Austerity is the wrong prescription for the world's wellbeing

By Larry Elliott
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The quack doctors rolled into town just as the global economy had come off the critical list. It was 2009 and the message from the austerity medicine show was simple: the only way back to full health was a course of heavy-duty cuts.

Expert opinion was divided. There were other diagnoses available. There were economists who said austerity was the equivalent of going back to the days of blood-letting – but they lost the argument. The prescription, though it varied a bit from country to country, was pretty much the same across the developed world: get those budget deficits down.

The upshot was that the global economy had a relapse and has never fully recovered. Officials at the International Monetary Fund, which meets for its annual meeting in Bali this week, eventually admitted that they had underestimated the power of fiscal policy – taxes and spending – to boost growth when every country was struggling and interest rates were already at rock-bottom levels.

What's more, because austerity choked off growth it took longer than expected to bring budget deficits under control. Voters who had initially been seduced by the idea that everybody needed to do a bit of belt-tightening grew sick of austerity as the consequences of year after year of austerity became increasingly visible.

Even so, the argument between the practitioners of austerity and their opponents continues. It is going on between Theresa May, who says austerity is over, and the UK Treasury, which says it isn't. It is going on between the EU and Italy. And it is going on in academia, between those who think every pound spent by the public sector is a pound unavailable for the private sector, and those who think the idea that you can expand the economy through cuts when it is struggling is a contradiction in terms.

Nor is this a debate exclusive to economists. Eyebrows were raised among health professionals last month at the news that UK life expectancy in 2015 to 2017 had remained virtually unchanged on the previous three years – the first time this had happened since the early 1980s.

Given that the early 1980s was also a time of deep economic recession, there has inevitably been speculation that austerity is to blame for the stalling of life expectancy. In truth, it is too early to draw that conclusion but it is certainly the case that pressures on the NHS have been mounting, even with a ring-fenced budget. Health spending has been flat in real terms since 2010, once a rising population is taken into account – easily the least generous settlement in its 70-year life.

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Better examples of the impact of austerity on health are provided by other countries. The shock treatment handed to Russia after the end of communism in the early 1990s resulted in life expectancy plunging, particularly among men.

More recently, an article in the Lancet by researchers from the University of Washington has analysed the impact of austerity on life expectancy in Greece. The findings make grim reading.

Greece, which endured a slump longer and deeper than the Great Depression in the US, was forced by the so-called troika of the IMF, the EU and the European Central Bank to cut health expenditure at a time when other European countries were raising theirs.

Under Greece's bailout, health spending fell from 9.8% of GDP in 2008 to 8.1% in 2014, a time when national output was contracting rapidly. The country's death rate had risen by about 5.6% in the decade running up to the first bailout in 2010 but then jumped by 17.6% in the six years that followed. The rate rose three times faster than the rate in Western Europe overall.

Much of the increase in all-age mortality was concentrated in adults, while the Lancet article notes: "Many of the causes of death that increased in Greece are potentially responsive to care, including HIV, neoplasms, cirrhosis, neurological disorders, chronic kidney disease, and most types of cardiovascular disease. Improvements in child mortality in Greece have also stagnated since 2000, with increases in deaths due to neonatal haemolytic disease and neonatal sepsis since 2010, both of which might also reflect reduced health system performance."

One reason for rising mortality rates could be an ageing population, which is affecting many other countries as well as Greece. This has been exacerbated by the brain drain of younger workers looking for a better life. However, the Lancet article says the rise in mortality is not solely down to demographics because there have been increases in deaths of children under the age of five, suicides among adolescents and younger adults and several treatable cancers in younger adults.

The troika's austerity programme helped French and German banks avoid losses on their loans but at the expense of a rising Greek death rate. That has resulted in 50% less public hospital funding in 2015 than 2009, hospitals being left without basic supplies, the long-term unemployed stripped of their health insurance and those on low pay finding drugs more expensive because of a 20% cut in the minimum wage. The number of individuals with unmet healthcare needs has nearly doubled since 2010, with a considerable fraction reporting cost as the main reason for not receiving the recommended healthcare services.

Greece is not short of healthcare expertise. It has the second highest number of doctors per 1,000 people in the EU but that medical workforce has been forced to watch impotently as the health system has descended into chaos and people have died when they could have been saved.

For the past eight years, Greece has been used in a laboratory experiment to test out a theory. The evidence from the report in the Lancet could hardly be clearer. Austerity kills.