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Can Austerity Work?

Summary

Introduction

Austerity policy, also called austerity policy, is a policy to reorganize the management of the state. This term very often refers to a restrictive fiscal policy in which tax revenues are increased and public spending is limited. In other words, fiscal discipline is about the merger of the state. This view runs counter to stimulus policies aimed at promoting growth. This economic policy is usually aimed at slowing inflation or reducing the government deficit and overall government debt.

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But can austerity work?

The case of Spain, where the austerity policy has worked

Spain's crisis in 2008

Before the crisis, Spain was characterized by low public spending and high growth rates. However, this high growth was accompanied by household and corporate indebtedness, leading to an increase in the dynamics of real estate and a worsening of the external deficit.

The effects of the 2008 global crisis have been reinforced by the slowdown in the growth of the real estate market, and therefore of the construction sector, the main driver of Spanish growth.

The austerity policy put in place

Since 2010, Spain has been implementing austerity measures, relying both on measures that should increase revenues and reduce expenditures. Public personnel management is one of the main criteria for cutting expenditure, along with local financial control and pension reform.

50 billion over a three-year period. About 40 billion will be paid by the state, and the remaining 10 billion will go to local communities. In order to reduce public spending, Spain's plan proposes firstly to slow down the recruitment of state employees and thus to be able to control local finances, but also to raise the legal retirement age to 67, two years more than before.

Finally, various reforms in the areas of competition, the financial sector and education have also been carried out to reorganize spending in these sectors in order to bring them under control. This should enable Spain to reduce its expenditure considerably.

Conclusion on Spain

In the end, the economic situation in Spain remains fragile due to the very high unemployment rate in contrast to European countries, but also the deficit and public debt, which remain high during the 2013 crisis in Spain. Nevertheless, the austerity policy implemented by Spain has allowed the country to grow strongly and the unemployment rate, although high, is falling sharply. It will therefore take several years to contain the crisis in Spain.

Countries where austerity policy has not worked

Argentins criss in 2001

In 1980, Argentina was already in debt and suffering from a very high inflation rate. One of the criteria that put Argentina in crisis was that the country chose to adjust the Argentine peso to the dollar in order to stabilize inflation and boost investor confidence, and when the dollar strengthened against the Brazilian real in 1999. The Argentine peso fell sharply in value against its main trading partner, Brazil.

Ultimately, this change led to a sharp drop in exports, plunging the already weakened Argentine economy into a deep recession, leading to a decline in domestic demand and a rise in unemployment to 15%.

The austerity policy put in place

As a result, Argentina lost the confidence of various international investors due to the crisis Argentina was going through. Therefore, one of the only measures a country could use to overcome the crisis was to rely on loans from the IMF (International Monetary Fund) but these were tied to strict deficit reduction conditions.

After receiving IMF aid, Argentina took austerity measures to meet many of the IMF's demands. These measures included cuts in public spending, but also in the wages and pensions of Argentine citizens, as well as tax increases and the privatization of social security.

Conclusion on Argentina

In the end, Argentina's austerity policy led to a significant drop in GDP, an increase in debt and unemployment, and half the population living below the poverty line. As a result, Argentina decided to stop IMF aid and the austerity measures that the group was imposing on Argentina and to focus on another way out of the crisis in 2001.

Conclusion

Through the different cases that we have discussed on Spain and Argentina, these two countries have both used austerity policies but not with the same result.

From my point of view, austerity policy is a delicate measure to put in place and is often a last resort to deal with the crises that the countries of the world may face. A priori this policy seems to be effective on the growth of a country as we have seen in Spain, but also an inequality on the restriction of expenditure between the government and the citizens which can generate conflicts. Moreover, depending on the management, culture and situation of a country, austerity policies are more or less complicated to implement and to be effective.

This is why I think that austerity is too risky and sometimes not very effective, unlike other measures taken by other countries which have proven to be more effective.