**Austerity Measures**

Austerity measures are actions that a state undertakes in order to pay back its creditors. These measures typically involve slashing government expenditure and hiking taxes, and most of the time these are imposed on a country when its national deficit is believed to have become unsustainable. In this situation, banks may lose trust in the government's ability or willingness to repay existing debts, and in return can refuse to roll over current loans and demand cripplingly excessive interest rates on new lending. Governments frequently then turn to the International Monetary Fund (IMF), an inter-governmental organisation that functions as a lender of last resort. In return, the IMF typically demands austerity measures so that the indebted country is able to curtail its budget deficit and fulfil their loan obligations.

A wave of austerity measures across Europe in 2010 has seen cuts and freezes to pensions, welfare and public sector salaries as well as hikes to some taxes and excises. The Greek programme attempts to narrow its budget shortfall from 8.1 percent of GDP in 2010 to 2.6 percent of GDP in 2014 primarily by freezing public sector incomes during that period and reducing public sector allowances by 8 percent. Additionally, VAT—the Greek sales tax—will be elevated to 23 percent, and excises on fuel, tobacco and alcohol are also subject to an increase. The statutory retirement age for women will be raised to 65, matching it with the current retirement age for men. These reforms have been deeply unpopular in Greece, prompting a succession of general strikes that have further dented the economy.

IMF-imposed austerity measures have been indicted for encouraging the deep recession following the Asian financial crisis of 1997. Starting from the early 1990s, international investors from wealthier countries such as Japan and the United States began pouring money into Southeast Asia, looking to make some quick returns, and the soaring economies of Thailand, Philippines, Malaysia and others earned themselves the title 'the Asian tigers'. When things started to turn sour, however, the foreign investors panicked and retracted their investments en masse, decimating Asian currencies and turning millions of employees out of work. The IMF's role in the recovery was to impose austerity measures that kept interest rates high while driving down wages and labour standards at a time when workers were already suffering.According to one former IMF economist, these interventions on a global scale have caused the deaths of 6 million children every year.

Many economists consequently view austerity measures as a terrible blunder. John Maynard Keynes was the first to propose an alternative method, long before the Asian financial crisis. Governments, he attempted to demonstrate, could conceivably spend their national economy out of debt. Although logically implausible at first blush, this argument is based on the notion that recessions deepen from a persistent cycle of low incomes, low consumer spending and low business growth. A government can theoretically reverse this downward spiral by injecting the economy with much needed (albeit borrowed) capital. This is not equivalent to an indebted consumer spending further into the red, Keynes argued, because while the consumer gains no further income on that expenditure, the government's dollar goes into the economy and then partially boomerangs later on in the form of taxation.

Nobel-prize winning economist Joseph Stiglitz follows up on this approach by noting that households across the world are currently burdened with debt. For businesses to grow, he argues, government and consumer expenditure must kick in first. Austerity measures lower the spending capacity of households, and are therefore considered under-productive. Another recipient of the Nobel Prize, Paul Krugman, points to the recent experiences of countries such as Ireland, Latvia and Estonia. Countries that implement austerity are the 'good soldiers' of the crisis, he notes, implementing savage spending cuts. 'But their reward has been a slump—and financial markets continue to treat them as a serious default risk'.

In the United Kingdom, Prime Minister David Cameron defended the necessity of austerity measures for his country by denouncing the frivolity of governments that ratchet up spending at a time the economy is contracting. This is in line with the counter-Keynesian viewpoint, known broadly as the neoclassical position. Neoclassical economists argue that business is 'inspired' by fiscally conservative governments, and this 'confidence' helps re-ignite the economy. A British think-tank economist, Marshall Auerback, questions this line of thinking, wondering if Cameron suggests questions governments should only 'ratchet up spending when the economy is growing.' This, Auerback warns, should be avoided because it presents genuine inflationary dangers.