Executive Summary

Fiscal austerity: *The ‘cure’ which makes the patient worse*

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Fiscal austerity and cuts in public expenditure do not work – there is a limited, if any, effect on reducing the budget deficit, and any return to prosperity is severely undermined. The reduction of the budget deficit can only come from a revival of private demand which is harmed by an austerity programme. Deficit reduction requires investment programmes and reduction of inequality to stimulate demand.

The arguments of the Coalition government for austerity are entirely spurious. It is cuts in investment in education, health care, and elsewhere and toleration of unemployment which burdens future generations, not the public debt. The budget deficit can be funded as the private sector is saving much more than it is investing, and the deficit is caused by excess of savings over investment and not by government profligacy.

It is the ‘jobs deficit’, and not the ‘budget deficit’, which should be at the centre of policy concerns. The ‘jobs deficit’ has to be addressed through the appropriate stimulation of demand and employment creation programmes. Higher investment would help rebuild the productive potential of the UK economy which has been badly hit by the financial crisis, as well as promote ‘green investment’. Reducing inequality and raising low wages would also stimulate demand. These policy approaches, highly beneficial and advantageous in their own right, would reduce both the ‘jobs deficit’ and the ‘budget deficit’.

Why, when there are unemployed resources, and when there are human needs to be satisfied, cannot the unemployed be employed to produce goods
and services which will help satisfy human need? Why is the response to the decimation of the private sector by the financial crisis to decimate the public sector to maintain some kind of ‘balance’ between the two sectors? Why is not the response to build on the strengths of the public sector, preserve its potential, and seek to re-build the private sector devastated by the financial crisis?

This publication explains why the austerity programme is economically irrational, socially irresponsible, and lacks credibility that it can reduce the budget deficit and secure any return to prosperity.
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