

Review

Blyth, Mark (2015) *Austerity: The History of a Dangerous Idea*, Oxford, Oxford University Press, paperback, £9.99

The security of families and businesses depends on Britain living within its means... My spending plans in the last parliament reduced the share of national income taken by the state from the unsustainable 45% we inherited, to 40% today. My spending plans in this Parliament will see it fall to 36.9% by the end of this decade...we will continue to deliver sensible reforms to keep Britain living within its means. On welfare, last week my RHF the Secretary of State for Work and Pensions set out changes that will ensure that within the rising disability budget, support is better targeted at those who need it most... And I can report that the latest figures confirm the richest 1% paid 28% of all income tax revenue. Proof that we are all in this together (George Osborne Budget Speech 2016).

Cutting the welfare state in the name of producing more growth and opportunity is an offensive canard (Blyth 2013 p.ix).

Mark Blyth is a butcher's son from Dundee raised after the early death of his mother by his paternal grandmother. At the start of his book he acknowledges that without the support of a strong welfare state in childhood, he would have been unlikely to have made the transition from a relatively poor background to his current position of professor of International Political Economy at an Ivy League University in the United States. A central message of this book is how a crisis in the private sector has been erroneously (and purposely) reframed as a public sector problem caused by excessive state spending. Austerity is presented as necessary to resolve the sovereign debt crisis when in fact the issue at stake was the excessive burden placed on sovereign states bailing out private banks. Banks were deemed in the US "too big to fail" linked to the fact 72% of the population live from pay check to pay check and have access to 70 million handguns, and deemed "too big to bail" for any one country in Europe linked in part to the impact of monetary union which meant bank debts had

been allowed to wildly outstrip the GDP of individual countries. This private sector failure of the rich, the banks, is still being paid for by cuts to public sector state spending, disproportionately relied upon by the poor. This, Blyth argues, is profoundly unfair and has led to an unacceptable halt of the social mobility that made his own transition possible. In this Blyth identifies as a social democrat rather than, for example, a Marxist although a 2014 postscript to his book acknowledges class politics at the heart of austerity policies that redistribute wealth from poor to rich.

His account highlights that austerity does not work on its own terms and fundamentally does not even serve the interests of capitalism. A key point that Blyth makes is that in the event of one of the inevitable crises of capitalism politicians seek an instruction sheet that will both serve their political leanings and inform their policy decisions. However, he argues:

Different theories tell us which rules to pick, which policies to follow, and how to design institutions, providing different pay offs to different groups, in the process changing the world that the theories purport to map. But economic theory is much less than an instruction sheet because of the partial nature of various theories and how incompletely they map onto the world they strive to describe (p39)

This is important because austerity policies have been applied for many years to developing countries based on a logic of free market liberalism which worked for UK and United States only because of the historical and economic context in which they developed (i.e. they had very few competitors). These austerity policies have created extreme and unnecessary hardship for populations whose countries were not operating in the same economic, cultural and social conditions. Blyth's book is useful in providing the evidence that austerity does not lead to economic growth and to offer reasons why, despite this evidence, it continues to be politically attractive. This is a book by a political economist, so the reader does have to concentrate to follow his arguments. It is in general accessibly written however and is a thoroughly researched, detailed analysis of the concept of austerity which takes the reader through its history,

marshalling the evidence that despite the common sense logic presented of reducing debt - austerity does not work and creates considerably more problems than it resolves.

In the first section of the book Blyth takes the reader through the causes of the financial crash offering evidence for his argument that the financial crisis was not caused fundamentally by immoral individuals or critically by the public sector or the state. He offers four reasons, which are admirably clearly explained. The second section of the book explores the history of the idea of austerity as a response to the failure of markets. He traces the enlightenment development of liberalism in reaction to a state which at the time was controlled by absolute monarchs. He highlights how a sensibility in relation to the state developed with key classical liberal thinkers Locke, Hume and Smith that he summarises as – *'can't live with it, can't live without it, don't want to pay for it'* (p100). This line of thinking is reflected in the statement by George Osborne above in relation to cutting government spending on the state.

Blyth takes us through the financial crisis as it impacted in Europe and the reason for the appeal of the idea of austerity. This ground is also being covered most recently in accounts by Varoufakis (2016) and Piketty (2016). Europe's shift to monetary union was a mistake, Blyth argues, as the countries involved have sharply divergent versions of capitalism. There are four ways to get out of a crisis, he suggests – inflate, deflate, devalue and default – in the Eurozone, however, states cannot inflate or devalue because the system was designed to remove those options. Defaulting is to be avoided and deflation (austerity) is seen as the only way out. He illustrates the damaging outcomes of previous austerity in the UK, Germany, France, Japan and its role in shaping the events of the Second World War. He takes on the theorists who appear to provide evidence that austerity has worked and cites the work which illustrates that the evidence actually shows the opposite, in particular and perhaps surprisingly produced by the IMF (see P214/15).

Countries who have engaged in austerity measures such as the 'REBLL' alliance (Romania, Estonia, Bulgaria, Latvia and Lithuania) have more debt than when they

started. Austerity causes misery and doesn't actually work on its own terms. He contrasts Ireland and Iceland's response to the financial crisis to illustrate that the latter country's decision to let the banks fail may well have been a positive option. He emphasises the need for higher taxes. This is constantly resisted by our current politicians with the contention that higher taxes stifle economic growth an argument easily countered with the evidence that low taxes have not in fact led to economic growth merely a growth in social inequality.

A repeated point that Blyth makes is about the distribution of debt and recovery. This is important when politicians like Osborne above continue to claim "we are all this in together." Where politicians claim recovery and growth this does not mean that ordinary people are not experiencing unemployment, insecure employment, reduced incomes and poverty. Recovery perhaps refers to financial returns on the balance sheet created by inward investment from companies or wealthy individuals buying property in London for example or locating their head offices in countries like Ireland to benefit from low corporation tax. This benefits corporations and externally located rich individuals but does nothing for the living conditions of the local population. The argument that austerity is something of a smokescreen for a redistribution of wealth from the poor to the rich, has been tackled by others (e.g. Levitas 2012, Clarke and Newman 2012). While Blyth also makes the point that austerity serves the interests of the wealthy, he also illustrates how it operates as a free insurance policy for the top 30% (who have the most influence over politicians) and is paid for by the bottom 70% hardest hit by austerity measures in the public sector and who never agreed to insure the wealthy private sector in the first place (P259).

Blyth's book adds to a growing body of literature, which convincingly makes the case that austerity not only doesn't work but is very dangerous. By grossly widening the gap between rich and poor, social stability and cohesion are seriously undermined and unwelcome spaces are created for the already evident, alarming rise of the extreme right.

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References

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