



## **AUSTERITY: WHY AND FOR WHOM?**

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### **Abstract.**

Un sistema capitalista que genera una crisis de las proporciones conocidas y como solución propone la austeridad total ha perdido el derecho de continuar el administrando las finanzas mundiales. Claramente, la crisis capitalista global que comenzó en 2007 no será ni corta ni de baja intensidad. El rescate del gobierno estadounidense al sector financiero de los Estados Unidos de América bombeó bastante dinero adicional en la economía, lo que permitió reducir suficientemente los tipos de interés e insuflar el consumo para dar los bancos y la bolsa la recuperación de lo que habían dilapidado

A capitalist system that generates so massive a crisis and then proposes mass austerity to "overcome" it has lost the right to continue unchallenged economy spending. Clearly, the global capitalist crisis that started in 2007 will be neither short nor shallow. The government rescue of the U.S. financial industry pumped enough extra money into the economy and sufficiently reduced interest rates to give banks and the stock market the heavily hyped "recovery" that started March 2009 and is now over.

What is worse, their recovery never reached much of the rest of the economy. Efforts to broaden the recovery or extend it beyond one limp year have failed. That failure cost Washington trillions in borrowed funds from lenders who now demand guarantees that those loans will be repaid to them with interest. Similar demands now confront many other governments who likewise borrowed heavily to cope with the crisis in their countries.



The guarantee demanded by lenders is “austerity.” Lenders want governments to raise taxes or cut government spending or both. Governments will then have more money available to pay interest on loans and to repay those loans. Governments that fail to impose austerity will face higher interest on new and renewed loans or will be denied loans which would cripple those governments’ usual operations. Austerity is yet another extreme burden imposed on the global economy by the capitalist crisis (in addition to the millions suffering unemployment, reduced global trade, etc.).

Who are these lenders demanding austerity? The globally active financial enterprises—mostly banks that collapsed in the crisis and were rescued by their home governments—are, together, also major lenders to those governments. Banks own their own governments’ debts but also other governments’ debts. For example, major banks in France and Germany are among the Greek government’s chief creditors. US banks and related financial enterprises hold significant amounts of other governments’ debts and other nations’ banks own much US government debt.

Global capitalism’s 2007 crisis froze the credit system that sustains capitalist production. Private borrowers—enterprises and individuals—could no longer repay loans because their investments had generated too little and their incomes had failed to grow enough. Banks had failed to properly assess risks in deciding how much to lend to whom. They therefore stopped lending to private borrowers because that had become too risky. As private borrowers defaulted and new lending atrophied, banks’ capital and their profits collapsed. The whole capitalist system ground toward a halt because credit became unavailable.

The only solution most leaders in capitalist countries could conceive was to unfreeze credit by having the government guarantee bank solvency, guarantee many private debts, invest massively in and lend to private banks, and become the



ultimate borrower of a huge portion of loanable funds. Banks everywhere lent to governments because it had become unsafe to lend to almost anyone else. Governments everywhere used the borrowed money to rescue banks and other financial enterprises.

This peculiar “nationalization” of debt served capitalism by having the government temporarily function as the lender and borrower of last resort. Nationalization unfroze the credit system sufficiently to stop the crisis from collapsing global capitalism. Few policy-makers (and few others) in 2008 and early 2009 worried much about the consequences of so massively increasing government debts. The looming possible capitalist system collapse overwhelmed worry about any “longer run.”

The international banks that were rescued (from their own bad loans and investments) by governments now worry that governments they lent to won't be able to repay those loans. Banks threaten to make further loans much more costly or even impossible unless those governments impose “austerity.” Most political leaders recognize that the banks' threats, if carried out under their watch, would end their careers quickly and badly. All capitalists see in possible government defaults the specter of another credit freeze with terrifying ramifications for global capitalism. Still worse for those banks: governments in default would not likely be able to borrow again to rescue banks again.

Nearly all current political leaders of major capitalist countries responded positively to the banks' demand for austerity (as in Canada's recent G-20 meeting). This immediately raised a basic political conflict always simmering inside capitalism: who will pay increased taxes and who will suffer decreased government spending? Militants in Europe have already marched and struck against austerity as an unacceptable plan to make workers pay to fix capitalists' crises; more general strikes are set in many European nations with a Europe-wide general strike now



scheduled for September 29. Meanwhile, capitalists work with politicians to define as “reasonable in crisis times” austerity programs mixing both tax increases (chiefly on workers) and spending cuts (chiefly on workers).

An Athens trucker says, “Public employees here don’t work hard enough, so it is reasonable to cut their pay.” A Parisian clerk thinks it “reasonable to postpone the official retirement age a few years; we all live longer now.” A Minneapolis office worker agrees that it is “reasonable, in crisis times, to get by with fewer public services.” A New York laboratory technician supports a new tax on cell-phones as “probably reasonable; after all, people overuse them.” Remarkably, such notions of “reasonable” are silent about other possible and, to say the least, more “reasonable” forms of austerity.

Let’s consider some alternative “reasonable” kinds of austerity (i.e., austerity for others) and then question austerity itself. Serious efforts to collect income taxes from U.S.-based multinational corporations, especially those who use internal pricing mechanisms to escape U.S. taxation, would generate vast new federal revenues. The same applies to wealthy individuals. The U.S. has no federal property tax on holdings of stocks, bonds, and cash accounts (states and localities levy no such property taxes either).

If the federal government levied a 1 per cent tax on assets between \$100,000 to 499,000, and 1.5 per cent on assets above \$500,000, that would raise much new federal revenue (everyone’s first \$100,000 could be exempted just as the existing U.S. income tax exempts the first few thousands of dollars of individual incomes). Exiting the Iraq and Afghanistan disasters would do likewise. Ending tax exemptions for super-rich private educational institutions (Harvard, Yale, etc.) and for religious institutions (church-goers would then need to pay the costs of their churches) would be among the many other such alternative “reasonable” austerity



measures. Comparable alternatives apply—and are being struggled over—in other countries.

A capitalist system that generates so massive a crisis, spreads it globally, and then proposes mass austerity to “overcome” it has lost the right to continue unchallenged. Should we not be publicly debating whether America (and the world) might be better served by going beyond capitalism? Can we not learn from capitalism’s repeated cycles (failures) and change to a new, non-capitalist system? Having learned hard lessons from the first socialist attempts during the last century in Russia, China, and beyond, can we not rise to the challenge to make a new attempt that avoids their failures and builds on their strengths? When better than now?