The G20 and the Drive to Austerity

Jane D’Arista is a member of the group SAFER, a group of economists that lobby for finance reform, and an associate at the Political Economy Research Institute at the University of Massachusetts. She is author of The Evolution of U.S. Finance (1994) and numerous reports and studies on U.S. monetary policy and financial markets. She was recently interviewed by Paul Jay, Senior Editor of The Real News Network.

Paul Jay: In recent weeks, since the G20 made its declaration that all the G20 countries would halve their deficits by 2013, there’s been increasing calls for austerity measures. The head of the European Bank made a speech recently where he said the issue of austerity and pulling in and tightening and getting rid of state debts were the biggest issue facing the world economy. We see in places like Ontario, Canada, there’s an attempt to have a wage freeze for all civil servants, and in the United States there’s been a lot of talk about reforming Social Security, or perhaps raising the age that people are eligible, perhaps lowering the amount of benefits. Globally, a whole question is being raised: who’s going to pay for all the stimulus?

Rob Johnson said in an interview recently with us, talking about the G20 countries, that they’re doves on finance reform and hawks on austerity. What do you think of this issue, of this drive to pay off state debt?

Jane D’Arista: Well, I think, of course, it’s ridiculous. You don’t do this when the economy is heading down. And we are heading down. I think everybody begins to understand that now. A friend of mine, another analyst, part of the SAFER group, Rob Parenteau, calls it the march to “Austeria.” And it is the picking up of non-Keynesian ideas from Austria, if you will, and this belief system which really is very congenial to certain segments and certain countries. We’re talking about Germany, of course. And the idea here is, you know, you’re not going to climb out. You’re just forcing a downward move if you cut, if the government cuts the spending. The Keynesian idea, the great insight of Keynes, was you get to where we are, and people will not make goods because they don’t think they can sell them, and that’s what we’re seeing. All these corporate profits are coming in because they are cutting costs.

Austerity Regimes and Class War

Jay: The argument given by the head of the European Bank was that the reason this financial apocalypse was avoided – and assuming it really was avoided, but he says it was – was that people had a trust that when the various governments infused capital into the banking system, there was enough credibility in the ability of these governments to do that. People believe that that paper currency or digital currency transfer actually had some real meaning, and people bought into the fact that if – I guess, essentially what he’s saying, that these states could back up whatever debt they incurred through the stimulus, and that if the states don’t rein in the amount of debt to GDP ratio, that they’re going to lose that credibility, and next time there’s a big crisis, people won’t believe it, that it means anything, when states say they’re going to put a trillion dollars into the banking system or a trillion euros or whatever. What do you make of that argument?

Jane D’Arista: Well, I think, in the case of the United States what we know is that the tax cuts in the Bush years had already driven up the deficit. We didn’t have a really big cushion there to move on. The TARP absorbed a lot of that cushion that we had, and the stimulus program was much too small. It did some things, and it did what it needed to be done. But a real program was not undertaken. So now we’re in a situation, having really spent over $2-trillion bailing out the banking system, where it appears to most people that we don’t have any more to spend. We didn’t spend it on the right things.

We should have let the banking system wind down and let the public sector take on more of the credit responsibility, as was done in the Depression with the Reconstruction Finance Corporation. That would have been a very good move. Right now what we need is a governmental program globally to create jobs and create, therefore, the wages that are needed for spending that then will restart the business sector and give us a virtuous cycle in-
Now, Germany is a have country. It relies on its exports. It sells to Europe and precludes the ability of the south in Europe in particular to come up with the kind of income that would have prevented this situation from developing. It’s not that Spain, Greece, and others have not done things that were unwise, but at the same time, the fact is there’s no way for them to get out of it, and they were driven into deficit positions, both in terms of the public and private sector, by the inability to keep the export-import balance that every country needs. Certainly that’s true of the United States as well. So we’re in a situation where Germany thinks it’s very righteous. Fortunately, China is beginning to make moves in the direction of raising wages, paying their workers more, and understanding that they have to create demand. This is not something the Germans have come to understand. And the German population wants it the same old way. They get to export. They stay rich.

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D’ARISTA: Well, they’re worried about inflation. And, you know, there are two sides to this coin. There’s inflation and there’s deflation. Inflation is a worry if you have money. Deflation is a worry if you have debt. The majority of us have debt, whether it’s our mortgages or our businesses, small business, or whatever. That’s what we have to worry about. The rentiers, the very large people, the people who made all that money and invested it, don’t want to see asset prices go down, as inflation would make them go down. So, if you will, and somebody has revived the notion, which I think is true, we’re talking class warfare here. We’re talking about the haves and the have-nots. The haves are not so many, but boy, they are certainly very, very active in their positions.

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I mean, is the bottom line here the global system is simply broken? Like, if you look at the G20 document, they have 14 places where they talk about increasing demand, in what they’re calling the “advanced deficit” countries, which is essentially North America and European countries which have the big state deficits. At the same time, there’s one mention in the whole document about wages, and there’s really nothing in it about how wages will go up in Europe and North America, particularly in the United States, where they’ve been so depressed for so long.

On the other hand, they talk about wanting to halve the state deficits by 2013, so 50 per cent of current deficits by 2013, which means, as we see (as I said earlier) in Ontario, they want to have a wage freeze. So how are you going to have increased demand and wage freezes? Then over here they’re talking about how China should expand wages and expand consuming power, except so much of the Chinese and Indian economy is so much still export-oriented, selling back into precisely Europe and North America, where demand isn’t increasing. Is the bottom line here that it’s just simply broken, they don’t have a plan, partly ‘cause they just don’t want to let go of how much capital is entrenched in so few hands?

D’ARISTA: Exactly so. But at least they’re beginning to recognize that fact, and I think that is an important fact to recognize. You’re not going to get it through – as you are saying yourself, you’re not going to get it through manipulating currency values. It’s got to be employment and it’s got to be wages. There’s a tremendous amount of debt in the world, and that debt has to be repaid. And it’s not, as they are now focusing, just on the government sector and government debt. I mean, I talk about those hawks on the deficit. Have they looked at household debt? Have they looked at the run-up in corporate debt and small-business debt that took place over the last decade and more? No, and that is – they have no solution to that, just cut the government debt. Well, I’m sorry, but that’s only one part of the problem, and it is the problem that that’s the part they’re cutting which could actually be helpful. If you have a level of debt and shift it to those who can bear it best, that is the government.

JAY: Yeah, some people have said 20 years.

D’ARISTA: Exactly so. But at least they’re beginning to recognize that fact, and I think that is an important fact to recognize. You’re not going to get it through – as you are saying yourself, you’re not going to get it through manipulating currency values. It’s got to be employment and it’s got to be wages. There’s a tremendous amount of debt in the world, and that debt has to be repaid. And it’s not, as they are now focusing, just on the government sector and government debt. I mean, I talk about those hawks on the deficit. Have they looked at household debt? Have they looked at the run-up in corporate debt and small-business debt that took place over the last decade and more? No, and that is – they have no solution to that, just cut the government debt. Well, I’m sorry, but that’s only one part of the problem, and it is the problem that that’s the part they’re cutting which could actually be helpful. If you have a level of debt and shift it to those who can bear it best, that is the government.

JAY: Well, as you said earlier in this interview, it’s a class war. Thanks very much for joining us, Jane, on The Real News Network.