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RESEARCH ARTICLE

Austerity Redux: The Post-pandemic Wave of Budget Cuts and the Future of Global Public Health

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Abstract

The convergence of health, economic and social crises over the past 1.5 years has posed profound questions over the direction of travel for the world after COVID-19. The narrative emerging out of major international organizations like the International Monetary Fund stresses avoiding a ‘divergent recovery’, whereby some countries steam ahead with high growth rates underpinned by robust government interventions and others fall further behind. In this account, crisis aftermath should not witness budget cuts, but investment in employment and human capital formation. So, is austerity a thing of the past? In this article, we review available evidence, focusing on public spending projections by the IMF and the precise content of IMF lending arrangements. Overall, we find that abandonment of the austerity argument is partially true right now, and questionable in the medium-term. Our analysis of public expenditure projections reveals that by 2023, 83 out of 189 countries will face contractions in government spending compared to their 2010s average, thereby exposing a cumulative total of 2.3 billion people to the socio-economic consequences of budget cuts. Most of the contracting countries will be middle-income, while public spending in low-income countries is expected to stagnate at low levels. Further, the IMF's lending arrangements reveal the return of extensive austerity measures and structural reforms, reminiscent of the organization's past policy advice. Drawing on these findings, we elaborate on how this will likely impact global public health.

1 | FISCAL POLICY IN THE AFTERMATH OF COVID-19

The convergence of health, economic and social crises since the onset of the COVID-19 pandemic has posed profound questions over the direction of travel for the world after the pandemic abates. Attempts at a rethink were on full show over 2021, as the world's leading economic policymakers gathered for the Annual and Spring Meetings of the IMF and the World Bank, a platform that is not generally known for promoting the extension of the scale and scope of state intervention. But this time, however, the leadership of these two institutions emphasized the importance of avoiding a ‘divergent recovery’ from the pandemic, where some countries steam ahead and others fall further behind (Gopinath, 2021), and stressed the need to ‘build forward better’

(IMF, 2021a). To achieve this, economic management should consider new approaches: from increasing taxes on individuals and corporations to scaling up social investments like training programs and hiring subsidies.

Such proposals are all a far cry from what these guardians of economic orthodoxy were proposing until recently, and this has been hailed as a great conversion. Even World Bank Chief Economist Carmen Reinhart, once known as a staunch advocate of fiscal constraint, advocated that developing countries should 'first fight the war, then figure out how to pay for it' (FT, 2020). Optimistically, Martin Sandbu – a close observer of global governance at the *Financial Times* – noted that a new Washington Consensus might have been born. The old Consensus privileged slim government budgets, but the new Consensus jettisons this legacy: 'fiscal probity … is no longer about reining in public spending but about getting value for money – and spending more where the value can be found' (Sandbu, 2021). This was, after all, the message coming from the top of these organizations, suggesting that the aftermath of the crisis should not necessarily witness budget cuts, but investments in employment and human capital (IMF, 2021d).

Should we take these pronouncements and proclamations at face value? Is 'austerity' – shorthand for the mix of public spending cuts and revenue increases forming the staple response to past crises – a thing of the past? In this article, we review available evidence, focusing on the experience of low- and middle-income countries. To do this, we rely on two sources of data. First, we examine public spending projections (measured as a share of GDP) by the International Monetary Fund that estimate the scale of anticipated fiscal adjustment around the world. Second, we collect further data on the precise content of recent country-specific IMF lending arrangements – both quantitative targets and projections, and mandated reforms.

Overall, we find that the abandonment of austerity narrative is partially true right now, and questionable in the medium-term. Indeed, 83 countries are expected to face fiscal contractions by 2023 (i.e. they will be spending less than their 2010s average), thereby exposing a cumulative total of 2.3 billion people to the socio-economic consequences of budget cuts. Further, as resources for emergency assistance become exhausted and phased out, these countries increasingly resort to regular IMF loans which come with policy conditions attached. These programs continue to include steep austerity measures and structural reforms like privatizations or civil service restructuring. Finally, we elaborate on the likely impact of our findings on global public health, in light of available evidence from past crises and bouts of austerity.

Policy Implications

- Efforts to achieve equitable and sustainable development once the pandemic subsides could be jeopardized by an impending wave of budget cuts.
- Policymakers need to prepare for and mitigate crises in public finances in the medium-term.
- International financial institutions need to bolster their financial assistance to help countries bridge their financing gaps without resorting to stringent conditionality.
- Austerity measures have repeatedly been shown to have adverse socio-economic effects and should therefore be avoided.
- Progress in investing in health systems needs to be maintained with a focus on achieving universal health coverage rather than imposing budget cuts to the healthcare sector.

2 | THE COMING AUSTERITY SHOCK IN LOW- AND MIDDLE-INCOME COUNTRIES

When countries in the Global South faced crises over the last few decades and turned to the IMF and the World Bank for financial assistance, austerity has been the default policy recommendation, commonly backed up through conditional loans (Babb & Kentikelenis, 2021). Given the prevalence of this policy, it has attracted considerable controversy. For supporters, austerity represents nothing more than common sense belt-tightening to get through a difficult economic situation. Indeed, in influential work informing policy responses in the aftermath of the global financial crisis of 2007–08, some economists argued that austerity can even lead to economic expansion (Alesina & Ardagna, 2010). Critics have been quick to point out the self-defeating logic of such policies: austerity deepens pre-existing problems and undermines economic activity, thereby plunging countries in protracted crises (Ban, 2016). Even so, the consensus among policy elites in the Global North has been that low- and middle-income countries have no alternative than to introduce austerity as a prerequisite for gaining access to international financial assistance, lest 'moral hazard' problems emerge. In this logic, unless unsound economic fundamentals are penalized with unpleasant and difficult reforms, then countries will never have incentives to get their affairs in order.

Given this background, there was always good reason to hypothesize that the fiscal response to the ongoing pandemic might be similar to past experiences: a bout of fiscal stimulus lasting one or two years, followed

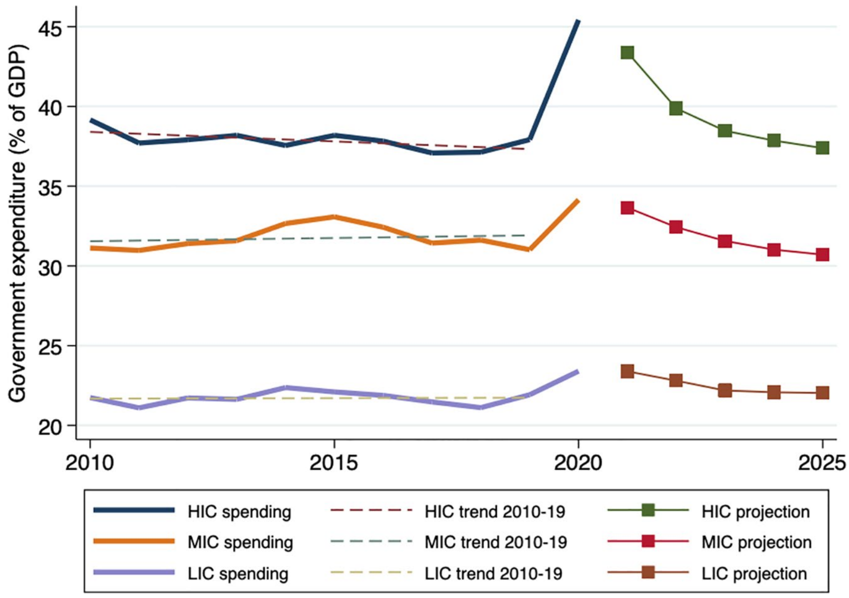

FIGURE 1 Government expenditure in high-, middle- and low-income countries

by extensive fiscal contraction (Ortiz & Cummins, 2021). But early evidence suggested that this time may be different. High-income countries tore up – or at least suspended – their old fiscal policy guidebooks and embraced extensive stimulus packages. The US has already approved large spending bills, intended to cushion the economic blow of the pandemic to households, support business activity, and invest in sustainability and infrastructure. The European Union has also suspended its strict 'stability and growth pact' that sets the parameters for fiscal policy among member-states, and approved an €800bn recovery fund, financed through direct EU borrowing. Even low- and middle-income countries have been able to moderately expand their public spending to deal with the fallout of the COVID-19 crisis. Indeed, they were encouraged by the IMF itself: Managing Director Kristalina Georgieva explained in April 2020, 'our message is, spend as much as you can' (Georgieva, 2020).

What comes next for fiscal policy? Will governments sustainably move towards a new fiscal trajectory where government spending is higher, enabling investment in economic upgrading and social protection? This was the suggestion of OECD chief economist Laurence Boone, who advocated that emergency assistance should be replaced with greater investment as 'it would be dangerous to believe that governments are already doing enough to propel growth to a higher and better path' (Financial Times, 2021). Or will they pursue spending cuts as they did in the past – whether of their own volition or under pressure from international institutions providing bailouts?

To be sure, the pandemic is far from over, making economic forecasts difficult. Nonetheless, already a slew of evidence is emerging on what the future holds for developing countries' public finances. To unpack this, we rely on projections from the IMF's October 2021 World Economic Outlook – a highly influential policy report, consulted by policymakers around the world as well as close observers of economic developments like banks and credit rating agencies (An et al., 2018). In addition, these projections on fiscal measures underpin the work of the IMF *vis-à-vis* countries that request its financial assistance, and are regularly cited in the loan agreements that countries sign with the organization. In other words, projections become prescriptions for many developing countries, especially IMF borrowers, where they get inscribed as conditions the country must meet for loans to be disbursed (Atoyan & Conway, 2011).

In Figure 1 we present the latest projections on government expenditure and contrast them to the pre-pandemic decade and the trendline for that period. We observe starkly diverging trajectories depending on the country groupings by income (following the World Bank 2020 classification). First, high-income countries had been experiencing public expenditure declines by the time COVID-19 emerged, in large part linked to budget cuts introduced in the aftermath of the global financial crisis. Once the pandemic started, however, these countries increased their year-on-year government spending by an unprecedented 7.5 per cent of GDP. Per IMF projections, these expenditures will be adjusted downwards from 2021 onwards, and by 2024 are expected to revert to their average for the 2010s.

For middle-income countries, we observe that the slow process of increasing public expenditures over the past decade will reverse. These countries increased government spending by approximately 3.2 per cent of GDP in 2020 but are expected to rapidly scale back: by 2023, they will already be spending less than their average for the 2010s, with further reductions projected for subsequent years. In contrast, low-income countries will experience milder fiscal contractions, although their levels of government spending were very low to begin with and stagnant throughout the 2010s. The pandemic-related increase in government spending (1.5 per cent of GDP) will much more gradually be phased out: by 2025, these countries are expected to revert to their average for the 2010s.

Considering these findings, a terminological issue arises: is it accurate to call the expenditure-reduction trends we observe 'austerity'? In principle, the classification is merited to describe contractions in spending. But the term can also obscure diverse experiences: the pandemic-related increase in government spending (or deferred revenue measures) went far beyond previous patterns of counter-cyclical expansion – so it was inevitable that expenditures would contract somewhat compared to the peak of the COVID crisis, where the health emergency and strict lockdowns necessitated extensive government intervention.

We conceptually distinguish between three types of fiscal adjustment: expansionary fine-tuning, moderate contraction, and aggressive austerity. The former represents the policy approach publicly promoted by the IMF, World Bank, and the OECD, whereby government spending remains high albeit mildly and gradually decreasing, with emergency expenditures being replaced by public investment. The second scenario is closer to the historical experience with economic crises, where a short period of counter-cyclical fiscal expansion tends to be followed by a longer spell of spending cuts (Ortiz & Cummins, 2021). The third scenario is potentially most pernicious for development outcomes: aggressive austerity refers to situations where spending ends up substantially lower than pre-pandemic levels.

We operationalize this tripartite distinction by comparing the average government expenditure for the 2010s with the projected figure for 2023 – that is, we are attempting to ascertain the medium-term percentage point change in spending, with a reference point to the pre-pandemic period (as any comparisons to 2020 spending would show uniform budget cuts and would not be analytically meaningful). A note of caution is warranted, however. Many countries, especially in the Global South, already had years – even decades – of fiscal contraction before the 2010s (Stiglitz, 2002), so our model captures levels of public spending that are already the outcome of previous austerity waves. This means our results are conservative.

Consequently, we define as expansionary fine-tuning all cases where government spending in 2023 is unchanged or higher than it was over the 2010s. Moderate contraction refers to cases where countries cut their spending up to one percentage point between the two periods, while aggressive austerity captures spending cuts greater than that. For example, Jordan's government spent on average 32.4 per

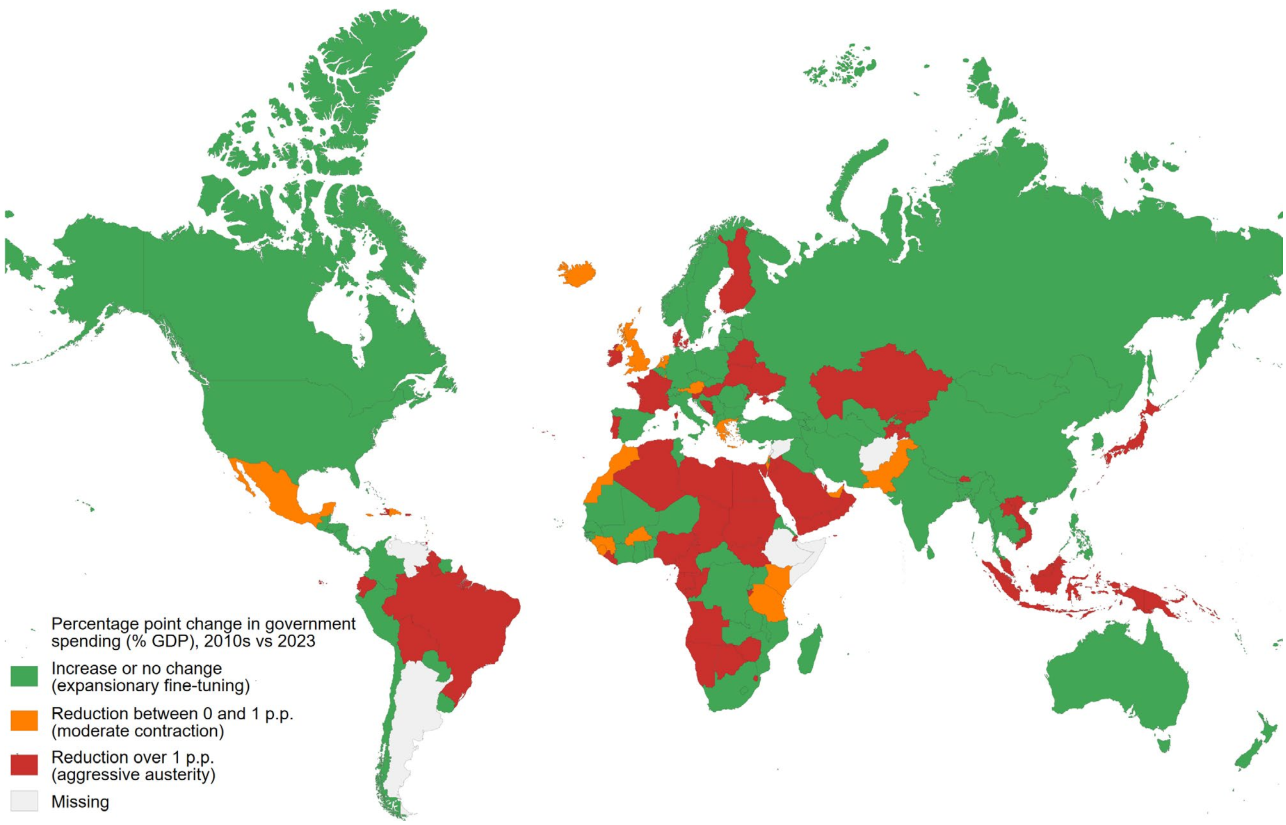

FIGURE 2 Government expenditure changes as a share of GDP, 2010s vs 2023

cent of GDP over the 2010s (close to the mean for middle-income countries), while their spending is expected to be only 30.5 per cent by 2023; we classify this 1.9 percentage point decrease as an instance of aggressive austerity.

To better understand how the burden of budget cuts will be allocated around the world, in Figure 2 we map the difference between projected government spending in 2023 and the average of such spending over the 2010–19 period. In line with the evidence presented above, high-income countries are generally projected to be spending more by 2023 than they did over the 2010s: over half of these countries (36 out of 64) will have government expenditure that exceeds their pre-COVID average, eight will have moderate spending reductions, and the remaining 20 countries will experience aggressive austerity.

Most low-income countries are also expected to expand: 13 will follow an expansionary path, three will experience moderate consolidation, and the remaining eight will pursue aggressive austerity. Almost all of the 11 contracting countries are in Africa (excluding Haiti, Tajikistan, and Yemen), and most are also classified by the World Bank as being in 'fragile and conflict affected situations', which contributes to the fiscal problems they are facing.

The evidence on middle-income countries – the largest income-grouping of countries – reveals varied experiences. Overall, 57 of 101 such countries are expected to maintain an expansionary fiscal trajectory, eight will experience a moderate contraction, and the remaining 36 countries will witness aggressive austerity. These headline figures mask important regional variation. For example, most South-East Asian middle-income countries are expected to implement extensive budget cuts. Similarly, over half of African middle-income countries – especially those in North and Central Africa – will face large-scale expenditure declines. The heavy-contracting countries include some of the most populous nations, like Indonesia, Brazil, Nigeria, Egypt, and Vietnam – each with a population of over 100 million. For example, Indonesia had an average of government spending at 17.5 per cent of GDP over the 2010s, already very low compared to the average of middle-income countries. Between 2019 and 2020, this jumped by 1.6 percentage points as the pandemic emerged. By 2023, the country's government expenditure is expected to be at 15.2 per cent, or 2.3 percentage points lower than the 2010s average.

Overall, our analysis reveals evidence of a coming wave of fiscal contractions: government spending will decline in 83 countries, the majority of which are middle-income. In total, 64 countries will implement aggressive austerity measures, including many populous developing nations. Unlike previous experiences, low-income countries will be relatively sheltered from deep cuts, although their public spending will remain stagnant at very low levels. These fiscal responses are a far cry from the recommendations of global economic policymakers and indeed make a 'divergent recovery' likely.

Thus far, our analysis has remained focused on big-picture trends in government expenditures. This offers a highly aggregated glimpse into the future of public finances around the world, but a closer look is warranted to understand policy decisions over austerity in the Global South: What are the choices over spending cuts? How are revenues raised? And what is the role

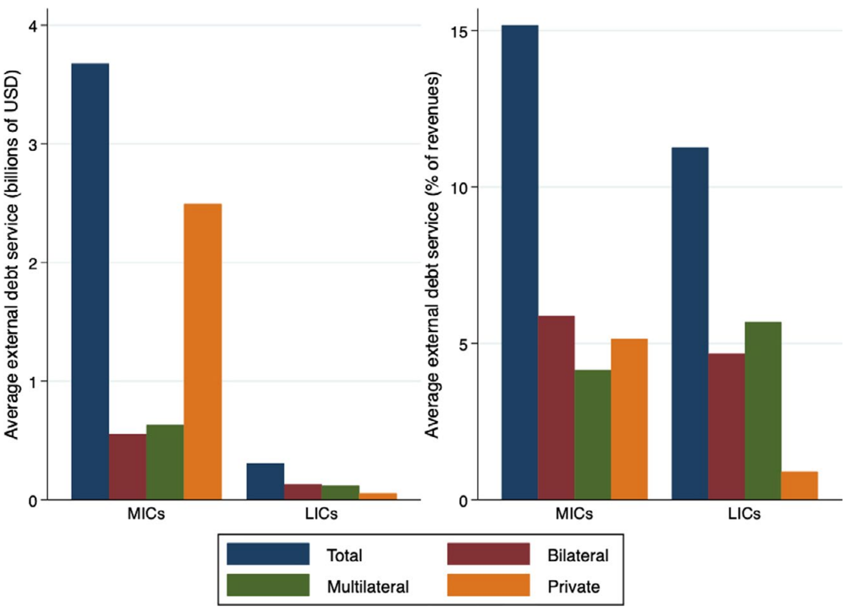

FIGURE 3 External debt service in middle- and low-income countries for 2021. *Notes*: IMF debt service (i.e. charges and repurchases) are excluded from the'Multilateral' category. Domestic debt service is not included due to lack of data availability

of the IMF in this process, as the organization at the forefront of providing financial assistance to countries since the onset of the pandemic?

3 | DEBT AND BAILOUTS IN THE GLOBAL SOUTH

The perceived necessity of implementing strict budget cuts is commonly linked to servicing external debt: governments are expected to meet these financial obligations, as defaults can carry adverse economic and social consequences. This is particularly the case for debt held by the private sector, as bilateral and multilateral debt are covered by debt management initiatives, as outlined below. In Figure 3, we plot average external debt service in middle- and low-income countries for 2021. The left panel presents average debt service in billions of US dollars. It shows the average middle-income country must pay $3.68bn on external debt service, $2.49bn (68 per cent) of which is to the private sector – although these values are strongly influenced by large economies such as Mexico ($36.88bn private repayments out of $40.59bn total debt service), China ($31.88bn of $37.24bn), and Russia ($19.24bn of $19.41bn). The average low-income country pays $0.31bn in debt service, but only $0.05bn (16 per cent) is to the private sector, with the bulk made up of bilateral and multilateral repayments.

In the right panel, we account for the size of economies by reporting external debt service based on country averages as a share of revenues. We observe higher debt service as a share of revenues in middle-compared to low-income countries, as well as differences in debt composition between the two income groups, primarily in relation to private sector payments. For the average middle-income country, debt service is 15.2 per cent of revenues, of which 5.1 per cent of revenues is to the private sector; for the average low-income country it is 11.3 per cent and 0.9 per cent of revenues respectively.

Concerns have been raised that debt service is crowding out social spending to protect the lives and livelihoods of populations during the pandemic (Jones, 2020; UNICEF, 2021). This charge is borne out by the data, which shows external debt repayments will exceed average domestic government health spending for the most recently available year (World Bank, 2021b). In particular, middle-income countries spent 2.8 per cent of GDP on health in 2018, compared with an expected 3.7 per cent of GDP on external debt service in 2021; for low-income countries, these figures are 1.1 per cent and 1.7 per cent of GDP respectively.

In recognition of these concerns, on 1 May 2020, G20 nations established the Debt Service Suspension Initiative: a temporary suspension on debt service repayments owed to bilateral creditors for 73 countries among low- and poorer middle-income countries, originally set to end on December 31, 2020, but since extended to December 2021 (World Bank, 2021a). However, the Initiative does not suspend private and multilateral debt service payments, and most middle-income countries are not eligible to participate. And while multilaterals like the World Bank's International Development Association have, in response to the pandemic, bolstered concessional and grant-based financing well in excess of debt service repayments, most middle-income countries still remain ineligible (World Bank, 2021a). As shown in Figure 3, it is precisely these countries that have the highest external debt service – much of it owed to the private sector which is highly resistant to restructuring or debt relief.

With countries struggling to fill the financing gap to both combat COVID-19 health and economic crises as well as make external debt repayments, the IMF has scaled up its operations, albeit well below the financing gap of $2.5tn estimated by the organization itself (Stubbs et al., 2021). Figure 4 summarizes approved

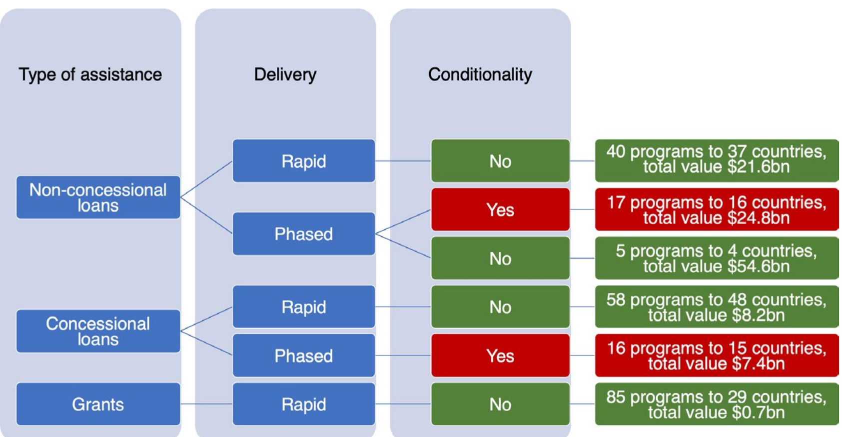

FIGURE 4 IMF approved funding by type (2 March 2020 to 31 August 2021). Note: Appendix S1 breaks down these amounts by lending facility

BOX 1 Background to IMF structural adjustment programs

Since the early years of the IMF's operation, its lending has mandated fiscal consolidation policies for countries in crises. To be sure, austerity measures were unpopular among borrowers, but they left underlying political-economic structures relatively intact: once a crisis was over, future governments could increase spending. This changed in the 1980s, in the aftermath of the so-called Third World debt crisis, when IMF austerity measures were supplemented with a series of mandated structural reforms: extensive fiscal and tax policy overhauls, trade liberalization, domestic economic deregulation, and the privatization of state-owned enterprises – that is, the gamut of policies associated with the original Washington Consensus. The vehicles for this were the new structural adjustment programs, mirroring similar policy-based lending by the World Bank. Over time, structural adjustment programs failed to deliver on their promise of growth and were linked to adverse socio-economic consequences. The IMF responded to such criticisms by renaming them as 'Poverty Reduction and Growth' programs envisaged to pay closer attention to the distributional implications of mandated policies, and even advocated for increases in social expenditures. The track record of these programs was also mixed, leading to further rounds of rebranding. More recent loans commonly include conditions to safeguard social spending, but are still criticized for their excessive focus on market-oriented policies and wide-ranging austerity measures. (For a recent review, see Babb & Kentikelenis, 2021).

financial assistance by the IMF since 2 March 2020, the date of announcing it would help address challenges posed by COVID-19 (IMF, 2020b). As of end-August 2021, the organization approved 221 loans to 88 countries for $117.32bn in total. There has been high demand for no-conditionality facilities, with rapid concessional loans the most frequently used (48 countries for $8.17bn), followed by rapid non-concessional loans (37 countries for $21.63bn). Countries are coming up against access limits for these facilities, so further approvals are likely to be few and sluggish. Grants have also been provided to 29 low-income countries, totaling $0.73bn, although this can only be used for debt relief owed to the IMF. In terms of resources approved, almost half is accounted for by no-conditionality phased loans with stringent qualification criteria that renders most countries ineligible – it has only been approved for Chile, Colombia, Panama, and Peru.

While no-conditionality facilities were the prevalent lending instrument for the initial phase of the pandemic, these are gradually being replaced by 'traditional' lending arrangements – like the Stand-By Arrangement or the Extended Credit Facility – that mandate the introduction of policy reforms as a precondition for access to funds. Such loans have a long and controversial history at the organization, summarized in Box 1. To better understand the requirements of the most recent IMF programs, we examine the experience of the 17 countries that requested and received new such agreements since March 2020 (excluding countries with ongoing IMF programs at the time that the pandemic emerged, as the policy conditionality reflected prior negotiations). Of the countries identified, seven are projected by the IMF to continue fiscal expansion up to 2023, eight will experience austerity, and two countries (Afghanistan and Somalia) have no data available. In the subsequent paragraphs we take a closer look at the nature of these reform programs by examining two countries with expected austerity and one with expected fiscal expansion – all randomly selected.

Initially, we focus on the two countries with projected fiscal contraction. Kenya – a middle-income country – entered the COVID-19 crisis with public external debt at 31.5 per cent of GDP, but this rose to 35.6 per cent in 2020 following the outbreak and concomitant reductions in economic activity (IMF, 2021b). With external debt service predicted to rise to 21.0 per cent of revenues by 2024, the IMF assessed the country as being at high risk of external debt distress. In April 2021, the IMF approved a 38-month program for $2.34bn that calls for a decline in the primary balance from a deficit of 4.6 per cent of GDP to a 0.2 per cent surplus by mid-2024. This objective is underpinned by a series of conditions, including passing a supplementary budget and adhering to quarterly performance criteria on the primary budget balance. On the expenditure side, deficit reduction will be achieved 'particularly through reduction in the wage bill and transfers to public sector entities' (IMF, 2021b, p. 13). In addition, to safeguard public finances, the country was mandated to 'rationalize' the state-owned enterprise sector, intimating the onset of lay-offs and/or privatizations. Taken together, these measures are particularly concerning given World Bank estimations that the pandemic raised the number of poor in Kenya by 2 million. The program does note that health and social expenditures will be protected, supported by non-binding targets for priority social spending for transfers to vulnerable groups, free primary and secondary education, food programs, health coverage and insurance, and vaccination and immunization programs. But these floors, if met, would only preserve current spending levels rather than increasing it in a time of heightened need.

Similarly, Ecuador – another middle-income country – entered into a 27-month IMF program for $6.5bn in end-September 2020, requiring extensive fiscal adjustment from a primarily deficit (excluding oil balance) of nearly 7 per cent in 2020 to a surplus of 1 per cent by 2023. This is against a backdrop of external indebtedness that more than doubled between 2012 and 2019, and further accelerated in 2020 to 59.4 per cent of GDP (IMF, 2020a). To achieve this fiscal adjustment, a range of cuts are envisaged, including on the public sector wage bill, fuel subsidies, and pensions. These cuts are complemented by tax increases, notably through value-added and personal income taxes – although these increases purportedly target middle- and high-income individuals. Social spending is projected to increase to around 1.8 per cent of GDP for the 2021–24 period, which is double what the country was spending in 2019. However, it was unclear how much of this additional spending would be channeled into new social policies versus paying off past financial obligations. As IMF staff report, parts of the additional social spending would be used 'to clear past due wage payments in the public sector, especially in the health and education sectors; […] and to clear outstanding payments to more than 20,000 service providers' (IMF, 2020a, p. 101). Of course, settling outstanding payments to healthcare workers and service providers is a worthwhile endeavor, but does not amount to building up sustainable social policies.

Turning to a low-income country projected to fiscally expand, Madagascar agreed on a 40-month $312.4mil program in end-March 2021 to address protracted balance of payments needs arising from the impact of the pandemic on tourism and on mining and textile exports. With public external debt at 32.0 per cent of GDP in 2020 and debt service estimated to peak at 11.0 per cent of revenues in 2023, the country is considered to be at only moderate risk of external debt distress (IMF, 2021c). Given these lower debt risks, a key program priority is 'strengthening fiscal space to allow for much-needed capital investment and social spending, by mobilizing domestic revenue and improving quality of spending' (IMF, 2021c, p. 8). While the program does entail fiscal tightening measures relative to the 2020 primary deficit of –2.6 per cent, this occurs from 2022, offering leeway in 2021 for a more gradual unwinding of COVID-19 mitigation efforts. Projections for social spending beyond 2021 are omitted, but a 10 per cent spending increase is budgeted for four social ministries – health, education, population, and water – in 2021, supported by quarterly priority social spending floors and a condition to extend the number of households benefitting from a cash transfer program from 483,000 beneficiaries to 540,000 by September 2021. Whether these steps constitute enough to address the country's pandemic-induced reversal of progress on poverty reduction, as well as job losses in key manufacturing and service sectors, is unclear. Furthermore, fiscal space for this expansion is to be accomplished by limiting so-called 'non-priority spending', envisaged through – inter alia – removal of value-added tax exemptions for the import and local sale of rice, reform of the civil servant pension system, and raising electricity and water tariffs to increase revenue of the public utility company.

The experience of these countries with IMF conditionality suggests that – at best – claims that austerity and the Washington Consensus belong to the past are overblown. Countries with a high risk of debt distress have stringent conditions to cut back public spending, while countries with more sustainable burdens unsurprisingly implement lighter budget cuts. But even where spending reductions are milder, the structural reforms attached to programs are still part of the established toolkit of the IMF: increasing indirect taxation, slashing food and fuel subsidies, limiting the public sector wage bill, and privatizing state-owned enterprises. It is such policies that have long been linked to adverse socio-economic outcomes (Forster et al., 2019, 2020). At the same time, the documents reviewed reveal attempts to shelter the most vulnerable groups from the impact of the crisis: social safety nets are mentioned in the lending agreements, and there are provisions to maintain or even moderately increase social spending. However, even these policies do not reflect a new modus operandi: they have been long included in IMF lending arrangements over alternative approaches that seek to help countries build up *universal* provision of basic social protection services (Stubbs & Kentikelenis, 2018).

Taken together, the evidence suggests that the IMF is calling for greater austerity where risk of external debt distress is higher – that is, among MICs – and is consistent with concerns from the international community that debt service is being prioritized over social spending and, more broadly, the health and wellbeing of populations (UNICEF, 2021). The findings reported may also foreshadow what is to come as more countries begin to enter conditionality-heavy IMF lending programs, given that eligibility for rapid assistance is phased out or they reach the limits of such available assistance. What lessons do these findings offer for safeguarding public health – a well-advertised objective of the IMF and other global economic governance institutions, like the G20?

4 | GLOBAL PUBLIC HEALTH AFTER COVID-19

Thus far, we have shown that austerity and concomitant structural reforms are poised for a dynamic comeback in the post-pandemic world. Against this backdrop, pronouncements on protecting public health by governments and international institutions reflect a welcome change in narrative. However, there are limited grounds for optimism in a broader context where public spending rapidly contracts in middle-income countries and remains at low levels in low-income countries. What are the likely implications of these developments for global public health? There is already an abundance of evidence from past crises to enable us to evaluate how the policy response to the present juncture might affect global public health. We draw on this work to assess the implications for countries in the Global South, focusing on the likely impact of austerity and structural reforms on two issues: health systems and population health.

Health systems have been receiving renewed attention by the global policy community, with catchphrases like 'we are only as strong as the weakest health system' becoming oft-repeated by the UN Secretary-General António Guterres (UNSG, 2020). Up to a point, an influx of funds into health systems has materialized: most countries increased public spending and part of that increase went to bolster health systems, although the amount of extra financing was contingent on the income level of different countries. Some of these funds were due to additional foreign aid inflows, which rose slightly in 2020, albeit not enough to make up for declines in external private finance and trade volumes (OECD, 2021).

Public financing is essential for health systems, and the World Health Organization (2010) identifies several building blocks of health systems, including service delivery, the health workforce, and access to medicines. These require sustained levels of public spending, rather than overreliance on donors, and long-term investments into infrastructures that underpin health system effectiveness – from hiring healthcare personnel, to operating facilities, to procuring medicines. Yet the impending onset of austerity in many countries suggests that the recent inflow of funds into health systems might stall or reverse in the near future. This means that health systems will face difficult choices on where to allocate available funding: in preparedness infrastructures and infectious disease surveillance, or in more traditional areas like building up primary healthcare facilities, investing in maternal and child health, and combatting non-communicable diseases. Already, the steer from large international organizations, notably the World Bank, and major donors, like the Gates Foundation, has been on investing heavily in the field of 'global health security' (Kentikelenis & Seabrooke, 2021). This framing casts the world as vulnerable to risks of emergent infectious diseases and therefore prioritizes preparedness over potential threats. But health security concerns form only a subset of global health issues, and are heavily linked to the policy agendas of countries in the Global North – like the short-term containment of emerging pathogens – rather than long-term priorities of countries in the Global South – like building up equitable and effective health systems that can cater to a broad range of health conditions.

In other words, emphasizing emergency preparedness, while important, can mean that funds and attention are diverted away from more holistic and cohesive policies for strengthening health systems, an area where significant progress is yet to be made. In turn, continuation of the relative neglect for health systems – compared to vertical, self-contained interventions like vaccination campaigns – might contribute to exacerbating the large and growing non-communicable disease burdens (Chang et al., 2019). In a fiscal environment where austerity measures make countries in the Global South further dependent on foreign aid and multilateral assistance flows, this can widen the existing gap between donor priorities and recipient-country needs.

But even in the absence of a reshuffle of priorities in global health, austerity measures can still lead to important changes in health system capacities, especially on the volume and quality of healthcare services. This commonly occurs as an unintended consequence of broader policies to reduce public spending, like across-the-board budget caps, ceilings on the number of civil servants or limits to the public sector wage bill (Stubbs et al., 2017). As healthcare staff are usually public sector workers, they are also affected – and austerity policies have been linked to a so-called 'medical brain drain', as staff migrate to the Global North in search of better employment opportunities (McColl, 2008). Parallel to cost-cutting efforts, revenue-raising attempts in healthcare compound the adverse impacts on health as countries introduce or increase user fees or co-payments for medicines, leading to the exclusion of the poor or other vulnerable populations from coverage (Karanikolos et al., 2013).

Equally important is the impact of structural reforms on health systems. As noted above, these types of reforms take different forms, like deregulation or privatizations, which have direct and indirect consequences on health systems. In the case of the former, at the behest of the IMF – as well as the World Bank – many countries in the Global South have liberalized and deregulated their healthcare sector, often to open up space for public-private partnerships in healthcare (Jomo et al., 2016). These partnerships can have adverse and unpredictable financial consequences on public funds. For example, the private partner for the new national hospital in Lesotho invoiced fees to the Ministry of Health well in excess of those initially forecasted, compromising necessary public healthcare investment in underserved rural areas (Hellowell, 2019). Furthermore, changes in the role of public, private and non-governmental provision of health services also impacts both the availability and the quality of services (Pfeiffer & Chapman, 2019).

Indirect consequences of reforms are harder to map. For instance, the privatization of state-owned enterprises provides a case in point (Austin et al., 2016). The promise of these measures is that they will raise funds for cash-strapped governments that can, in principle, be used to finance a range of social investments, including healthcare. However, over the medium term, governments lose out on key sources of domestic revenue, which could have been used more sustainably to support health systems and policy.

Health systems form only the most visible part of the complex causal chain that impacts health outcomes, which are more consequentially shaped by the so-called social determinants of health – the conditions in which people ‘grow, live, work and age’ (WHO, 2013). These include a host of policies that affect health: early life interventions, food quality and availability, housing, employment and labor standards, environmental conditions and multidimensional inequalities all shape population health with different time horizons. For example, loss of housing exposes people to immediate health risks, while the health implications of working in unsafe environments might take many years to manifest. Importantly, all these social determinants of health are themselves shaped by the macro-economic environment in which they are embedded (Schrecker, 2019). In other words, there is a feedback loop between economic conditions, choices about economic policy, and the social determinants of health (Schrecker & Bambra, 2015).

Austerity and associated structural reforms have a key role in shaping the social determinants of health. To be sure, there are methodological difficulties in unpacking the relative contribution of economic policies on the social determinants of health, compared to the deep and profound dislocations caused by the pandemic itself and its economic aftermath. For instance, we know that people with lower socioeconomic status were more likely to be infected or lose their jobs since the onset of COVID-19 (Bambra et al., 2020). But austerity and structural reforms can compound these effects by limiting the availability of social protection measures. As comprehensive analyses of the social determinants of health are available elsewhere (e.g., WHO, 2013), we focus here on income inequality.

Voluminous evidence links austerity and structural reforms to widening inequalities, which are in turn important contributors to health outcomes – more unequal societies tend to have worse health levels (Pickett & Wilkinson, 2015). One aspect of this relates to income inequalities: loss of income or employment directly affects access to quality food and appropriate housing, while it also leads to decreased ability to meet family care obligations and increased stress. Changes in these social determinants contribute to worsening health status in the long run – for example, non-communicable diseases associated with poor nutrition or cardiovascular diseases due to stress and anxiety. Widening income inequalities intersect with other forms of social inequalities. Indeed, austerity and structural reforms have pronounced gendered implications (Elson, 1995; Assaad & Arntz, 2005). Women are disproportionately affected by the declines in incomes and the roll-back of public services. For instance, the care for old or young dependents becomes increasingly taken on by women, and girls’ education is often interrupted by the need to find additional work to complement household income.

Combined, the simultaneous changes in health systems and the social determinants of health compound the health effects of policy changes: reduced health budgets and declines in staffing levels or health centers due to austerity occur against a broader backdrop of increased healthcare needs linked to changes in income and living conditions. This means that available healthcare facilities will have to deliver more – above and beyond their role in combatting the pandemic – with fewer resources available. Commonly, this has led to individuals not having access to timely care, with those of lower socio-economic status being disproportionately affected (Karanikolos et al., 2013).

To address this long-standing criticism, the IMF and its partner organizations have devoted considerable efforts in advertising how their policy advice helps countries build up ‘social safety nets’. Indeed, we find evidence of this in the loan documents we analyzed. This approach amounts to the prioritization of targeted social safeguards: ensuring some essential services are available to vulnerable groups (IMF, 2017). However, targeting is a step back for promoting global health: rather than contributing to the established and internationally prioritized goal of universal social protection, the pursued approach is more limited. While there have been improvements in the coverage of ‘vulnerable populations’ through social safety nets, they represent an outdated model for achieving social protection and improving public health. The Sustainable Development Goals clearly set out the ambition for universal access to health care and social protection (Friel, 2018). But this ambition makes only scant appearance in the IMF loan documents that we collected, with most references included in Kenya's lending agreement, which – as shown above – also contains provisions for a large and rapid public spending reduction that has the potential to undermine health.

5 | CONCLUDING DISCUSSION

Safeguarding public health is now a clearly stated priority in major global fora, with international organizations advertising the merits of such investments. However, our analysis of public expenditure projections reveals that by 2023, 83 out of 189 countries will face contractions in government spending compared to their 2010s average. This wave of austerity will be particularly pronounced in Southeast Asia and Northern and Central Africa, while also affecting some large economies elsewhere, like Brazil and Japan. Most of the fiscally contracting countries will be middle-income, while low-income countries are expected to revert to their already low levels of public spending by 2023. These declining or stagnant government expenditures come at a time of heightened need for healthcare services. A closer look at IMF lending programs – providing financial lifeboats to countries in economic turmoil – suggests that past mistakes are being repeated. The mandated extensive budget cuts and ill-conceived structural reforms can hamper recovery efforts and compound the adverse health effects of the pandemic and subsequent economic crisis.

International financial institutions have neither lived up to their promise of softening the blow of the pandemic, nor turned social investment into a key component of their assistance rather than an afterthought. But this folly is not entirely of their own making. These organizations operate within an unequal international political economy, where most countries in the Global South have limited voice over the content and direction of policies pursued (Wade, 2013). Progress that has been made through the bilateral Debt Service Suspension Initiative and multilateral concessional and grant-based financial relief are inadequate to address debt problems, as they do little to address the underlying problem of excessive debt stock. Even the recent, reluctant acceptance by the G20 that some debt renegotiation is in order was coupled with advocating for a 'case-by-case' approach, which individualizes these problems by debtor country, rather than addressing their systemic nature.

The global pandemic has opened a window of opportunity to rethink the economic models and structures. This is already occurring in multiple ways in high-income countries, which have actively jettisoned old orthodoxies on fiscal policy and embraced more interventionist approaches that can facilitate the recovery. Such decisive action, however, is foreclosed for many countries in the Global South: limited fiscal space, high debt service and IMF conditionality restricts available options.

There are alternatives that both help countries overcome their economic problems and simultaneously builds up their social protection infrastructures. On the economic front, reforms in the functioning of international financial institutions can help alleviate some of the most pressing problems. Expanding concessional financing and issuing new Special Drawing Rights (SDRs) are concrete steps in this direction, and the first step has been made with the issuance of $650bn SDRs. However, the allocation of these are tied to country quotas at the IMF, which themselves are determined by the country's position in the world economy. This means that the bulk of the increase will accrue to high-income countries, while only 8 per cent will be channeled to countries with high debt vulnerabilities (New York Times, 2021). Ongoing policy discussions suggest that some high-income countries may be willing to 'donate' their share of SDR increase to poorer ones, although this will be done in an ad hoc way, rather than tying SDR allocation to the level of development, thereby giving poorer countries outright greater shares of such an increase. Additionally, reforms to the international debt architecture are urgently necessary (Gallagher and Gao, 2021; Gallagher et al., 2021). As seen above, debt to private creditors forms a high share of overall external debt – especially for middle-income countries – yet it is excluded from the Debt Service Suspension Initiative. The recent experience of countries that undertook restructurings with private creditors – like Argentina and Ecuador – shows that such 'case-by-case' approaches minimize their negotiating power and lead to the adoption of harsh austerity measures (ECLAC, 2021).

Reforms to the global economic infrastructure can be coupled with greater institutionalization of social protection reforms, in line with the Sustainable Development Goals. This includes a consistent focus in the activities of multilateral institutions on supporting universal healthcare and widening social provision. In this context, the International Labour Organization has consistently promoted the introduction of 'social protection floors' that guarantee access to essential health services to all and income security for children, the elderly and those unable to work. Building on these proposals and initiatives – rather than relying on anachronistic approaches like targeting – can help minimize the risk of a divergent recovery.

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DATA AVAILABILITY STATEMENT

The data that support the findings of this study are available through Harvard Dataverse at https://doi.org/10.7910/DVN/M7DIJJ. These data were derived from the two resources available in the public domain: IMF World Economic Outlook data (October 2021 version, https://www.imf.org/en/Publications/WEO/weo-database/2021/October) and the World Bank's International Debt Statistics (https://databank.worldbank.org/source/international-debt-statistics).

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SUPPORTING INFORMATION

Additional supporting information may be found in the online version of the article at the publisher's website. Appendix S1

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