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THE PUBLIC VERSUS AUSTERITY

Why public sector wage bill constraints must end

EXECUTIVE SUMMARY

Education International
Internationale de l'Education
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PSI PUBLIC SERVICES INTERNATIONAL

Given they are so under-staffed and over-worked it's incredible that frontline nurses like Mary in the Upper West State of northern Ghana can keep smiling.
PHOTO: ACTIONAID

KEY FINDINGS AND MESSAGES*

The world faces a series of interconnecting crises and responding to them will demand a complete disruption of business as usual. In the light of Covid-19, the growing debt crisis, rising inequality, gender injustice and the climate crisis there is an urgent need to revisit the fundamental redistributive role of States and reimagine the public sector.

Over the past forty years, austerity policies have led to cuts in the public sector workforce that have undermined the ability of governments to deliver quality public services. One of the austerity policies that most acutely impacts public services is the imposition of public sector wage bill constraints harming the delivery of gender-responsive public services. There are two direct consequences:

1. Blocks to the recruitment of new teachers, nurses and other essential workers,
2. Strict limits to the already low pay of existing health, education and other workers.

Neoliberalism has been oversold for forty years and has stifled the very growth and development it was supposed to value.[1] It is time for a fundamental overhaul of the economic architecture and fiscal policy, for a just, feminist economic system that centres care for both people and the planet.

**This is summary of a 62-page report with much more detailed evidence and analysis –published on 12th October 2021 and available HERE.*

Building on work over the past 15 years, in the past year, we have undertaken intensive research across three continents, reviewed 69 IMF documents from 15 countries, supporting intensive national research and advocacy in ten countries, held discussions with IMF economists and undertaken a literature review on public sector wage bills.. Our research has revealed that:

- Despite IMF claims that wage bill containment is only ever temporary, all of the 15 countries studied were given a **steer to cut and/or freeze the public sector wage bill** for three or more years, and eight of them for up to six years.
- In just those 15 countries, **the recommended IMF cuts add up to nearly US$ 10 billion** – the equivalent of cutting over 3 million frontline public sector workers.
- In just those 15 countries, a **one-point rise in the percentage of GDP spent on the public sector wage bill would allow for the recruitment of 8 million nurses, teachers and other workers.**
- There is **no clear logic, rationale or evidence to justify when cuts are needed, or how much is enough.** Zimbabwe, with a wage bill at 17.1% of GDP, was advised to cut, but so was Liberia which spends 10.1%, Ghana at 8.7%, Senegal at 6.5%, Brazil at 4.6%, Nepal at 3.7%, Uganda at 3.5% and even Nigeria, which spends just 1.9% of its GDP on public sector workers.
- The latest IMF medium-term advice is to **drive every country below the global average** for public sector wage bill spending as a percentage of GDP, contributing to a long-term downwards spiral.
- Despite claims that public sector wage cuts should be **accompanied with action to expand tax revenues**, most countries experienced decreasing, stagnating and/ or inadequate tax-to-GDP ratios. Even the few countries that expanded tax revenues were advised to cut spending on the public sector wage bill.
- Public sector wage bill constraints **undermine progress on health, education, gender** and other SDGs.
- There was **no serious or systematic ex-ante or ex-post assessment of key worker shortages** in health and education to inform cuts or freezes, and no attempt to project the impact of wage bill constraints.
- Cuts to public sector wage bills were often justified as essential to free up funds for capital expenditure investments, giving the absurd impression that spending on the public sector workforce is not a valuable part of social spending. In practice, **infrastructure fundamentalism actually diverts spending away from health and education.**
- The **impact is felt triply and most acutely by women and girls,** as they are more likely to be excluded from accessing basic services, to lose opportunities for decent work in the public sector, and to bear a disproportionate share of the unpaid care and domestic work that rises when public services fail.
- IMF documents routinely used **dodgy data and inappropriate country comparisons** to drive down public sector wage spending.
- **Secrecy in IMF discussions with Ministries of Finance is now a key weapon** in the fight to preserve a failing ideology.

These findings reveal a deeply embedded mind-set that is irrationally anti-public sector. Implementation of these public sector wage bill cuts is both blunt and directionless. It betrays a bias against the public sector and connects with wider anti-labour policies and trade union busting. These measures undermine the fulfilment of human rights and achievement of the SDGs, and block climate action.

But movements to push back against austerity are getting stronger. A radical reimagining of the public sector and its workforce is key to the response to the multiple crises of Covid-19, climate and inequalities. **It is time to recognise and act on positive cycles of investment in public services, to build economies and societies that care for both people and the planet. It is time for the IMF and finance ministries to disavow austerity and prioritise the public sector.**

1. INTRODUCTION

'Austerity', 'structural adjustment', 'economic discipline', 'medium term fiscal frameworks', 'financial restraint' and 'fiscal consolidation'. Over the past fifty years the language may have changed, but the meaning has not: public sector cuts. Whether imposed from outside by the International Monetary Fund (IMF), or from inside by Ministries of Finance who have internalised the same neoliberal ideology,[2] one of the central austerity policies that most acutely impacts public services is the imposition of public sector wage bill constraints. This policy is wrapped up in diverse justifications but there are two clear direct consequences: blocks to the recruitment of new teachers, nurses, and other personnel, even where there are severe shortages; and strict limits to the already low pay of most health, education and other public sector workers that undermines recruitment and retention of the qualified and skilled staff needed to provide quality public services.

Over 15 years ago ActionAid documented the impact of public sector wage bill caps imposed by the IMF as an explicit condition of loans in low income countries, showing how they blocked progress on education[3] and on HIV&AIDS responses.[4] After three years of consistent research, advocacy and collective pressure alongside others the IMF backed down in 2007 and removed public sector wage bill caps as a condition of loans worldwide.[5] The IMF Executive Board at the time said that it *'welcomed the declining incidence of such ceilings in Fund-supported programs,'* and hoped to dispense with them entirely.[6]

Our research in April 2020,[7] showed that the IMF had backtracked. It offered coercive policy advice to governments to either cut or freeze public sector wage bills in 78% of the countries where data was available – and this rose to 90% when we revisited the data in October 2020, looking at the initial impact of Covid[8] The recent Global Austerity Alert suggests 154 countries face austerity in 2021 with this rising to 159 countries in 2022.[9] Public sector wage bill cuts are flagged as the austerity measure that is likely to generate the most negative social outcomes.

Some finance ministers in low- and middle-income countries need little persuading by the IMF - they have internalised neoliberal ideology and already believe that there is no alternative. Others struggle to get support to pursue alternatives, or accept that this is not possible given the constraints of the present international order. Too many share a view that the State should be *'deployed to serve markets through institutions, norms and laws that protect and facilitate private sector needs at the expense of the public sector'.*[10] Too often there is a convergence of mind-sets, leading to more stringent and extreme austerity than we have seen for a generation. This could be particularly toxic post-Covid, and have a devastating impact on our collective capacity to address multiple crises.

The effects are clear. The World Health Organization (WHO) estimates a global shortage of 5.9 million nurses,[11] with almost 90% of those in low- and middle-income countries. Filling these gaps means addressing low pay across the nursing profession, where 90% are women.[12] Meanwhile, UNESCO estimates that 69 million more teachers are needed over the next ten years to achieve the goal of universal access to primary and secondary education by 2030.[13]

When core education and health goals are not met, the impact is felt triply and most acutely by women and girls, who are more likely to be excluded from accessing basic services and lose opportunities for decent work in the public sector, and who bear a disproportionate share of the unpaid care and domestic work that rises when public services fail.[14] Thankfully, after forty years of shrinking and squeezing, people are pushing back against the cult of austerity[15] and reimagining the role of the public sector for a more caring, feminist, green and just future.[16]

Over the past year, we have researched in much more detail what finance ministries and the IMF have been doing about public sector wage bills, supporting intensive national research and advocacy in ten countries, reviewing 69 IMF Article IV[17] and loan documents from the past five years across 15 countries, analysing the IMF and wider literature on public sector wage bills, discussing key issues with senior IMF economists and others, and collating testimonies from frontline public sector workers with the help of Public Services International and Education International.

2. FISCAL SPACE AND THE MYTH OF THE TEMPORARY

2.1 Are these measures temporary?

In our interviews with the IMF the main reason given for public sector wage bill containment was the need for 'fiscal consolidation.' We were consistently told that these measures were always temporary. Sadly, our findings suggest that public sector wage bill containment is often anything but temporary (see Table 1, page 6).

Our review of Article IV and loan documents (2016-21) found that all of the 15 countries were **given a steer to cut and/ or freeze the public sector wage bill for three or more years, and eight of them for a period of five or six years.**[18] If the IMF's most recent budget steer is adhered to, this will constitute a cut to the wage bill over a 5-11 year period for 12 of the 13 countries where analysis is possible.[19] Some of these shifts in percentage points may seem to be minor, but they have very real and damaging effects. In just these 15 countries, the recommended IMF cuts add up to nearly US$ 10 billion, which is the equivalent of cutting:

- 583,356 teachers **and**
- 387,614 nurses **and**
- 2,082,004 other public sector workers.

That is a total of over 3 million public sector workers effectively lost in just 15 countries, because the IMF set a target to constrain the public sector wage bill. This coercive advice has very real impacts on people's lives, affecting the ability of countries to provide basic public services and fulfil development goals.

2.2 What percentage of GDP should be spent on the public sector wage bill?

One might assume that these 15 countries have unusually high spending on the public sector wage bill. In fact, only two of them spend above the global average on their public sector wage bill. The latest IMF advice involves every single country being driven below the global average.

2.3 Has action been taken to increase fiscal space?

To further test the IMF argument that public sector wage bill constraints are always temporary, we examined whether there was any evidence that countries were being supported to expand their fiscal space. Action on tax can be critical to prevent a downward spiral. The IMF has suggested that most countries could expand their tax-to-GDP ratios by 5% by the end of the decade.[20] Yet in five of the 14 countries reviewed,[21] tax-to-GDP ratios went down during 2016-2018,[22] and in a further five they only rose very modestly.[23]

The IMF also recommends that countries with low tax-to-GDP levels aim for a bare minimum threshold of 15% tax-to GDP. This is based on evidence that this triggers a higher growth path, and that low tax ratios result in inadequately low levels of social spending.[24] In 2018, eight of the 14 countries we reviewed were below this threshold,[25] and a further two (Kenya and Senegal) were only slightly above it. In other words, despite being below the IMF's own recommended minimum tax-to-GDP ratio, the majority have experienced decreasing, stagnating and/ or inadequate levels of tax-to-GDP, while being given a clear and consistent steer to cut or freeze spending on public sector wages.

2.4 Have countries with expanding revenues been allowed to spend on the wage bill?

Another way of looking at this data is to explore whether public sector wage bills have been allowed to increase in countries that are actively making progress in expanding fiscal space. Four of the 14 countries we reviewed had tax-to-GDP ratios above the minimum threshold of 15% in 2018, *and* experienced significant tax-to-GDP increases in the period 2016-18.[26] Yet, in the documents we reviewed, they were still advised to cut and/ or freeze their public sector wage bills over a period of three to five years between 2016 and 2021.

Table 1. IMF advice on public sector wage bills to selected countries (2016-21) and implications for the number of public sector workers lost due to cuts

	Years advised to FREEZE or CUT PSWB as % of GDP	Impact of meeting latest medium-term PSWB target (percentage points) [Financial Year period]	Target Public sector wage bill as % of GDP (%)	Losses (in US$ millions) on public sector workforce spending	Number of lost teachers (20% of losses) as per UNESCO benchmarks	Number of lost nurses (15% of losses) as per Abuja Declaration	Number of other lost public sector workers (65% balance)
Bangladesh	3	0.2% cut [FY16-25]	2.1	605.1	33,821	19,895	115,389
Nigeria	6	0.4 cut [FY15-25]	2.2	1792.5	329,431	137,148	1,315,933
Nepal	3	1.1 cut [FY15-24]	2.9	376	18,066	37,388	34,877
Uganda	4	0.1 cut [FY16-25]	3.6	35.2	746	3,803	0
Kenya	6	1.4 cut [FY14-24]	3.8	1337	51,230	45,101	159,820
Zimbabwe	5	11.1 cut [FY15-23]	4.9	1879.5	49,289	40,649	156,511
Tanzania	3	0.5 cut [FY15-20]	5.3	305.7	12,222	7,283	41,614
Senegal	5	Unclear	6				
Sierra Leone	6	1.4 cut [FY15-26]	6	57.7	1,664	1,746	4,912
Ghana	3	1.8 cut [FY16-24]	6.9	1210.2	41,519	34,158	131,919
Malawi	4	Increase 1.2 [FY16-23]	7.5				
Zambia	3	1.0 cut [FY16-24]	7.7	279.7	12,060	15,356	32,882
Liberia	6	5.0 cut [FY15-25]	7.8	153.5	5,756	5,727	17,299
Vietnam	6	Unclear	8.9				
Brazil	5	0.1 cut (federal FY16-25]	4.0	1877.8	27,552	39,360	70,848
				9,909.9	**583,356**	**387,614**	**2,082,004**

Source – data analysis of IMF documents by Emma Seery, fuller table with detail available HERE. Equivalents in US$ and public sector workers by Howard Reed (fuller table HERE)

Whichever way you look at the data, the IMF narrative fails to add up. These cuts and freezes to the public sector workforce are not based on a lack of fiscal space if countries with expanding revenues are still being forced to make cuts.[27] These measures are not temporary as they are the default recommendation year on year. Countries that fall far below global or regional averages for spending on public sector wages are still being forced to cut back further. And for countries that are advised to cut, there is no evidence that action is being taken to expand tax revenues or take other measures to expand fiscal space, even where this is clearly possible.[28] There is no clear logic, rationale or evidence to justify the routine use of public sector wage constraints … so why are they still so widespread?

3. DODGY DATA AND INIQUITOUS COMPARISONS

3.1 Country Comparisons

The IMF has no publicly available analysis of an acceptable level of spending on the public sector workforce as a percentage of GDP – or even a range adapted to different country or regional contexts – to enable them to recommend reductions. Zimbabwe with a wage bill at 17.1% of GDP was advised to cut, so was Liberia at 10.1%, Zambia at 9.1%, Ghana at 8.7%, Malawi at 7.7%, Senegal at 6.5%, Tanzania at 5.4%, Brazil at 4.6%, Kenya at 4.4%, Nepal at 3.7%, Uganda at 3.5% and even Nigeria spending just 1.9% of its GDP on public sector workers. These are huge variations, and yet the advice is consistently to drive further downwards.

In our review of IMF documents, we found few examples of countries being offered a comparison with regional or global averages for wage bill spending. Rather, we encountered several cases of fairly random country comparisons being offered, which always had the effect of making the focus country seem like an outlier.[29] The most outrageous example of this is the 2020 Article IV document for Vietnam (published in 2021), which compares the Vietnam wage bill as a percentage of GDP to *'Low-Income Developing Countries'*, showing Vietnam to be well above the average, at around the 90th percentile of the range. But Vietnam is a middle-income country, so this comparison is irrelevant … and highly pointed.

3.2 The Public Sector Wage Premium

IMF policy papers consistently suggest that it is a problem when public sector wages are higher than those in the private sector. The so-called 'public wage premium' is said to 'distort' the labour market, and Article IV reports regularly advise countries to undertake comparisons between public and private sector wages. The effect of these is often to justify effective pay cuts – or below inflation pay rises – for public sector workers. The logic of this approach seems not to be questioned by the IMF or most finance ministries, and yet it is fraught with difficulties. What are the equivalences used and how do you make effective comparisons? How do you factor in training, professional development, working hours and conditions, contract-types, perks, bonuses and benefits?

One interesting dimension of this is that the public wage premium is often higher for women and low-skilled jobs than for men and high-skilled jobs. This reflects that women are more likely to secure decent work and pay in the public sector, and that the private sector is more likely to exploit women and low-skilled workers. The gender pay gap is ten percentage points lower in the public sector than the formal private sector.[30] The effect of making these comparisons is thus inevitably felt most acutely by women working in frontline public sector roles, who are likely to be the first to suffer pay cuts.

The use of the emotive term 'distorted' warrants further analysis. It is routinely suggested that pay in the private sector is 'distorted' by moderately higher wages in the public sector. Yet little regard is given to the value of the work done, or the relative benefits of a low skill/wage or high skill/wage growth strategy for developing countries, or whether higher pay is necessary for the recruitment and retention of scarce skilled workers. Higher pay in the public sector can actually serve to positively pull up the minimum pay and conditions of workers in the private sector, and this could be framed as a 'lighthouse effect.' Sadly, the opposite perception predominates in Article IV advice, creating pressure to cut public sector pay.

3.3 Missing Data: How Many Health and Education Workers are Needed?

Cuts or freezes to the public sector wage bill will impact on the pay of the existing workforce, and perhaps even more dramatically on the prospects of a country recruiting new public sector workers. Many countries have desperate shortages of workers, including in health and education, especially in light of increased needs to address the Covid-19 pandemic. In our discussions the IMF consistently emphasised their 'granular analysis' of each public service before making any recommendations, but this national analysis is never published making it hard to know what data is used to inform their decisions. This lack of transparency makes it difficult for national civil society to challenge decisions and hold government to account.

The IMF does not appear to seek the advice of expert institutions such as WHO, UNESCO or UN Women when it comes to determining shortages of health or education workers, gendered impacts or indeed anything else, and there are no references to them in published documents.[31] Overall, there seems to be little systematic effort to determine what shortages there may be, despite the fact that wage bill constraints have a dramatic impact on efforts to address them.

Rajkumari Chaudhary is a 23-year police constable in Doti district of Nepal. Women police can play a transformative role but changing the traditional profile of public servants working in different services is a challenge when new recruitments are frozen. PHOTO: ACTIONAID

4. INTENDED AND UNINTENDED IMPACTS

4.1 Creating fiscal space for 'development'?

A common message across the documents reviewed is the need to cut recurrent spending on the public sector wage bill to free up funds to invest in capital expenditure on public services. In essence, this reflects a bizarre and circular mantra: countries should cut their spending on public services in order to increase their spending on public services!

This is evidently illogical. Investment in the public sector wage bill *is* social spending, and in many cases *is* the most important spending on priority sectors for development – even on the IMF's own terms. The suggestion that you need to cut spending on teachers to improve spending on education makes no sense. Evidence shows that nothing is more important for quality learning than a quality teacher, and teacher salaries often make up 90% of the education budget. Teachers *are* the core of the social spending that is needed on education.

4.2 Advancing infrastructure fundamentalism

The logic of the IMF and too many finance ministries places *things over people* – one off investments over recurrent costs. This reflects a belief that real development is building things. Capital investment is social spending. This deep attachment to physical infrastructure over people is the fundamentalism that helps to drive the never-ending squeeze on public sector wage bills. And this is profoundly gendered, as women are the majority of workers in the social sectors of public services, but men are overwhelmingly dominant in construction.

In very few cases do references to infrastructure include hospital beds or school buildings, or indeed any significant capital spending on health or education. Alongside wage bill constraints, the result is a double whammy for health and education: less money for staffing and very little in the way of increased capital spending.

Thankfully there are signs of an alternative, for example in Senegal where the government has defined 'public investment' to include the spending on wages and salaries of frontline staff in education and health, treating them as part of the core infrastructure of the country to be protected even in recessions.

4.3 Opening doors to the private sector and charging fees for public services

Whilst squeezing the public sector, the IMF (along with the World Bank) remains convinced that Africa in particular *'needs to mobilize more financing from and to the private sector'*.[32] Despite some parts of the IMF raising concerns about privatisation, the advice at country level seems broadly consistent: the public sector is the problem and greater private sector engagement is the solution. This seems to be a deeply embedded mind-set in the IMF, brought home most starkly on one of our calls with a senior IMF economist who commented: ***'The public sector should only provide services where the private sector cannot make a profit.'***[33]

4.4 Busting the unions

There has been a race to the bottom on labour rights, and the reduction in labour power correlates with a smaller share of national income for workers and rising income inequality. Even the IMF agrees that *'The decline in unionization in recent decades has fed the rise in incomes at the top'*.[34] Constraining the public sector wage bill has the effect of enabling the government to resist worker demands, which is made easier when they can blame this on an external force – the IMF. Unions and protests are portrayed by the IMF as the obstacle rather than the barometer of what is acceptable in enforcing cuts. In several Article IVs, the tone of statements suggests that trade union pressure or street protests were annoying interruptions to the enforcement of a 'sound' policy. It is not too much of a leap to then suggest that part of the subtext of public sector wage constraints is to actively diminish the power of the trade union movement.

4.5 Cutting with the bluntest of tools

A generalised cap or cut or freeze on the overall public sector wage bill can trigger a huge range of actions from governments, some of which contradict the very things the IMF wants to see. It is a blunt tool which can create all sorts of unintended pressures and distortions, leads to incoherent behaviour and should have no place in the planning or thinking of finance ministries or the IMF. It is not in fact a meaningful policy, but rather betrays and illustrates a mind-set, ideology, bias, and deep and unjustified prejudice.

As with all prejudices, this feeds into and from a picture in the back of people's minds: in this case of overpaid bureaucrats sitting at desks creating unnecessary regulations. Sometimes reforms and improvements are of course needed,[35] but there is a case to be made for reassessing our prejudices against bureaucrats.[36] Coordination and administration are crucial for the efficient functioning of any service. Effective disaster preparedness and health emergency planning is difficult to justify when budgets are under pressure, and all too often when bureaucracies are squeezed by austerity, gaps appear that are deeply regretted - as with Covid-19.[37] Responding to the climate crisis will require meticulous planning and a transformation of public services, which will depend on capable and committed back-office staff.[38]

The ability to regulate markets to ensure that they are efficient rather than exploitative or extractive relies on strong and accountable government capacity. Outsourcing policy to the private sector is a recipe for undermining democracy. The tax administrator in a government office is perhaps seen as the epitome of the desk-bound bureaucrat, yet the amount of tax revenue collected by national governments is closely linked to their investments in tax administration.[39]

4.6 Undermining the SDGs and Women's Rights

Senior IMF economists flagged to us how, in most cases, health and education staff were specifically exempted from any cuts. But, in documents from ten of the fifteen countries[40] where IMF advised cuts or freezes to wages and/or recruitment of public sector workers, we found no accompanying language specifying exemptions or protection for health and education workers. Even where exemptions are made, the guidance to 'protect' from cuts may be interpreted as a 'freeze' in pay or recruitment. In practice, constraints on the overall wage bill are hard to deliver when the largest groups on that wage bill (health and education workers) are exempt.

If these 'good' workers (that make up a third to a half of all public sector workers) are to be 'protected', then cuts will need to be deeper in other 'less essential' sectors. But who exactly are the non-essential public sector workers who should be targeted for cuts?[41] Local, municipal or district workers who provide housing, garbage collection, environmental services, agricultural extension workers, firefighters and public transport? Or national government officers who coordinate delivery, regulate markets, plan the climate change transition, resource the justice system and create policy? Or those working to prevent or respond to gender-based violence or who care for people with disabilities, the elderly or pre-school children?

At present there is no requirement for the IMF or finance ministries to document the impact of these policies – whether intended or unintended - or do an ex-ante impact assessment. This would not be hard to do. The logical action would be to take human rights obligations or the SDGs and their associated targets and indicators as a starting point. The impact of wage bill freezes on progress towards these goals could be projected (ex-ante) and analysed in retrospect (ex-post), but to date this does not happen.

The IMF have identified gender equality as a macro-critical issue, meaning that it should be high up the agenda. The IMF's Note on Operationalising Gender in Country Work[42] urges that *'Country teams should also think about the impact of other macroeconomic policies on gender. For example, budget cuts on subsidies and social programs, cuts in the public-sector wage bill…'*. Sadly, we found no evidence of any gender analysis of the impact of public sector wage bill constraints, and there is no evidence that the IMF seeks alternatives or proposes mitigating measures.

4.7 Undermining climate action

Our analysis of public sector wage bill constraints also showed how they impact on climate action. In some cases (depending on national accounting or statistical methods), one of the easier ways for a country to reduce its public sector wage bill is by privatising State-owned enterprises. Many developing countries retain a significant stake in fossil fuel industries (oil, gas and coal), and consider energy to be a sector where nationalisation makes sense. The climate crisis requires us to leave most of these resources in the ground, meaning that governments need to make some very difficult choices, balancing multiple interests, in the coming years. Governments are almost certainly best placed to make such decisions for the long-term interest, rather than multinational corporations whose primary concern will always be to maximise short- and medium-term profits.

5. A SHRINKING IDEOLOGY

The use of overall public sector wage bill constraints by the IMF and finance ministries is blunt and ineffective. No credible evidence base to establish what percentage of GDP should be spent on the public sector wage bill has been presented, yet countries are consistently and repeatedly urged to cut - even when their wage bills are far below global and regional averages. The intended consequences of cuts or freezes are highly questionable, and the unintended consequences are alarming, setting back progress on gender equality, the SDGs and human rights and even undermining action on the climate crisis. So why is this still such a routine part of the deals struck by finance ministries and the IMF behind closed doors?

The closed doors are key. These are not transparent dialogues open to public or even parliamentary scrutiny. They are discussions between a cadre of privileged people, who have often been to the same universities, have the same career trajectories, and have rarely experienced the cuts they promote. In the wider world of economics thinking is diversifying, as people react to the series of financial crises that have exposed fundamental flaws in the present global system. But this does not filter down to the IMF and its country-facing teams, or through the closed doors to the corridors of financial power in most countries.

Whether we call it the cult of austerity or the cult of neoliberalism, it is shrinking. It is a decaying system that cannot withstand shocks (and there are more to come). It has helped the rich get richer (even during Covid-19) and made the poor poorer, as capital swallows more and more and labour earns less and less. The academic and intellectual underpinnings have fallen away.

Secrecy is now a weapon in the fight to preserve this failing ideology. All the 'IMF' documents quoted are supposedly co-authored between the IMF and finance ministries. Few of the data sources they draw on are published and most references provided are circular - to their own documents. If there these were seen in the full light of day, most governments and parliaments and most of the public would find grounds to challenge them.

But the secrecy serves another purpose. It enables governments to blame the IMF and the IMF to blame governments. It's a cosy charade of plausible deniability. Problematic policies can be blamed on the other party – and no-one is any the wiser. These are the signs of a dying ideology or cult. But it continues to be a cult with immense power, and cults in decline can do immense damage.

We need the public in the Global South and the Global North to stand up to austerity. The public as people - rising up to challenge their governments to resist this dying ideology before it does more damage – and the public (as opposed to private) sector, the bulwark against austerity and privatisation, which has just about survived forty years of attack. We need these two to come together to reimagine and reinvent a future with dramatic and sustained increases in investment in public services, which are in turn accountable to and trusted by the public through an enhanced social contract.

6. MOVING FORWARD: NOW IS THE TIME

The orthodox austerity approach pursued by the IMF and too many finance ministries supposedly aims to promote the narrow goals of stability and aggregate growth. But in practice, this actively constrains fiscal space and blocks public investment in public services and the public sector workforce, in the short and longer term. Key public responsibilities for health, education, social protection and other services are passed on to households (adding to the disproportionate unpaid care and domestic work of women) or the private sector (for profit extraction).[43] Neoliberalism has been oversold for forty years and has stifled the very growth and development it was supposed to value.[44] It is time for a fundamental overhaul, for a system change focused on economic justice.

The world faces a series of interconnecting crises and responding to them will demand a complete disruption of business as usual – or at least business as it has been for the past four decades. Forty years of neoliberalism have played their part in creating or exacerbating the very crises that we now face – Covid-19, the climate, inequality and gender injustice. Now is the moment to revisit the essential redistributive role of States. Central to this must be a fundamental reimagining of public services – publicly financed, publicly delivered, universal and gender responsive.[45] Investment in public services and the public sector workforce are at the heart of every progressive vision of a just transition, of building back (or forward) better.[46]

We have an opportunity to build more caring and more equal societies and economies, economies that can truly care for both people and the planet. As civil society, activists, unions and feminist economists from the global South have pointed out for decades, the battle of ideas will need to be won in each and every country through people engaging their governments to move beyond closed cultish thinking and action, and open up to feminist, just, green alternatives.

It is a long time since people talked widely about positive cycles of investment in public services. When governments create a public sector job it often takes someone off social security, reducing the welfare bill. It is often the public sector that provides the traineeships and apprenticeships that feed a pipeline of skilled workers for the private sector. Each public sector worker pays tax, effectively contributing a significant percentage to their pay. Each extension of a public service can reduce the burden of unpaid care and domestic work that otherwise unjustly falls mostly on women. A healthier and better educated workforce is more productive overall, increasing economic development and wellbeing. The negative images, prejudices and vicious cycles of the past need to make way for the virtuous cycle that is sparked by a positive attitude towards investment in public sector workers, central to ensuring quality public services.[47]

Beyond rebuilding existing public services and extending State involvement into new areas such as social care, there is a need to reimagine public services, not least to make them more gender responsive[48] and accountable. The traditional upwards accountability of public services – the professional and democratic oversight of local services by district, regional and national authorities – continues to be important, though often cuts have stripped and undermined the crucial intermediary levels in recent years. But there also needs to be a renewed emphasis on downward accountability to the public – the public service users. It is about building effective public-public partnerships – balancing upwards and downwards accountabilities and giving equal value to the users of public services and the public sector workforce.

RECOMMENDATIONS

Governments, finance ministries and the IMF need to move more than their rhetoric and show real change in practice:

- **Stop pursuing austerity policies** in the face of financial, health, inequality and climate crises, given that it is known that doing so will prolong economic recession and undermine economic recovery.[49]
- **Recognize the contribution of the public sector to economic growth and development,** including the impact on unpaid care work and gender equality.
- Set **ambitious targets for progressive tax reforms,** using progressive taxes, especially on wealth and corporations, to increase tax-to-GDP rates by at least 5% by 2030.
- **Support more ambitious debt cancellation and rescheduling programmes, and support governments to restructure their debts** so that they can prioritize investments in quality public services.
- **Set ambitious targets to increase public sector wage bills year on year** to reinvigorate public services after decades of decline.
- Recognise the public **sector workforce as part of the core national infrastructure** that needs protection and investment, even (or especially) at the height of a recession.
- Recognise the need for significant **scaling up of the public sector workforce to respond to the climate crisis and support a just transition.**
- **Engage in social dialogue and collective bargaining with trade unions** to set fair and gender-equal public sector wages.
- **Move towards long-term economic planning** that targets wellbeing and not just GDP growth, and meaningfully factors in projected long-term returns to investment.
- Actively research and implement **alternative macroeconomic policies**, drawing on the work of UNCTAD,[50] International Labour Organisation,[51] feminist macroeconomists and others.[52]
- Increase **transparency and accountability** in all national economic discussions, whether with the IMF or any other global actor. Publish all data and sources and expand parliamentary and public involvement.

The IMF specifically should:

- Perform a **human rights and gender impact assessment** of any policy that impacts on the public sector workforce.
- Conduct a dedicated **Independent Evaluation Office** review of IMF use of public sector wage bill constraints and its wider positioning on the public sector.
- Revisit the recent IMF **Comprehensive Surveillance Review** and ensure any staff guidance includes insights and recommendations from this report.
- Upgrade the status of the IMF note on Operationalising Gender in Country Work to **make it mandatory to analyse the gendered impact of public sector wage bill constraints** (and other policies).
- Ensure that any global mechanisms (eg Special Drawing Rights,[53] Carbon Taxes, Loss and Damage, Debt Deals) specifically recognise the strategic importance of investments in the public sector workforce.

The public, civil society and social movements should:

- **Be ready to protest and put pressure on governments** whenever the cult of austerity raises its head.
- Strengthen **broad-based movements to condemn the cult of austerity and promote alternatives.**
- Pull together learning and **build a bolder public consensus on economic alternatives to neoliberalism.**
- **Work together to boldly reimagine the public sector** as an engine of sustainable development within planetary boundaries.

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26. Malawi, Nepal, Zambia and Brazil

27. Unless of course all revenue increases are absorbed by increasing debt repayments - which does not appear to be the case – though clearly further action to resolve the debt crisis is necessary in many countries (see box 19 in the main report)

28. See box 16 in the main report with 8 different measures for expanding fiscal space

29. The only exception is Zimbabwe's 2019 Article IV which uses comparison with other countries to show progress in cutting the wage bill. It shows that the public sector wage bill has fallen from higher than the Sub-Saharan African average in 2018 to below it in 2019.

30. Women's average wages are 86% of male wages in the public sector, as compared to 76% of male wages in the formal private sector, https://blogs.worldbank.org/governance/five-facts-about-gender-equality-public-sector

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35. Increasing accountability, budget transparency and independent impact assessment will be key in cases where improvements are needed.

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ActionAid is a global movement of people working together to achieve greater human rights for all and defeat poverty. We believe people in poverty have the power within them to create change for themselves, their families and communities. ActionAid is a catalyst for that change.

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COVER PHOTO: Sarah chepkewmboi is a frontline nurse working in a new health centre in mokoyon parish in uganda where she grew up. When she was sick as a child her father would have to cycle with her for two hours to get to the nearest health centre. Extending health services to remote communities can transform lives.
PHOTO: ACTIONAID