



Austerity in the Age of COVID-19: A Match Made in Hell?

Paul Rogers and Alasdair McKay

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Summary

The COVID-19 pandemic has been described as the biggest crisis facing the world since the end of the Second World War. So far, the virus has caused an estimated **24,000 deaths** worldwide and serious disruptions to social and economic life. The pandemic has also raised serious questions about whether the political and economic systems in many states can deal with a crisis of this nature.

Introduction

In many countries, and notably in the United Kingdom, the past forty years have seen a progressive transformation of economic policies in the direction of what is commonly termed the neoliberal model. As the COVID-19 pandemic develops rapidly, it appears that many of the consequences of the implementation of that model are proving negative for its control. In the UK this has included substantial cuts in the public health system as part of the **underfunding** of the National Health Service, **inadequate funding** of care for older and infirm people, the shrinking of the **police** and probation services, and, above all, large-scale **cuts** in the funding of local authorities.

This briefing examines the development of neoliberalism, the reasons for its rapid adoption, its presumed successes and its current problems. It questions whether, in light of the COVID-19 crisis, it can thrive, or even survive, in its current form.

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The Neoliberal Model: A Brief History

“Neoliberal” is a widely used term to denote an approach to economic organisation but it is more accurately seen as a political culture, if primarily focused on economic systems. It developed in the 1970s and took root rapidly in the 1980s, especially in the UK and the United States and progressively across the Global South, although also affecting many Western states. While it was not that radically different from the more orthodox mixed economy models in many states apart from the Chinese/Soviet Union systems, it was certainly at one end of a spectrum leaning towards a pure free market. It involved considerable change compared with the mixed economies of previous decades and has so far lasted forty years.

At the root of the approach is a much stronger commitment to high levels of competition within the shareholder model of capitalism. Indeed, this is akin to an article of faith, so much so that support is best summed up typically in the [phrase](#), believed to be coined by Thatcher, “there is no alternative”.

Competition is seen as the driving force of economic growth and inequality is seen as an inevitable result which will drive a greater desire for success. It will inevitably involve losers, but in theory they will benefit from the “[trickle down](#)” of wealth in a period of economic growth.

It involves decreased governmental control of an economy, with privatisation of state assets, the shrinking of the state being a desired outcome. State control of energy, transport, communications and postal systems, health and care services, prisons, education and many other sectors of the economy are seen to thrive best in more competitive privatised environments with even the roles of police forces and probation services being partly subsumed into the private sector. Regulation at a governmental level is frequently seen as a brake on

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economic growth with deregulation desirable wherever possible, the most important area for such action being the financial sector. Cooperation is seen all too often as another brake on growth, and the approach necessitates a tax system that encourages wealth accretion while imposing substantial limits on organised labour.

The transition to a more neoliberal political culture was hugely boosted by the economic crisis of the early 1970s, especially the era of “stagflation”, an extraordinary combination of stagnation and inflation which followed the 1973-74 oil price increases. The greatest stimulus came with political change – Reaganomics in the United States and Thatcherism in the UK. The extent of the transition in other countries varied, with trade unionism stronger in some and the tiger economies of eastern Asia retaining more central planning, but the whole transition to a neoliberal culture was hugely boosted by two factors.

One was the collapse of the centrally planned Soviet Union at the end of the 1980s along with the progressive embracing of the free market answerable to state control in China. The second was its export through the [Washington Consensus](#) of the IMF and World Bank to states and their economies right across the Global South.

It has proven to be a remarkably resilient socio-economic approach. By the end of the 1990s its ethos was strong enough to survive the Asian downturn and even survived and thrived in the aftermath of the much more substantial 2007-8 financial crisis, even if that was primarily down to the woefully inadequate regulation of financial institutions. Little was learnt from that experience except to embark on a decade of austerity in many countries. The socio-economic zeitgeist of the past ten years is often seen to be encapsulated by David

Cameron's 2009 speech where he proclaimed that "the age of irresponsibility is giving way to the age of austerity".

Supporters of neoliberalism would argue forcefully that it has involved substantial overall economic growth and much-needed control of organised labour. The global reduction of poverty is also often cited as a success story of neoliberalism by its adherents. Critics, however, have argued that the growth pointed out by supporters of neoliberalism does not match the rate of the 1950-80 period and, more importantly, has led to glaring inequalities of wealth and poverty often reaching high levels.

In the UK, it is reported that just six individuals control as much wealth as the poorest thirteen million people. But this is just one example of a worldwide trend that has also involved a high degree of marginalisation already sufficient to lead to vigorous movements of social protest. Where the concern over the current system and the shrinking of the state has recently come to the fore, though, is its impact on the response to COVID-19.

The COVID-19 Shock to the System

In this era of weaker political control, belief in the power of the market and an aversion to centralised planning and action many governments have been very badly placed to respond rapidly and effectively to the pandemic. Not all countries are in this position. China initially tried to hide the levels of regional and state inaction but then, late in the day, utilised its many elements of authoritarian nature to have a relatively early impact on a situation that was almost out of control. Some Asian states such as Singapore, Taiwan and South Korea acted more effectively, with their advantage of a more centralised

planning culture further stimulated by the chastening experience of the SARS epidemic in 2003.

The contrast with many Western states is glaring, with Italy, France and Spain being early examples. The United States and the UK have been more lately affected but are especially remiss, not even learning fast enough to recognise what has already happened to other countries. There are many factors behind this but it is partly down to a political culture that has evolved which has a deep suspicion of non-market-based behaviour. In the UK this has extended to the remarkable anomaly of the state being a substantial donor to the World Health Organisation while ignoring for far too long some of its key [recommendations](#) for handling the COVID-19 crisis.

It is also notable that there have been warnings about a threat of this nature for some time. The 2010 UK National Security Strategy [described](#) a potential pandemic as a priority risk. In 2015, the [National Security Risk Assessment](#), which fed into the UK's first [Biological Security Strategy \(2018\)](#), stressed that a deadly disease outbreak involving "pandemic influenza or emerging infectious diseases" was one of the most significant threats facing the country. The strategy warned that this type of emergency could cause hundreds of thousands of deaths and cost the economy billions. It also argued that disease outbreaks could lead to substantial insecurity overseas and harm global trade.

The same warnings were visible across the Atlantic, despite Trump's claims that no one saw this coming. In 2012, the RAND Corporation [identified](#) pandemics, along with climate change and water scarcity, as one of the major threats or "threats without threateners" to the global commons. In 2019, the US intelligence community [argued](#) "that the United States and the world will remain vulnerable to the next flu pandemic or large-scale outbreak of a

contagious disease that could lead to massive rates of death.” In fact, in the same year, the US Department of Health and Human Services undertook a [scenario-based exercise](#) where an imagined flu pandemic started in China and spread globally. Despite the warnings, the Trump administration has signally failed to effectively respond to the virus even if individual states within the Union are now acting more effectively. The number of confirmed cases in the country [recently surpassed](#) China’s with some [epidemiologists warning](#) that the death toll for the United States could eventually be as high as 200,000. Many now believe the world’s leading superpower has become the epicentre of the pandemic.

At the time of writing, the British Government has finally recognised the critical nature of the crisis and has responded with wide-ranging and immediate policy changes amounting to spectacular U-turns involving significant forms of state intervention. These have included a shift from encouraging “social distancing” to a more comprehensive “lockdown” imposed on 23 March. The Government has also embarked on significant forms of public spending designed to help the NHS, local authorities, other workers in the public sector and businesses deal with the crisis. These have [been described as](#) “unprecedented measures for unprecedented times” designed to “do whatever it takes” to help the UK endure the outbreak. While these moves have been welcomed, the New Economics Foundation have [warned that](#) after an age of austerity “you can’t simply rebuild a safety net in a week after destroying it for a decade”.

Looking Forward

Should the crisis be overcome in a matter of a few months without the suffering and loss of life that many people presently fear, then it will be critically important to learn the lessons not just as they apply to COVID-19 and similar

emergencies but also to the wider failings of neoliberal culture. In essence, the response has too often been one of wholly inadequate recognition of the need for wise leadership based on sound advice in the context of a political culture that has proved to be deeply flawed. It is an approach that is failing with COVID-19 but applies just as strongly to the global issue of climate breakdown.

Schofield (*The Guardian* letters 24 March) and others **are arguing** for the stimulation of a post-COVID-19 economic recovery rooted not just in responding to the pandemic itself but also to the inevitable recession and mass unemployment that will follow it. This should aim at moving towards a sustainable social economic system focused very much on addressing deep inequalities and moving towards environmental resilience, including heavy investment in a wide range of relevant public work programmes. The essential need for that should be easy to recognise, but the current system has been of great benefit, akin to a golden age, to hundreds of thousands of the high net worth individuals of the global elite. These realities make change extremely difficult.

Conclusion

The COVID-19 crisis may have months to run and its economic and social effects will be felt for years. It is being made worse by the influence of a political culture that was already subject to criticism and is now being shown to be entirely incapable of responding to the crisis without substantial changes in direction. These changes are now happening but are being forced on government by necessity not by intellect or desire. There is therefore a considerable risk that when the crisis does end there will be a reversion to the old culture even though it was not fit for purpose in the case of COVID-19 and is in no way able to offer an effective response to climate breakdown. Much will

depend on the vigour of the debate both during and especially after the current crisis in effecting the necessary changes.

Note: The discussion of the neoliberal transition draws markedly on “The Triple Paradigm Crisis: Economy, Environment and Security, *The Journal of Global Faultlines*, Volume 6, Number 2, December 2019-February 2020, pp 139-149 (Pluto Press: London), which extends the analysis to interrelations between economy, environment and security, with an emphasis on the inadequacy of the neoliberal model for responding to climate breakdown.

Image credit: [byronv2/Flickr](#).

About the authors

Paul Rogers is Oxford Research Group's Senior Fellow in International Security and Professor of Peace Studies at the University of Bradford. His '**Monthly Global Security Briefings**' are available from our website. His book *Irregular War: ISIS and the New Threats from the Margins* was published by I B Tauris in June 2016.

Alasdair McKay is ORG's Senior Editor.

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