

Austerity Measures in Developing Countries: Public Expenditure Trends and the Risks to Children and Women



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Between 2010 and 2012, fiscal austerity dominated European and North American headlines. Yet little attention was paid to the situation in developing countries. Were they also slashing budgets? If so, what would be the impact be on vulnerable populations? The global economic crisis imposed food, fuel, and financial shocks on developing economies. A fourth shock – fiscal austerity – would likely have severe effects.

Isabel Ortiz and Matthew Cummins find that austerity is not just a high-income country phenomenon. To gauge the depth and scope of austerity in the developing world, they analyze International Monetary Fund (IMF) government spending projections for 128 low- and middle-income countries, comparing three periods: 2005–7 (pre-crisis), 2008–9 (crisis phase I: fiscal expansion) and 2010–12 (crisis phase II: fiscal contraction). They review policy discussions in 124 IMF reports to identify specific options that governments were considering to achieve budget consolidation during 2010–12.

While many governments in developing countries introduced fiscal stimuli to buffer their populations from the impacts of the crisis during 2008–9, premature expenditure contraction became widespread beginning in 2010. Ortiz and Cummins confirm that the scope of austerity was severe and widened quickly, with 70 developing countries reducing total expenditures by nearly 3 percent of GDP, on average, during 2010, which increased to 91 developing countries in 2012. Moreover, comparing the 2010–12 and 2005–7 periods suggests that nearly one-quarter of developing countries underwent excessive contraction, defined as cutting public expenditures below pre-crisis levels (in terms of percent of GDP).

To implement austerity, governments weighed four main cost-saving policies that have particular risks for vulnerable populations: (1) 56 developing countries considered wage bill cuts or caps, which included reducing the salaries and/or size of public-sector workers who deliver essential

services, including basic health and education; (2) 56 countries discussed phasing out subsidies, predominately on fuel, but also on electricity and food items, despite record-high food prices in many regions; (3) 34 developing countries assessed reducing spending on safety nets and welfare benefits, often by revising eligibility criteria and targeting the poorest recipients, a de facto reduction of social protection coverage; and (4) 28 developing countries examined old-age pension reforms, including eligibility periods, extending retirement age, and lowering benefits.

Many governments also considered introducing or broadening consumption taxes, such as value-added taxes (VATs), as part of adjustment strategies. Although such taxes are a revenue- rather than a spending-side approach, they are important to highlight because increasing the costs of basic goods, like food and household items, can erode the already limited disposable incomes of vulnerable households as well as stifle economic activity. Moreover, since consumption-tax policy does not differentiate among consumers, it can be regressive, shifting the tax burden to families in the bottom income quintiles of societies and further exacerbating inequalities. Overall, at least one of the cost-saving policy options was discussed in 106 developing countries, with two or more options considered in 69 developing countries and all four options in ten developing countries—in addition to the heavy budget cuts already made.

In light of these findings, the authors question if the fiscal-contraction trajectory – its timing, scope, and magnitude – as well as the specific austerity measures considered are conducive to adequately protecting children and poor households. The authors encourage policymakers and development partners to evaluate the potential human and development costs of foregone social expenditures and, going forward, to consider alternative policy measures to ensure that economic recovery applies to all persons, including children and women.

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