Inequality Matters: austerity policies, gender and race

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Suggested hashtag for Twitter users: #LSEtalksGender
INEQUALITY MATTERS: AUSTERITY POLICIES, GENDER, AND RACE

Stephanie Seguino
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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
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
UNEMPLOYMENT RATES BY RACE/ETHNICITY, US, 2007-2012
UNEMPLOYMENT RATES BY RACE/ETHNICITY, UK, 2007-2013

[Graph showing unemployment rates for White and Black populations from 2007 to 2013]

- White unemployment rates:
  - 2007: 4%
  - 2008: 5%
  - 2009: 6%
  - 2010: 6%
  - 2011: 6%
  - 2012: 6%
  - 2013: 6%

- Black unemployment rates:
  - 2007: 10%
  - 2008: 10%
  - 2009: 12%
  - 2010: 12%
  - 2011: 14%
  - 2012: 12%
  - 2013: 12%
Race/ethnic minorities as economic shock absorbers: Unemployment rates in 2012

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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
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
AUSTERTY AND GROWTH, 2009-13

Annual average per capita GDP growth vs. Austerity as % of GDP

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
CONTRADICTORY 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

• 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

- Substantiated maltreatment concern:
  - No economic hardship: 49%
  - Economic hardship: 79%

- Opened for ongoing services:
  - No economic hardship: 22%
  - Economic hardship: 55%

- Formal placement:
  - No economic hardship: 3%
  - Economic hardship: 11%
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 HYSTERESIS

• **Hysterisis** – increase in UE becomes permanent. Why?
  • Skills erosion
  • Social dysfunction – depression, suicide, violence, family dissolution
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**

- 2007: 10.0
- 2010: 8.3
- 2013: 12.9
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
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
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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