

Does austerity pain actually deliver long-term gain?

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An Oxford University-led study examining the consequences of the ongoing fiscal squeeze in Western economies is looking to the past to inform the present, with two academics from Victoria's School of Government providing a New Zealand perspective.

Headed by Professor Christopher Hood, the Gladstone Professor of Government at All Souls College at Oxford, the study is comparing periods or episodes of 'fiscal squeeze' across countries at different points in history to consider how austerity variously affects constitutional, political and [economic development](#).

[Academics](#) from Britain, the [United States](#), [Canada](#), [Sweden](#), [Argentina](#) and New Zealand are exploring whether austerity requires a reversal of normal political and bureaucratic routines; what shapes cutback choices when expenditure needs to be reined in; how governments shift or avoid blame from voters; and what the medium to long-term effects of such cutbacks are.

Using the "mother of all budgets" in 1991 as the point of departure for a New Zealand case study, Victoria University's Adjunct Professor Robert (Bob) Gregory and Dr Chris Eichbaum will examine the implications of the fiscal constraints in the early 1990s.

Dr Eichbaum says that the research will be of academic significance, but will undoubtedly also speak to issues confronting policymakers in the here and now.

"We can see from developments in the Eurozone, and in Greece and Spain in particular, that the policies of austerity have a direct and material impact on the economic and social circumstances of citizens, and also on political stability, sentiment and action.

"A policy prescription which has credibility with finance markets and those that advise them, such as credit rating agencies, may well be a necessary condition when it comes to charting a path to recovery. But it is by no means a sufficient one. Policy credibility needs to be twinned with popular or democratic legitimacy. That doesn't mean a situation in which no one loses—but it does mean ensuring that there is a mandate and understanding of the need for policies that may involve pain, whether in the short or medium term.

"What we are seeing in Europe is a debate over the relative merits of austerity programmes and those kinds of programmes that seek to re-balance economies (and firms and households) using economic growth as the lever. These are challenges associated with governance."

Dr Eichbaum says that public spending in [New Zealand](#) is clearly under pressure as the Government works towards the target of a modest fiscal surplus by 2014/15.

"The government of the day has an interest in getting value for money in the short-term, but it also has a stewardship interest to maintain and even build capacity for the medium to long-term. One early lesson to be drawn from the case studies already discussed by the researchers is that policy decisions taken in periods of fiscal squeeze may well have long-term and sometimes unanticipated [consequences](#)."

The study is funded by the UK's Economic and Social Research Council and the British Academy, and research findings will be presented at a conference in London in 2013.

Provided by Victoria University

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