

LSE Commission on Gender, Inequality and Power and Department of Economics
Public Lecture

Inequality Matters: austerity policies, gender and race

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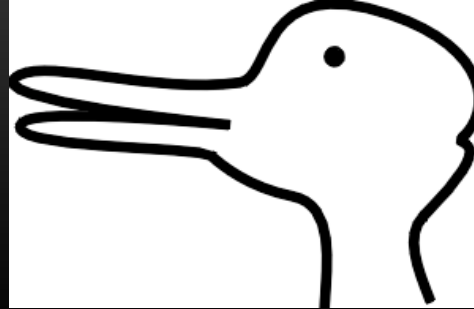
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INEQUALITY MATTERS: AUSTERITY POLICIES, GENDER, AND RACE

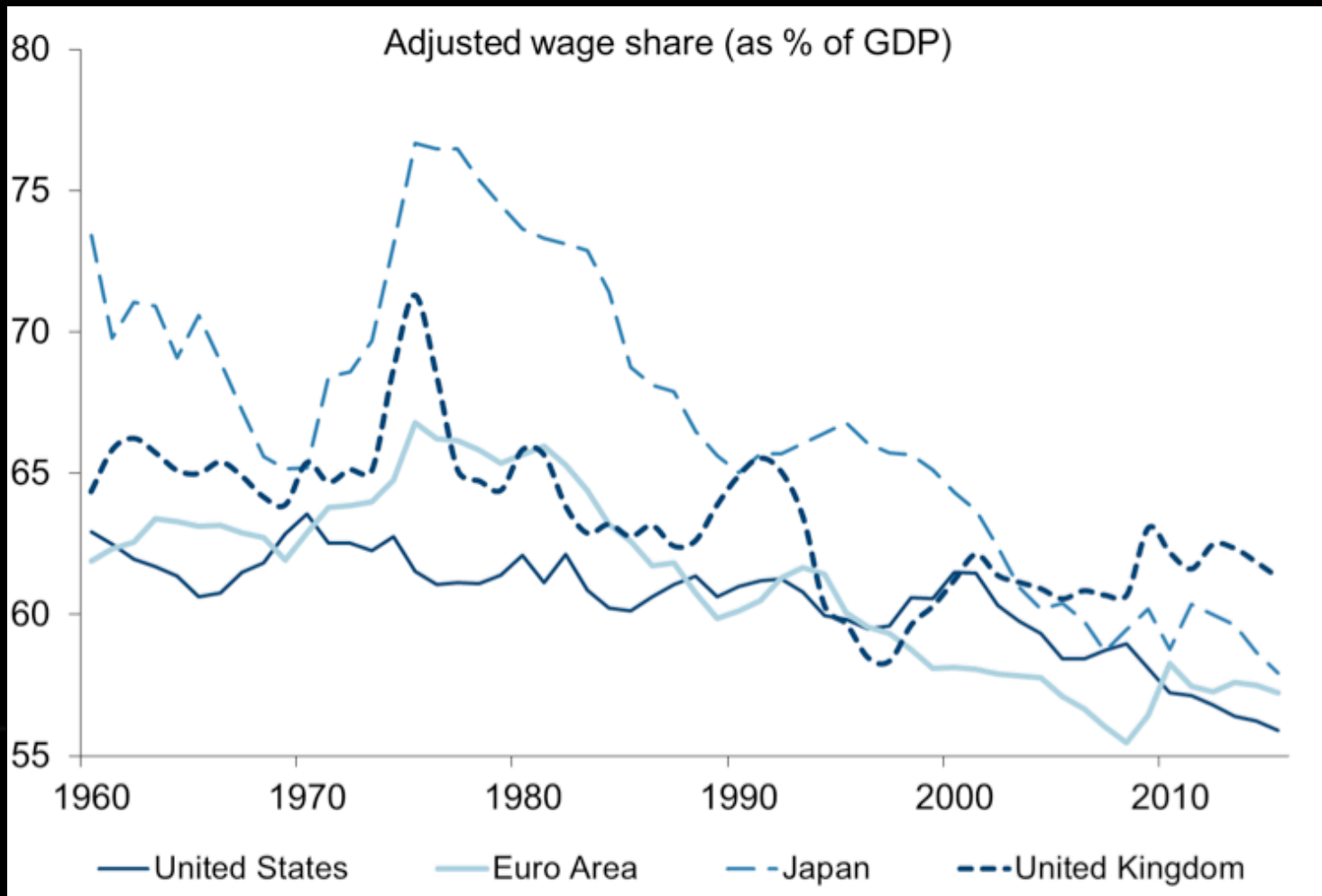
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May 2015

CONTEXT OF THE GLOBAL AND EUROZONE CRISES:

The growth of class inequality



CONTEXT OF THE CRISIS

- Employment precariousness and “feminization of work”
 - **White men:** downward harmonization to the status of racial and gender subordinate groups
 - Households borrowed to maintain living standards
-

SUBALTERN GROUPS ENTER CRISIS WITH GREATEST ECONOMIC DEFICITS

- Lone parents (largely female-headed)
 - Ethnic minorities
 - FHH in US: poverty rate of 51% (after transfers)
 - Minorities and women in lowest wage jobs
 - Few assets or savings
 - High rates of involuntary part-time work
 - Double the rate of ineligibility for unemployment insurance
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RACE, GENDER, AND THE SUBPRIME MORTGAGE CRISIS IN THE US

Minority and women applicants were **super-excluded** from mortgage credit before 2007

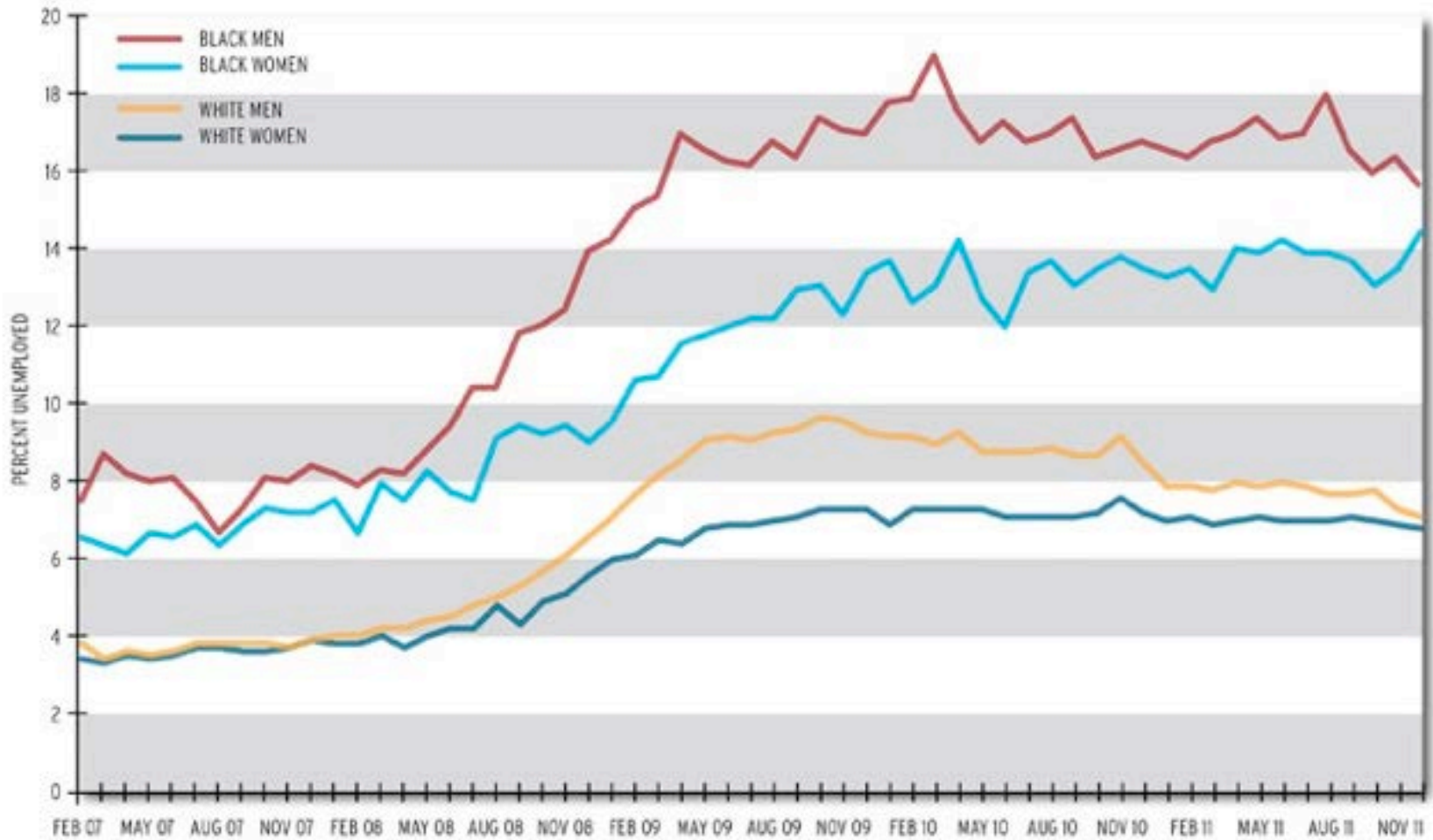
Over 60% of minority applicants had credit scores that made them eligible for prime lending rates

But they were "**super-included**" in subprime lending

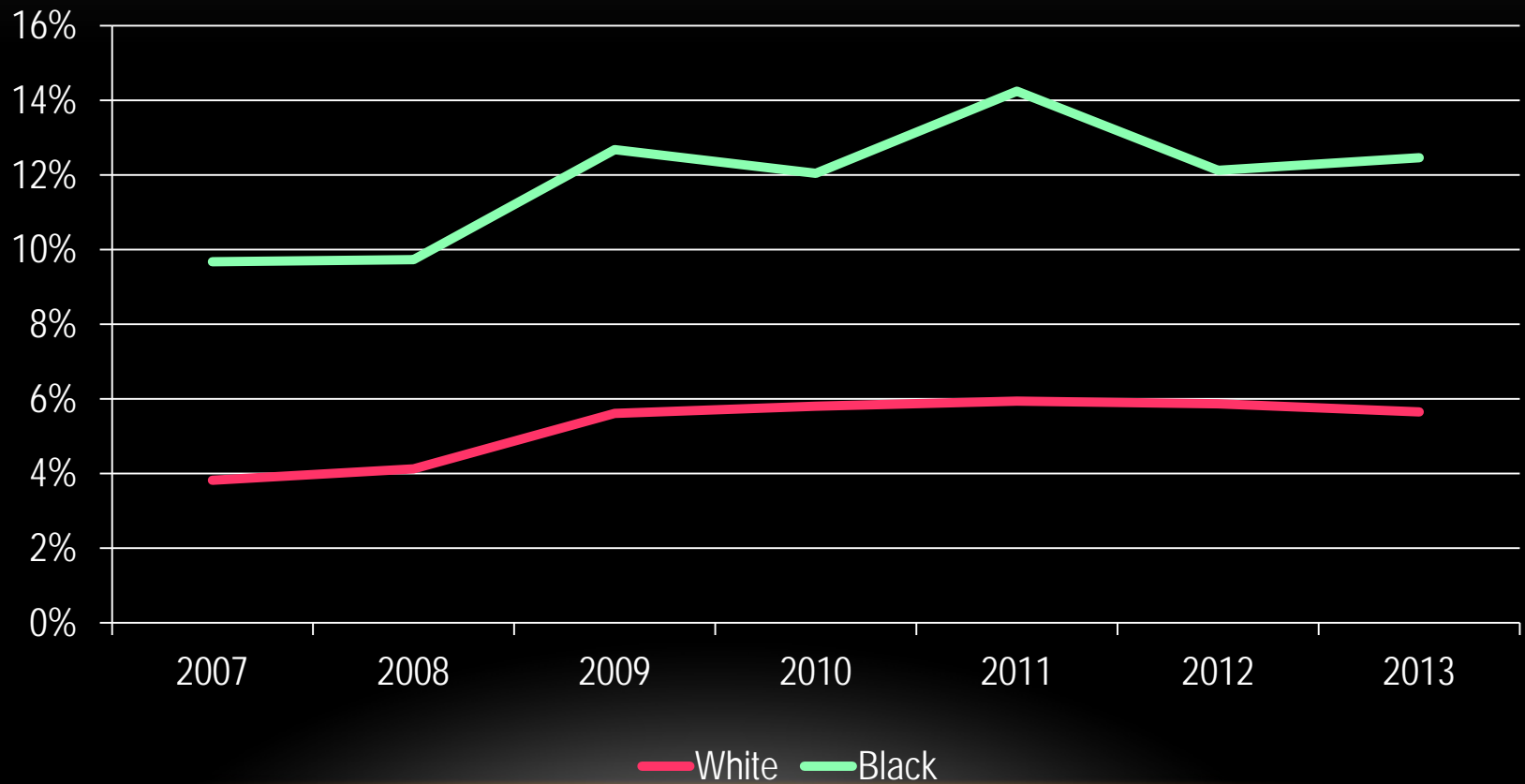
THE CRISIS: **FIRST-ROUND EFFECTS**

- Widespread **destruction of jobs**
 - **Credit dries up**
 - Sharp decline in government tax revenues
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UNEMPLOYMENT RATES BY RACE/ETHNICITY, US, 2007-2012



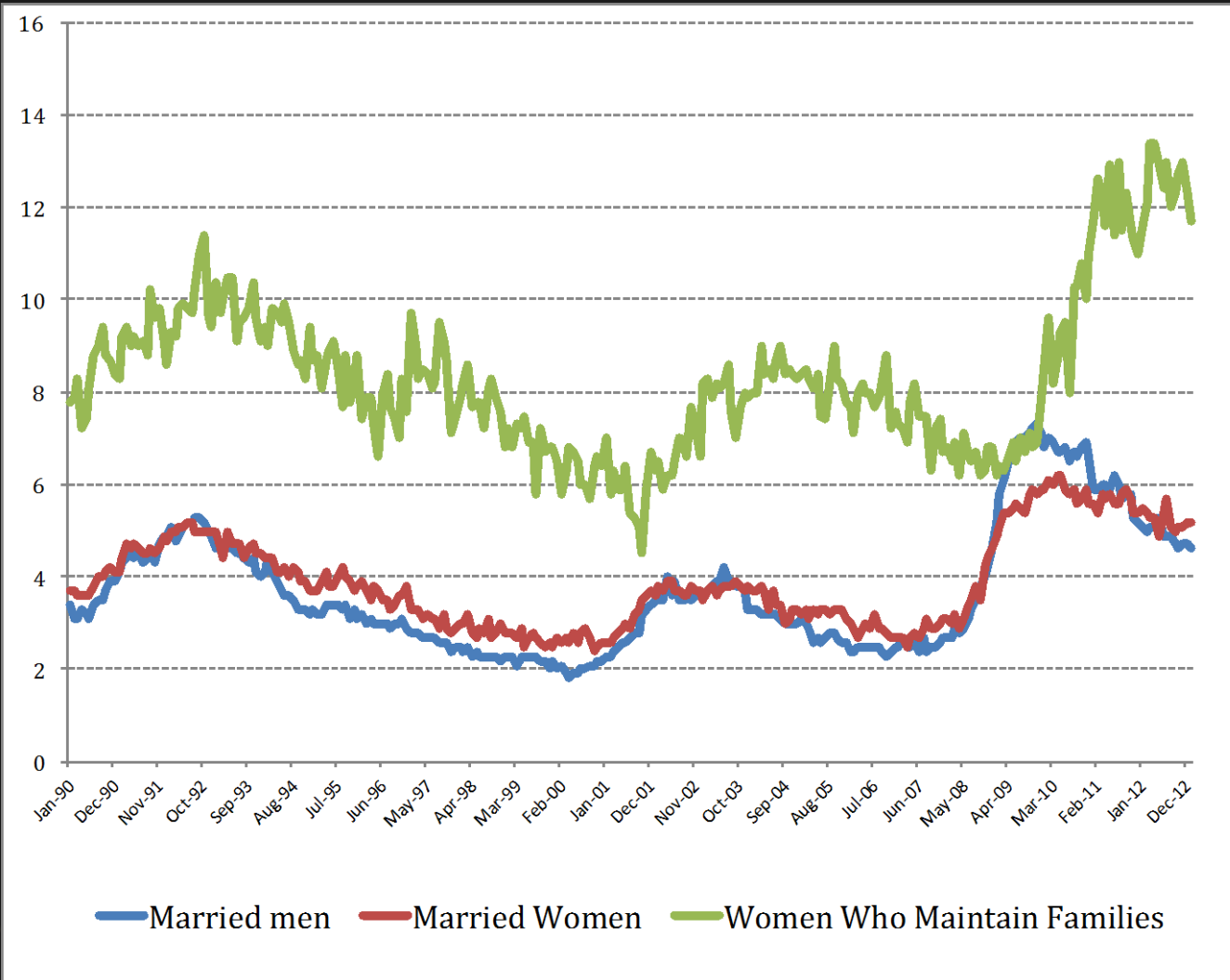
UNEMPLOYMENT RATES BY RACE/ETHNICITY, UK, 2007-2013



Race/ethnic minorities as **economic shock absorbers**: Unemployment rates in 2012

Switzerland		Females	Males
	Foreign born	13.0	9.6
	Native born	3.6	3.6
	Ratio	3.6	2.7
Germany		Females	Males
	Foreign born	10.9	13.3
	Native born	4.8	5.0
	Ratio	2.3	2.7
Denmark		Females	Males
	Foreign born	16.8	14.7
	Native born	6.7	7.0
	Ratio	2.5	2.1

US MONTHLY UNEMPLOYMENT RATES BY MARITAL STATUS, JAN. 1990-JAN. 2013



HOW DO FAMILIES SURVIVE? SECOND-ROUND EFFECTS

- Depletion of savings, assets to cushion fall
- Bankruptcy, homelessness, loss of credit rating (long-term impact)

SECOND-ROUND EFFECTS: THE STATE

- Deficits and debt rise:
 - Decline in tax revenues
 - Bank/industry bailouts
 - Increased social spending (not all are eligible)
-

OTHER SECOND-ROUND EFFECTS

- More services produced at home, unpaid care labor rises
- Women more strongly affected
- Added-worker effect

THIRD-ROUND EFFECTS: AUSTERITY

- Higher retirement age
 - Social expenditures cut
 - Higher prices for public goods
 - Education, health
-

RATIONALE FOR AUSTERITY

- Reduce public sector deficits/debt by cutting spending
 - Why?
 - Debt -> leads to loss of confidence in an economy
 - **Result:** Higher interest rates and slower growth
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AUSTERITY AS BAD ECONOMICS



SHORT- RUN COSTS OF AUSTERITY

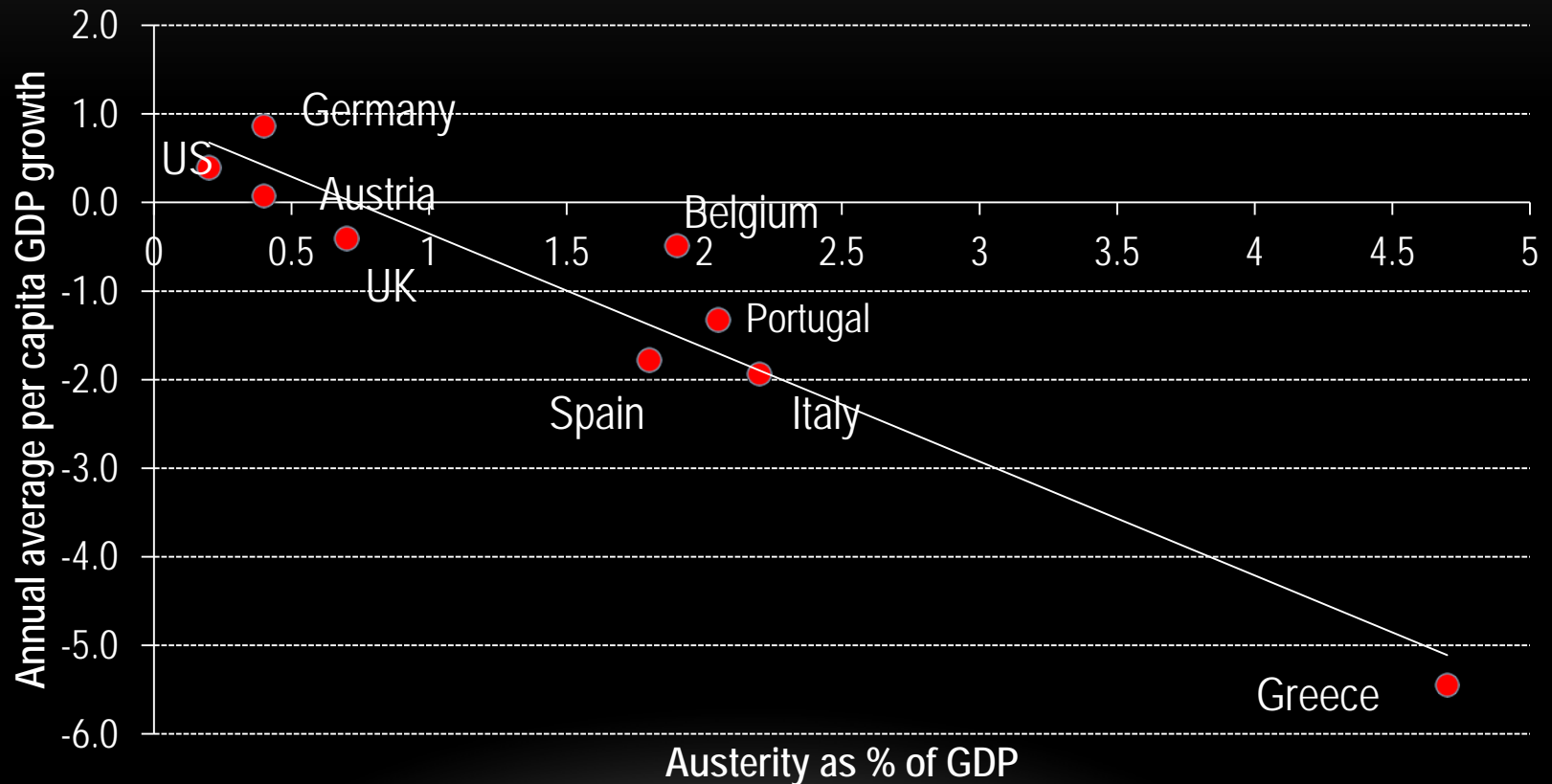


SHORT-RUN COSTS: MORE JOBLESSNESS OR SLOWER GROWTH

- Middle class is too weak to support the consumer spending that has historically driven economic growth
- Incomes & tax revenues fall

DEFICIT/DEBT as % of GDP ↑

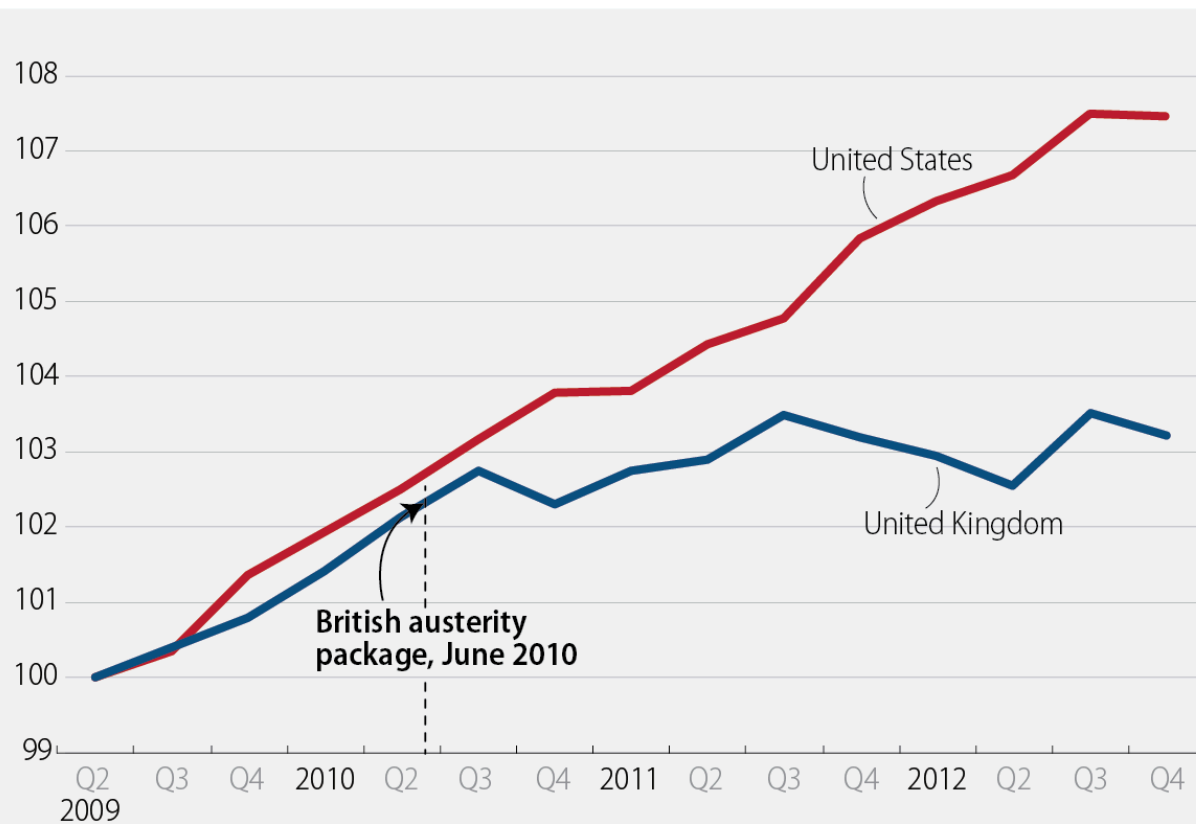
AUSTERITY AND GROWTH, 2009-13



Source: IMF World Economic Outlook 2013, WDI, and Krugman (2015)

UK experience shows fiscal austerity impedes economic recovery

Real economic growth since second quarter of 2009, United States and United Kingdom



Source: Organization for Economic Cooperation and Development Quarterly National Accounts

GROWTH HAS NOT RECOVERED AND TAX CUTS WILL NOT HELP

- Consumer debt in UK at 7-year high
 - Non-mortgage debt in 2014: £9,000 per household
- Due to insufficient demand, firms won't expand output and hire: "When there are no buyers, there are no sellers"
- Low interest rates cannot solve this problem

GENDER AND AUSTERITY

- Initially, job losses affected men more than women
 - With budget cuts in social spending, disproportionate female job losses
 - **Foreign-born women** most affected in Europe, women of color in US
 - Women in weaker position to weather joblessness
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CONTRADICTIONARY GENDER EFFECTS

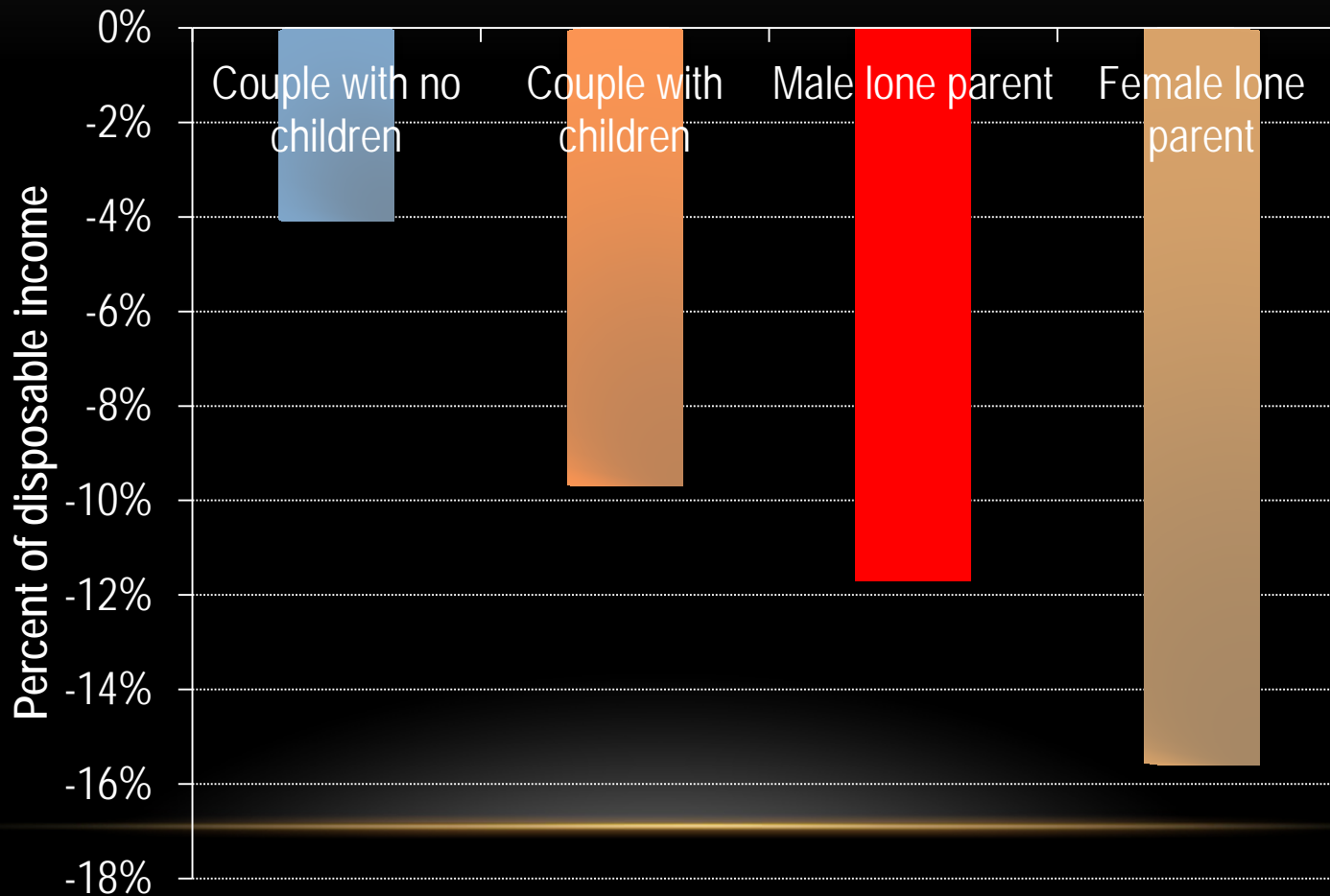
- Women's **care burdens rise** as social spending cut
- But pressure on women to increase contribution to family income by working in paid economy
 - Some men lose ability to perform breadwinner role
 - Gender conflict and domestic violence rise:
 - Males leave HH
 - Domestic violence
 - Costs of domestic violence

LONG-RUN EFFECTS OF AUSTERITY

- Consequences of underinvestment in social and physical infrastructure

AUSTERITY AND THE PRODUCTION OF PEOPLE
BY MEANS OF PEOPLE: CARE WORK

UK COMBINED TAX AND SPENDING 2010-15 AS % OF NET INCOME

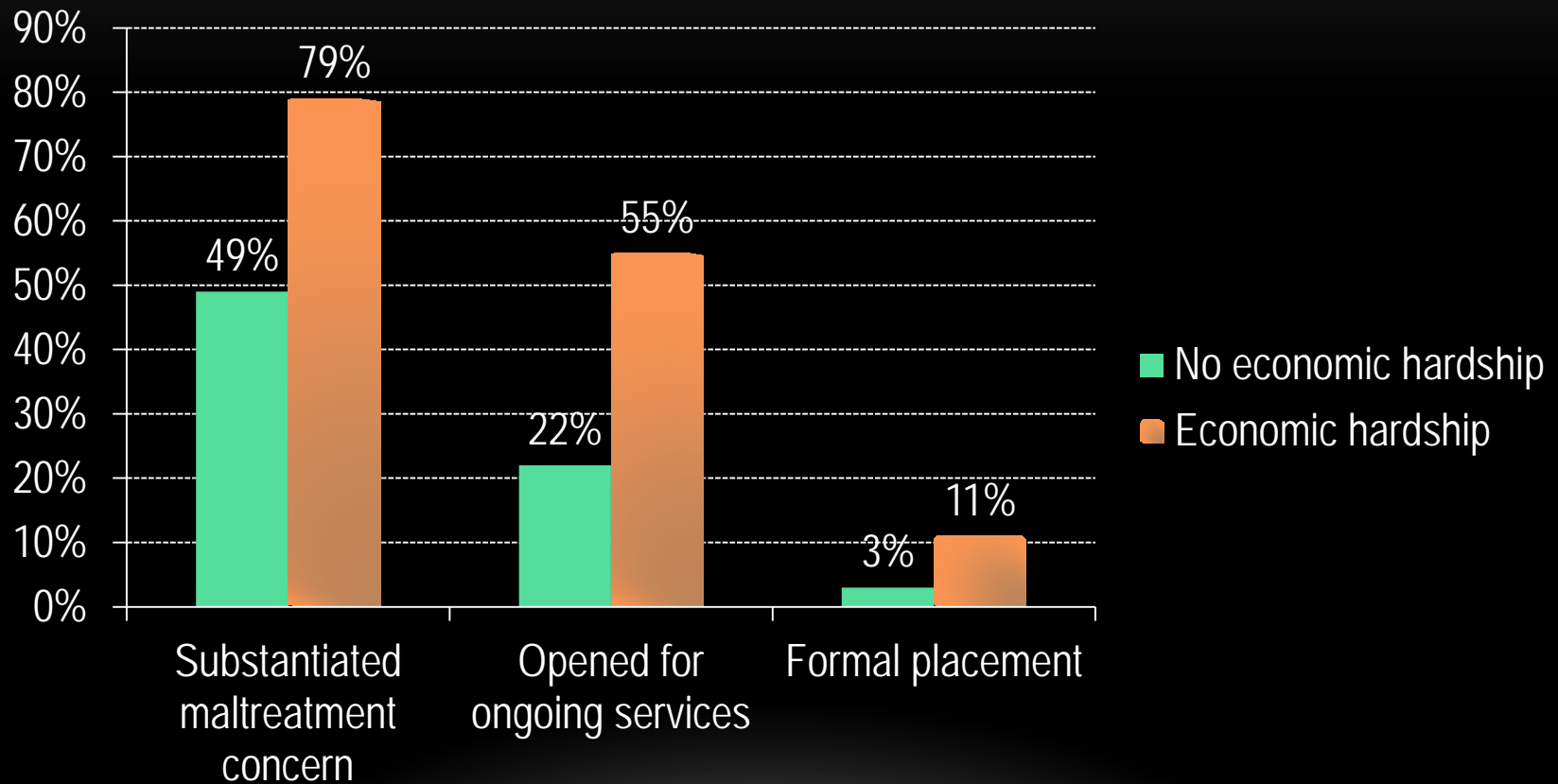


Landman Economics for WBG (2013).

GENDER AND HUMAN CAPITAL (HK)

- Once born, the most important **years for development** of a child's HK are 0-5.
- Team production defines the raising of children: *parents & family, social services, society*
- That said, children's development critically affected by well-being of mothers
 - ~25% of all HH are lone parent in US and Ireland
 - 20% in Europe

CHILD WELFARE OUTCOMES BY PERCEIVED ECONOMIC HARDSHIP, CANADA 2008



YOUTH UNEMPLOYMENT

- Older workers not retiring:
 - Loss in value of pension funds
 - Government-mandated increase in retirement age
- Limits slots for young, directly and indirectly
 - Greece's youth UE rate = 60%, Spain's = 50%
 - Chicago, black youth UE: 92%
 - Older (female) parents unavailable for care of children of young mothers

THE RUINS OF DETROIT

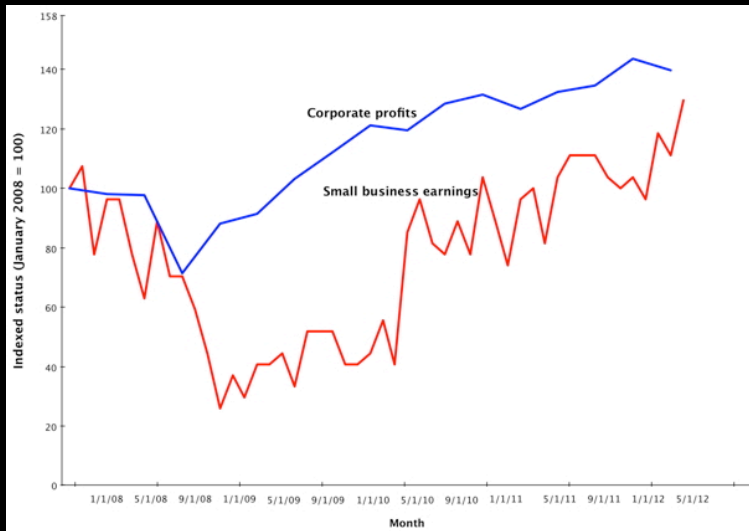
YOUTH UNEMPLOYMENT AND HYSTERISIS

- **Hysterisis** – increase in UE becomes permanent. Why?
 - Skills erosion
 - Social dysfunction – depression, suicide, violence, family dissolution
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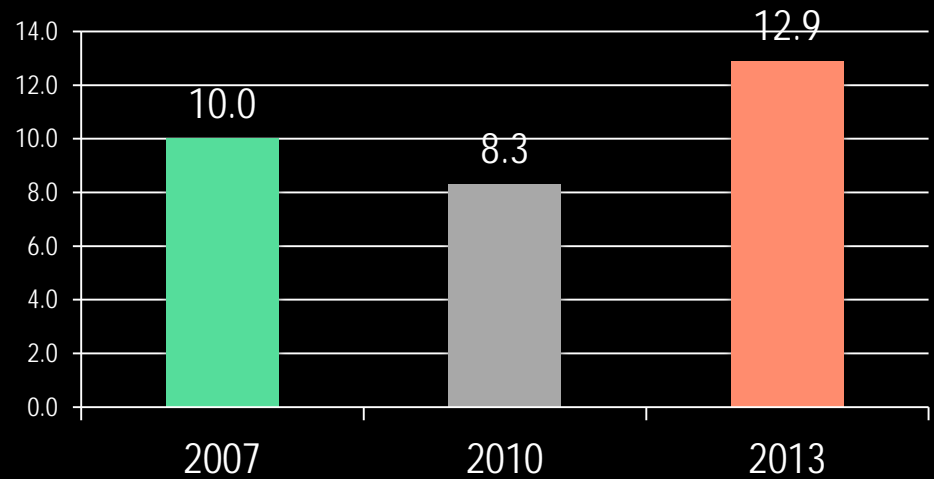
CLASS, GENDER, AND RACE/ETHNIC EFFECTS

- Male job losses → family defection, ↑ responsibility for women
- **Intragender** inequality rises: Single mothers face worse effects than married women
- **Ethnic inequality** worsens: intensification of effects on women of color
- Long-run costs of **depletion of social infrastructure** excessively high
 - Policy constraint: We are not in position to fully quantify these effects

HOW HAVE TOP INCOME GROUPS DONE SINCE THE CRISIS BEGAN? (US DATA)



US White-to-Black Wealth



A FEW POINTS TO SUMMARIZE

- **Origins of financial crisis** are not recent
 - The environmental principle “**let the polluter pay**” could have but did not guide the response to the crisis
 - Both speak the **underlying structural problems** that cannot be solved by austerity policies
-

SOCIAL SUSTAINABILITY THEORETICAL FRAMEWORK

ACCOUNTS FOR COSTS OF AUSTERITY

- Austerity impinges on social reproduction
 - Social reproduction reflects the fact that labor is a produced factor of production
 - The **human sustainability** of policies depends on the **social infrastructure** as much as the physical infrastructure
 - BUT we suffer from policy **MYOPIA**
-

POLICY MYOPIA AND THE LONG RUN

- *Myopia: Excessive discounting* of the future
 - Policy myopia arises when rational voters allow politicians to bias public investments towards short-term investments
 - Other behavioral and institutional biases:
 - *Focus on market economy* excludes social reproduction
 - *Gender and racial bias* in policy-making
 - *Financial speculation* emphasizes financial rather than human/social indicators
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ALTERNATIVE MACROECONOMIC POLICIES

1. Wage-led growth

- Job creation depends on increases in demand
- Higher minimum wages stimulate demand

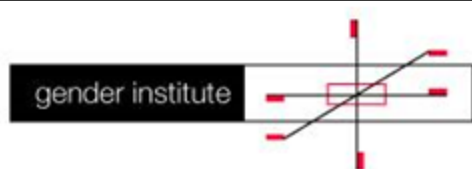
2. Prioritize spending that creates jobs for most vulnerable groups: single mothers, low-income households.

- Larger impact on job creation
 - Reduces inequality
 - Improves long-run productivity growth
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ALTERNATIVES, CONTINUED

3. Direct spending to **infrastructure**: Reduces costs of doing business and care burden
 - **Physical infrastructure**: Roads, transportation, green energy research
 - **Social infrastructure**: Education, child care, health care, training for young and older adults, food and housing support
 - These investments more than **pay for themselves** because they raise productivity, income, and tax revenues
4. Raise more revenue: **Financial transactions tax**





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