmental potential of Eskom; promote the ability for a state or community-led transition to renewable energy generation.

Our general debt strategy should have four central pillars. First, cut wasteful expenditure and tackle corruption. Second, make limited cuts to expenditure where there is no danger of social services or economic growth being compromised. Third, accept higher debt levels than currently projected over the next five years. Fourth, utilise other pools of domestic private savings through prescribed assets and the strategic deployment of funds managed by the Public Investment Corporation (PIC). It is imperative to note that no debt management strategy will be successful without simultaneous economic growth, indicating the need for fiscal stimulus strategies.

4. Progressive taxation must raise additional revenue

South Africa faces a perfect storm of tax revenue collection shortfalls, a shift towards greater regressivity in the tax mix, and weakened capacity within SARS, all in the context of weak economic growth and falling investor confidence. A five prong strategy could be deployed to tackle this.

First, rebuild capacity within SARS. Second, clamp down on illicit financial flows (IFFs) and tax evasion. Third, raise immediate revenue through short-term measures such as reducing tax breaks for higher-income households, e.g. on pensions and medical aid (see above). Fourth, promote a more equitable tax structure in the medium term, in

particular through increased taxation on wealth and income therefrom. Fifth, broaden the income tax base through strategies to raise wages.

5. **Additional resources must be “crowded in” without an excessive reliance on the private sector.**

Additional resource can be used to plug fiscal gaps; in particular, through Development Finance Institutions (DFIs).

First, the Industrial Development Corporation (IDC) and Development Bank of South Africa (DBSA) need to be scaled up through the provision of a government guarantee and stable, low-cost source of funding, so that they are no longer beholden to commercial performance criteria and can supply targeted subsidised credit. Second, an export-import (EXIM) bank should be considered as a key tool used to boost the competitiveness of exports through provision of various forms of direct financing to foreign buyers. Third, existing DFIs should switch their lending practices away from large established corporates, or municipalities, and towards smaller, and potentially riskier, business, particularly those in targeted and labour-intensive sectors. In order to do so, these DFIs will need to accept some level of losses. Fourth, existing DFIs could be leveraged for strategic state investment in infrastructure. This has the potential to provide increased funding for essential projects without the negative consequences of leveraging private sector financing through public-private participants (PPPs) or other forms of “financing for development” which have become popular and amount to the state subsidising and derisking investment by the private sector.

6. **Fiscal policy must promote long-term structural transformation.**

South Africa’s economy remains exclusionary and inefficient for a host of reasons that cannot be dealt with here. What is critical to note is that fiscal policy should be designed in a manner that supports structural transformation. This means a close alignment with other policy areas, industrial policy in particular, which remains chronically under-resourced. Conceptually, fiscal policy should be the servant of achieving other objectives of promoting investment in productive activity.

7 **CONCLUSION**

The economic history of austerity is long and deeply political, with the global financial crisis propelling a new wave of austerity around the world. The international evidence clearly indicates that austerity is not economically viable. Studies show that the interaction between the austerity measures have generated a downward spiral of shrinking GDP and continued increases in sovereign debt. Across a number of countries austerity has led to rising unemployment, falling incomes and increased inequality. This had huge ramifications for people’s lives and severely retarded the realisation of human
rights. In addition, the political instability that can be generated through such unpopular policies is increasingly clear as recent protests, for example across Chile, Argentina, Lebanon and Egypt demonstrate.

Is this really the path South Africa wants to choose for itself?

Another future is possible.
### APPENDIX

#### TABLE 3: A SAMPLE OF COUNTRIES/REGIONS THAT HAVE IMPLEMENTED AUSTERITY MEASURES, THEIR REASON(S) AND THE ECONOMIC OUTCOMES

<table>
<thead>
<tr>
<th>Country</th>
<th>Austerity measures implemented</th>
<th>Reason(s)</th>
<th>Outcomes</th>
</tr>
</thead>
</table>
| United States 1937      | • Over two years, government spending was cut by 17%.                                            | US economy had been growing rapidly for three years, thanks in large part to government stimulus programmes aimed at ending the deep recession that began in 1929. To tackle the United States growing deficit the government decided to withdraw stimulus. | Economic downturn caused by the decline in federal spending was commonly referred to as the “Roosevelt recession”.  
• From the autumn of 1937 to the summer of 1938, industrial production declined by 33%; wages by 35%.  
• National income declined by 13%; and not surprisingly, the unemployment rate rose by roughly 5% age points, with an estimated 4 million workers losing their jobs.  
• At the same time, the Federal Reserve built its reserves, which meant banks had less to lend. And the payroll tax had just been introduced, which worsened the situation. |
| The Union of Soviet Socialist Republics 1980s | • Energy rationing.  
• Lowering of real incomes.  
• Inflationary pricing (increased prices for essentials). | The years of late socialism in the 1980s saw the exacerbation of key social, economic, and political problems. The regimes became economically unsustainable because they had expanded military and consumer spending without adequate industrial development. There were also food shortages. | • Shortages and price increases fed working-class discontent and led to strikes, demonstrations, and riots. |
| Latin America 1980s     | • Spending cuts: Between 1980 and 2000, Latin America's public spending was among the world's     | The Latin American debt crisis originated in the 1970s and extended into the 1980s, a time often known in the region as the “lost decade”. Latin American countries had incurred high levels of debt in the previous decades due to | • From 1951 to 1979, the annual growth rate in per capita income averaged 2.7%, led by Brazil’s average of over 4%. Growth dropped precipitously in the 1980s—known as the “lost decade.” Per-capita income fell throughout the region under the impact of IMF- |
The cost of austerity: Lessons for South Africa.

Working Paper Series: Number 2
October 2019

<table>
<thead>
<tr>
<th>Sub-Saharan Africa 1980s</th>
<th>Controlling budget deficits.</th>
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<tbody>
<tr>
<td></td>
<td>Privatising public sector companies and services.</td>
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<tr>
<td></td>
<td>Dissolving parastatals.</td>
</tr>
<tr>
<td></td>
<td>Eliminating subsidies.</td>
</tr>
<tr>
<td></td>
<td>Cutting public support for social services.</td>
</tr>
</tbody>
</table>

During the 1980s the IMF demanded austerity measures in countries faced with debt problems. Structural adjustment programmes focused on the reduction of domestic demand, of fiscal deficits, and the stabilisation of public spending.

<table>
<thead>
<tr>
<th>Imposed austerity programs. By the end of the decade, per-capita income was 30% less than what it would have been had growth followed the 1951-80 trend.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin America saw a dramatic increase in inequality after 1980, with the average national Gini coefficient (the most widely used measure of income inequality) rising from 0.50 to over 0.53 by 2003. From the early 2000s to around 2013, with the renewal of progressive economic policies in Argentina, Brazil, Bolivia, and elsewhere, the Gini declined most of the way back where it was in the early 1980s. This has subsequently been reversed with the adoption of neoliberal economic policies in countries such as Brazil and Argentina.</td>
</tr>
<tr>
<td>A lack of public spending, together with the privatisation of many vital social services resulted in key services being subject to fees, which pushed them beyond the means of many.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>During the 1980s the IMF demanded austerity measures in countries faced with debt problems. Structural adjustment programmes focused on the reduction of domestic demand, of fiscal deficits, and the stabilisation of public spending.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reckless lending by mainly American banks who were awash with liquidity. Massive interest rate increases by the Federal Reserve meant that these countries were unable to service their debts. Some unorthodox economists attribute the debt crisis U.S. government banking regulations which forbid its banks from lending over ten times the amount of their capital, a regulation that, when the inflation eroded their lending limits, forced them to cut the access of underdeveloped countries to international savings.</td>
</tr>
<tr>
<td>New loans under very strict conditions, including the requirement that the candidate countries accept a set of policies from the IMF.</td>
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</tbody>
</table>

Lowest, at around 20% of GDP. 

- Currency devaluation, an emphasis on trade expansion.
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<tr>
<th>Asia 1990s</th>
<th>The implementation of IMF programmes after the financial crisis.</th>
</tr>
</thead>
</table>

- Bank closures.
- Strict enforcement of capital adequacy standards.
- Tight domestic credit.
- High interest rates on central bank discount facilities.
- Fiscal contraction.
- Structural changes in the non-financial sector.

- In the 1980s, structural adjustment programmes may have led to a disorganisation of civil services, in terms of numbers, wages, motivation. Hence the IFIs launched a ‘second generation’ of civil service reforms in the 1990s, focused on incentives.
- Vreeland (2002): via 2,095 observations of 110 countries during 1961–93, finds that IMF programmes have negative distributional consequences in redistributing income away from labour.
- Real wages fell by a 25% on average across Africa in the 1980s.

- In Asia 1990s:
  - Bank closures.
  - Strict enforcement of capital adequacy standards.
  - Tight domestic credit.
  - High interest rates on central bank discount facilities.
  - Fiscal contraction.
  - Structural changes in the non-financial sector.

- Stiglitz (2000): "All the IMF did was make East Asia’s recessions deeper, longer, and harder”.
- Bank closures, capital adequacy enforcement and tight monetary policies added considerably to the panic and contractionary force of the crisis.
- Reduced government expenditures shrank the economy further.
- Even the largest international rescue packages in history, totalling more than USD 100 billion, did not help to prevent the consequences of such policies.
- In Indonesia, the number of people living below $2 a day rose from 100 million in 1996 to 135 million in 1999, GDP declined by 15% in one year, and it took over 10 years for poverty to return to pre-crisis levels.
- In countries where structural adjustment programmes were introduced, public spending on health and
<table>
<thead>
<tr>
<th>Country</th>
<th>Measures Taken</th>
<th>Impact</th>
<th>Additional Information</th>
</tr>
</thead>
</table>
| Italy 2011 | • Increased health care fees.  
• Cut subsidies to regional governments, family tax benefits, and the pensions for the wealthy. | Italy was facing a growing pressure for sweeping measures to restore confidence and to adhere to the EU rules on debt ratios. | • Capital flight.  
• Engler and Klein (2017): “The interaction between the austerity measures and structural reforms generated a downward spiral of shrinking GDP and continued increases in sovereign debt”  
• Prime Minister Silvio Berlusconi’s replacement, Mario Monti, raised taxes on the wealthy, raised eligibility ages for pensions, and went after tax evaders |
| Ireland 2008-2013 | • Cut in government employees’ pay by 5%.  
• Reduced welfare and child benefits and closed police stations.  
• Tax increases (a 1% levy introduced on income up to €100,100 rising to 2% on salaries over that amount).  
• VAT increases from 21% to 21.5%.  
• Tax on petrol increases by eight cent a litre. | To recover from the severe recession and economic depression. | • Increasing unemployment by 3.5% by 2013.  
• The economy was 3.2 % smaller than would otherwise be the case.  
• Private consumption was lower by 7.1%.  
• Anti-austerity protests.  
• The authors of *Austerity and Recovery in Ireland: Europe’s Poster Child and the Great Recession* argue that recovery has led to even more dysfunctions within the housing market despite the sector’s contribution to Ireland’s economic collapse. Policies to alleviate housing shortages and escalating costs have also failed. |
| Portugal 2011 | • The government cut wages by 5% for top government workers. | To address perceived high debt levels, austerity measures were imposed by Portugal’s European creditors. | • Unemployment rates have climbed to unprecedented heights, reaching 15.6 % in the first quarter of 2012.  
• Youth unemployment (15–24) reached 36.2% 2012. |

Education were reduced by, on average, almost 1% of gross national product.
<table>
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<tr>
<th><strong>Spain 2011</strong></th>
<th><strong>United Kingdom 2008-</strong></th>
<th>****</th>
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</table>
| • Raised VAT by 1% and increased taxes on the wealthy.  
• Cut military and infrastructure spending.  
• Froze government workers' salaries and reduced budgets by 16.9%.  
• Raised taxes on the wealthy.  
• Increased tobacco taxes by 28%.  
To address perceived high debt levels after the financial crisis based on international recommendations and mandates. | • Eliminated 490,000 government jobs, cut budgets by 49%.  
• Increased the retirement age from 65 to 66 by 2020.  
• Cut the income tax allowance for pensioners, reduced child benefits, and raised tobacco taxes.  
• Increase in VAT.  
Intended to reduce the government budget deficit and the role of the welfare state in the United Kingdom. | • Nominal wages contracted by 3.9% between the third quarter of 2010 and the first quarter of 2012.  
• The number of people classified as at risk of poverty and social exclusion has risen with the unemployment rate, from 10.4 million people in 2007 to 13.4 million in 2014.  
• Engler and Klein (2017): “The interaction between the austerity measures and structural reforms generated a downward spiral of shrinking GDP and continued increases in sovereign debt”.  
• Libraries have closed in record numbers, community and youth centres have been shrunk and underfunded, public spaces and buildings including parks and recreation centres have been sold off.  
• Alston (2019): Rising poverty levels. For example, relative child poverty rates are expected to increase by 7% between 2015 and 2021 and overall child poverty rates to reach close to 40%.  
• The national court system has eliminated nearly a third of its staff.  
• Spending on prisons has plunged more than a fifth, with violent assaults on prison guards more than doubling. |
<table>
<thead>
<tr>
<th>Country</th>
<th>Policies and Consequences</th>
</tr>
</thead>
</table>
| France 2010- | - Closed tax loopholes.  
- Withdrew economic stimulus measures.  
- Increased taxes on corporations and the wealthy.  
- Fuel price increases.  

Austerity measures were imposed by the European Union to address debt crisis. |
| France 2010- | - France will have a deficit of 2.6% of GDP in 2017, below the EU’s 3% limit.  
- The worker unions, in general, mobilised and protestors – yellow vest protests.  
- Public debt is still high (97% of GDP).  
- Employee protection is now severely limited.  
- In May 2013, unemployment increased for the 24th consecutive month.  
- In the first quarter of 2012 alone, 207 redundancy plans were registered and 16,000 companies went into liquidation.  
- People’s purchasing power in France shrank by 1.2% in 2012.  
- From 2011-2014, French public debt increased by 3% further widening the budget deficit. |
| Greece 2009- | - Tax reform (reorganisation of its revenue collection agency to crack down on evaders) and tax cuts at a time of falling public expenditure.  

The Greek crisis started in late 2009, triggered by the turmoil of the Great Recession, structural weaknesses in the Greek economy, monetary policy inflexibility (being a member of the Eurozone), and revelations that previous data on government debt levels and deficits had been underreported by the Greek government. The EU, IMF and European Central Bank (the infamous TROika) agreed to a fiscal adjustment programme:  
- Layoffs, tax hikes, and reduced benefits curbed economic growth.  
- By 2012, Greece's debt-to-GDP ratio had increased to 175%, one of the highest in the world.  
- Bondholders had to accept a 75% reduction in what they were owed.  
- Greece’s recession was made worse by austerity and included a 25% unemployment rate, political chaos, and a weak banking system. |
**Egypt 2016**

- Steep price hikes for fuel, drinking water and electricity.
- Cut in food and fuel subsidies.
- Lower expenditure costs by 5%.
- Currency devaluation.
- New taxes.

<table>
<thead>
<tr>
<th><strong>Reduction in overall government employment by 150,000.</strong></th>
</tr>
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<tbody>
<tr>
<td><strong>Lower public employees’ wages by 17%.</strong></td>
</tr>
<tr>
<td><strong>Reduction in pension benefits.</strong></td>
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<tr>
<td><strong>Removal of the fuel subsidy.</strong></td>
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</table>

"troika") imposed austerity measures during the Greek debt crisis. The main interest of the troika was to ensure that Greece didn’t default on loans it owed to German and French banks who had made questionable loans to Greece.

- Austerity measures destroyed around 25% of Greece’s GDP.
- In October 2008, as Greece entered into a recession, suicides among men spiked by 13% and remained at a higher level in the months that followed. With a new round of austerity measures in June 2011, suicides among both men and women increased by 36%.

| **Austerity policies are tied to $12bn in loans from the International Monetary Fund.** |

- Steep price hikes for fuel, drinking water and electricity.
- Cut in food and fuel subsidies.
- Lower expenditure costs by 5%.
- Currency devaluation.
- New taxes.

- Initial reaction: public fury.
- Achieved a 0.2% (of GDP) primary budget surplus, worth 4bn Egyptian pounds ($223mn) during the 2017-2018 fiscal year, which ran from July 2017 to June 2018.
- But overall budget deficit was up by $419mn in 2017-18 compared to the previous financial year.
- Reforms have sparked downward mobility for most Egyptians; some regions in Upper Egypt, poverty rates in 2018 reached as high as 60%.
- High inflation.
Sources for Appendix Table


