Austerity Politics

Alex Callinicos, *International Socialism* 128, 2010

Fiscal austerity is more and more securely locked into place in the advanced capitalist countries. This is despite all the signs that the world economy faces, at best, a weak and unsteady recovery. The financial markets spent the summer agonising over the probability of a double-dip recession. But Robert Reich, labour secretary under Bill Clinton, summed up the view of many economists of different political and intellectual allegiances who believe the data actually point to a grimmer reality:

It's nonsense to think of the economy heading downward again into a double-dip recession when most Americans never emerged from the first dip. We're still in one long big dipper.

More people are out of work today than were last year, counting everyone too discouraged even to look for work… Not since the government began to measure the ups and downs of the business cycle has such a deep recession been followed by such anaemic job growth. Jobs came back at a faster pace even in March 1933 after the economy started to "recover" from the depths of the Great Depression. Of course, that job growth didn't last long. That recovery wasn't really a recovery at all. The Great Depression continued. And that's exactly my point. The Great Recession continues.[1]

Another Keynesian economist, Paul Krugman, argues that "we are now, I fear, in the early stages of a third depression", comparable in scale and length to those of the late 19th century and of the 1930s.[2] Recent data from the US Census Bureau seem to bear this out. In 2009 those living below the poverty line in the US rose by four million to 44 million, 14.3 percent of the population, the highest level since 1994. Median household income was 4.2 percent lower than in 2007 and 5 percent lower than in 1999.[3]

Yet the imperative to cut budget deficits boosted by the bank bailouts and by the economic slump is becoming ever more strongly entrenched politically. Even France—supposedly the centre of resistance to German demands for austerity within the eurozone—is heading towards "a new era of budgetary discipline", finance minister Christine Lagarde told the *Financial Times*, promising €40 billion of spending cuts and tax increases.[4] The biggest holdout against the G20 consensus on austerity—Barack Obama's administration—is besieged by a Republican right reinvigorated by the Tea Party movement and the Democrats' growing unpopularity. Meanwhile, an increasing number of US states face Greek-style fiscal crises as aid from Washington dries up.

The destabilising consequences of budget-cutting are worrying even the high priests of neoliberalism in the International Monetary Fund. In a joint report with the International Labour Organisation, the IMF documents what it calls the

Dire state of labour markets: Over 210 million people across the globe are estimated to be unemployed at the moment, an increase of more than 30 million since 2007. Three quarters of the increase in the number of unemployed people has occurred in the advanced economies and the remainder among emerging market economies. Within the advanced countries, the problem is particularly severe in the United States—the epicentre of the Great Recession and the country with the highest increase in the number of unemployed: an increase of 7.5 million unemployed people since 2007.[5]

The report warns that "high and long-lasting unemployment… represents risks to the stability of existing democracies and hinders the development of new democracies in countries undergoing political transitions". Moreover,

a premature fiscal retrenchment could damage growth and lead to even larger deficits and debts. Abrupt shifts in fiscal policy stances, in many countries at the same time, could destabilise recovery and weaken future growth. A credible and gradual return to fiscal stability over several years is likely to be a more successful strategy, not only for recovery and growth, but also for deficit and debt reduction… Social dialogue is essential to avoiding an explosion of social unrest.[6]

Fear of an "explosion of social unrest" is also beginning to pervade the Conservative-Liberal Democrat coalition government in Britain as it psychs itself up for the announcement on 20 October of what are expected to be the most severe cuts in public expenditure since the "Geddes Axe" of 1922 under Lloyd George's Liberal-Unionist coalition.

Claims, for example by chancellor of the exchequer George Osborne, that "fiscal responsibility is both fair and progressive" look increasingly hollow. The *Financial Times* quotes an OECD study that found that

Sweden—alongside Finland—suffered the sharpest rise in income inequality among developed countries in the late 1990s, a period when both were also carrying out the most aggressive programmes to improve the state of their public finances… Income inequality also rose in Canada, as well as in the UK and several other countries that moved to cut big deficits. Poverty rates in Sweden, Canada and Finland between 1995 and the mid-2000s were among the highest in the OECD.[7]

As the scale of what is in prospect begins to sink in, there are signs that public opinion is beginning to turn against the government. An IPSOS-Mori poll in mid-September showed Labour on level pegging with the Tories at 37 percent, the Lib Dems down eight points from their general election performance at 15 percent, and dissatisfaction with the coalition for the first time outweighing satisfaction (47:43 percent).[8] The government is sticking by its guns, and one can detect a tone of naked class revenge in remarks such as Nick Clegg's that welfare isn't "a giant cheque written by the state to compensate the poor for their predicament".[9]

But, predictably enough, Andrew Rawnsley reports, the pressures on the coalition are causing fierce conflicts involving the Treasury and ministers running spending departments that have been told to plan for cuts of between 25 and 40 percent:

Relations between the Treasury and the biggest of the spenders, the Department for Work and Pensions, are becoming especially bitter. George Osborne pre-empted his own review last week when the chancellor declared that he had already identified an additional reduction in benefits worth £4 billion on top of the £11 billion of cuts announced in the budget. That was news to Iain Duncan Smith [Secretary of State for Work and Pensions]. Early in the process, Mr Osborne tried to put peer pressure on Mr Duncan Smith when the chancellor suggested that other departments would not have to suffer so much if more swingeing cuts were made to welfare benefits. "We're relying on you to find us the money," one of Mr Duncan Smith's ministers was told by a minister from another department. "Fine," replied the DWP minister. "So long as you don't mind having a lynch mob outside your constituency office."

Yes, it has already got to the point where ministers are threatening each other with lynch mobs. One Lib Dem member of the cabinet recently gave me his private estimate of where the opinion polls will be in about a year's time. His forecast was: "25-5". By that, he meant the Tories will slump to 25 percent over the next 12 months and the Lib Dems will collapse to 5 percent. This was not a frivolous forecast, but a deadly serious one.[10]

In reaction, the labour movement has begun to stir into life. The Trades Union Congress voted in September for a campaign of coordinated action and a national demonstration in March. This isn't anything like enough, particularly if one compares it to the general strikes that have been mounted in France and Greece. Nevertheless, the TUC campaign provides a framework in which serious resistance to the coalition can develop. Meanwhile, the Labour leadership election saw Ed Miliband, one of the candidates who had sought to distance themselves from New Labour, narrowly beat his brother David.

What this shows is that, however much the eras of Neil Kinnock and Tony Blair may have drained the political life out of the Labour Party and weakened its social roots, the mechanism that has come into action during past periods of opposition, when the party leadership came under strong internal pressure to move leftwards, is still, albeit feebly, operative. Anyone who thinks that this is likely to lead to anything comparable to the Bevanite movement in the 1950s or Bennism in the late 1970s and early 1980s is kidding themselves. The Labour left today is a pale shadow of what it once was and Ed Miliband will, precisely because he had triumphed over the Blairite candidate, come under enormous pressure to prove himself a safe, business-friendly "moderniser".

But, as we argued in the last issue's Analysis, Labour retains sufficient roots in working class communities and, via the trade union bureaucracy, in the organised working class, to reflect and, at least partially, to accommodate moods in the class. Doing so in the present situation in any case fits with Labour's electoral interests: protesting, however hypocritically, against the coalition's cuts and targeting the Lib Dems in the cities are obvious first steps towards political recovery. This underlines the importance of the path taken by the Right to Work campaign of building a broad coalition of resistance that critically involves Labour supporters at both national and local levels.

These developments have led one radical left commentator, Seumas Milne, to announce that "a new centre of gravity is emerging in British politics which Labour—and the trade unions, for that matter—can tap into…there's no reason to believe that the coalition can't be forced from power in five years—or before".[11] But Milne also argues that resistance in the forms of strikes and demonstrations isn't enough:

Campaigns and strikes may reduce or shift the burden of cuts here and there. But only if the coalition is compelled to change direction by the force of opinion, pressure and events can the wider threat to jobs, living standards and economic recovery be lifted. As Len McCluskey, the broad-left favourite to win next month's election to become general secretary of Britain's biggest union, Unite, puts it: "We have no alternative to resistance, but the ultimate solution is political."... What direction the Labour leadership now takes on the economy will have far-reaching consequences not only for the party, but for the campaign of resistance unions are trying to build. If the cuts really are to be derailed, there has to be an alternative.[12]

Milne, like McCluskey, seems to be placing his hopes in a revived Labour Party under Ed Miliband. This seems, to put it mildly, a trifle optimistic. If Aneurin Bevan and Tony Benn weren't able to transform Labour in periods when the party was much more democratic and working class organisation stronger, what chances are there for a real change now under the leadership of Gordon Brown's ex-gofer? Nevertheless, Milne is absolutely right to pose the question of political alternatives. This isn't simply a matter of electoral politics, though this is important.

The ideological stakes involved in resisting austerity are very high. The drive to "fiscal consolidation" is more than anything else a political attempt to clamp back into place and indeed, if possible, to strengthen neoliberalism after the immense shock it suffered during the financial crash and the return to the state that this compelled.[13] Rejecting the necessity of the cuts requires, not simply a critique of the ideological assumptions used to justify it, but also some sort of account of another way out of the crisis. Simply falling back onto some version of Keynesianism, as Krugman, Reich and other mainstream critics of austerity do, isn't sufficient, most immediately because this approach fails to confront the fact that conflicting class interests are at play in different economic strategies.

The logic of resisting the cuts thus demands the formulation of an alternative economic programme. This is clear from the experience of Greece, where the severity of the austerity offensive mounted by the government of George Papandreou and the scale of workers' opposition have led, as Panos Garganas explains in the interview that follows, to a widespread discussion of the desirability of Greece defaulting on its foreign debt and withdrawing from the eurozone and possibly also from the European Union itself. The most detailed outline of what this would involve is to be found in a new report by Research on Money and Finance (RMF), a group of researchers based at the School of Oriental and African Studies in London.

The possibility of Greece defaulting on its massive foreign debt—nearly €300 billion in government bonds—is in any case on the agenda. The Greek finance minister, George Papaconstantinou, made a point of ruling it out during a tour of Western European financial centres in mid-September: "Restructuring [of Greece's debt] is not going to happen… It would be a fundamental break to the unity of the eurozone".[14] There is, however, widespread scepticism in the financial markets that default can be avoided, given the burden of debt on a shrinking economy.

RMF argues for what it calls "debtor-led default". In other words, rather than allowing the Western European banks that are the main holders of Greek bonds to respond to the failure of austerity by imposing a debt restructuring in which the burden would still fall mainly on working people, Greece should unilaterally suspend debt repayments. This should be accompanied by withdrawal from the euro to remove the obstacle posed by the neoliberal and unaccountable European Central Bank's control of monetary policy and banking in the eurozone:

First, it would be more difficult for the defaulting country to confront a domestic banking crisis without full command over monetary policy. More broadly, if banks were placed under public ownership following default but continued to remain within the Eurosystem, it would be practically impossible to deploy them in order to reshape the economy. Second, continued membership of the eurozone would offer little benefit to the defaulter in terms of accessing capital markets, or lowering the costs of borrowing. Third, the option of devaluation would be impossible, thus removing a vital component of recovery.[15]

But suspending debt repayments and withdrawing from the euro should be accompanied by a broader shift in economic policy to the left:

From the perspective of working people, but also of society as a whole, the answer would be a broad programme of public ownership and control over the economy, starting with the financial system. Public ownership over banks would guarantee their continuing existence, preventing a run on deposits. Capital and foreign exchange controls would also be imposed to prevent export of capital and to minimise speculative transactions. A set of conditions would thus be created allowing for the adoption of industrial policy which would alter the balance of the domestic economy by strengthening the productive sector. The sources of growth in the medium term would be found in the decisive restructuring of the economy, rather than the expansion of exports through devaluation. [16]

This programme bears some resemblance to that adopted by the radical-left People Before Profit Alliance in Southern Ireland in April 2009. Though People Before Profit's "Alternative Economic Agenda" doesn't directly address the question of the euro, it calls for the nationalisation of the banks, the creation of a state banking system, a State Construction Agency to organise a programme of public works, the development of new strategic industries, and genuine tax and pension reform to end the Irish economy's dangerous dependence on neoliberal financialisation.[17]

The RMF proposals, as sketched out by their principal author, Costas Lapavitsas, have attracted widespread discussion—and opposition—on the Greek radical left in recent months. Two main criticisms have been made. The first is that withdrawing from the euro represents a regression towards nationalism. This isn't a ridiculous concern. A strongly nationalist version of Euroscepticism for long predominated on the Greek left—in the social democratic Pasok till it first took office in 1981 and in the powerful but Stalinist Communist Party up to the present. It is underlain by a view of Greece as a "dependent" country oppressed by the US and the EU, rather than the relatively developed metropolitan capitalism that it is today (a similar view of Southern Ireland as a "neocolony" has been commonplace on the Republican left as well).[18]

Nevertheless, the reality of the eurozone needs to be acknowledged. Not simply is neoliberalism hard-wired into its institutional structure, but, as successive RMF reports have shown and is discussed by Christakis Georgiou elsewhere in the present issue, it involves a hierarchy in which relatively peripheral economies such as Greece, Portugal, Spain and southern Ireland serve as markets and debtors for the stronger Western European states, above all Germany.[19] Moreover, the current efforts to "reform" the eurozone are intended further to entrench a neoliberal policy regime and the subordination of the supposedly profligate peripheral economies.

The logic of resisting austerity leads ineluctably to stopping paying the debt and withdrawing from the euro. The idea that this involves an abandonment of internationalism implies a view of history in which there is a linear movement from the national to the European and then to the global levels. But history develops dialectically, with sudden twists and turns, and not in a straight line. A break with the euro in Greece or elsewhere that led to a successful defence of jobs, services and living standards could act as a beacon for a new, fighting internationalism that could start to create a very different Europe.

The second objection is more serious. Breaking with the euro wouldn't necessarily benefit working people. The return to the old Greek currency, the drachma, would in all likelihood lead to a substantial devaluation. Indeed, as RMF points out, this is one of the main attractions of leaving the eurozone: weaker economies such as Greece have been crucified by being tied to a German economy whose labour costs have fallen sharply relative to those of the rest of the eurozone without their having the traditional tool of devaluation to maintain their competitiveness.

Devaluation would reduce the price of Greek exports compared to those of their competitors. But, because devaluation also raises import prices, the result would be likely to be an increase in the rate of inflation and hence, unless workers respond effectively, a cut in real wages. At key moments in the history of British capitalism—1931, 1967, 1992, 2007—devaluation has served as a means of restoring competitiveness and raising the rate of exploitation. A version of Keynesianism (not necessarily that of Keynes himself) has seen devaluation and inflation as a more effective way of cutting real wages and boosting profitability than orthodox attempts to cut money wages.[20]

No doubt if the Papandreou government's austerity programme looked like it was failing, substantial sections of Greek capital might be attracted to default and devaluation to improve their competiveness and profitability. After all, as the latest RMF report shows, this is precisely the strategy pursued by Russia in 1998 and by Argentina in 2001 when confronted by financial crashes. But what this shows is that stopping paying the debt and withdrawing from the euro aren't a panacea. The distributional struggle that is going on now over which class is going to pay for the crisis would continue. This doesn't alter the fact that default and leaving the eurozone would, by the break with austerity involved, create more favourable conditions to defend wages, pensions, jobs and services, in particular by fighting for the broader alternative programmes put forward by RMF and People Before Profit.

A third objection—not apparently advanced in the Greek debates—would be that these programmes resemble nothing more than the alternative economic strategy put forward by the reformist left during the 1970s. As advocated by Tony Benn and his allies and by the Communist Party, this strategy proposed a series of measures to increase state control of the economy in order to break the hold of the multinational corporations and reconstruct a more dynamic and competitive British capitalism.[21]

It is indeed true that the content of the RMF and People Before Profit programmes substantially overlaps with that of the alternative economic strategy. But to dismiss them on these grounds is to ignore the radically different context from that of the 1970s. After a generation of deregulation that has produced a devastating economic slump, to advocate measures increasing political control of the economy is to pursue an offensive strategy that challenges the power of capital. It is crucial here how the programme is conceived. If it is treated, as the alternative economic strategy was, as a reformist attempt to rescue capitalism, then the dangers are obvious. But, if it is seen as a set of transitional demands, in the sense in which these are understood by the early Communist International and by Trotsky, then everything changes.

Transitional demands start from the immediate needs of the struggle, but the logic of pursuing them implies a conflict with capital. As the *Theses on Tactics* adopted by the Third Congress of the Comintern in 1921 put it:

The communist parties do not put forward any minimum programme to strengthen and improve the tottering structure of capitalism. The destruction of that structure remains their guiding aim and their immediate mission. But to carry out this mission the communist parties must put forward demands whose fulfilment is an immediate and urgent working class need, and they must fight for these demands in mass struggle, regardless of whether or not they are compatible with the profit economy of the capitalist class or not… In place of the minimum programme of the reformists and centrists, the Comintern puts the struggle for the concrete needs of the proletariat, for a system of demands which in their totality disintegrate the power of the bourgeoisie, organise the proletariat, represent stages in the struggle for the proletarian dictatorship, and each of which expresses in itself the needs of the broadest masses, even if the broadest masses are not consciously in favour of the proletarian dictatorship.[22]

This is how the programmes under discussion should be understood. Not paying the debt, nationalising the banks, introducing capital controls, programmes of public investment—all these are necessary in order to address the needs of the vast majority in economies wrecked by speculation and slump. But implementing them would involve a massive confrontation with the existing structures of economic and political power. It therefore points towards, not a reconstruction of capitalism, but a move beyond it.

It doesn’t follow that these programmes are universally valid—abandoning the euro, of course, means nothing in Britain—or complete. For example, starting as they do from the consequences of the economic and financial crisis, neither addresses the crucial question of climate change. The Campaign against Climate Change has produced, with the support of several trade unions, a report and pamphlet setting out detailed proposals to create a million jobs in alternative energy industries, in refitting homes and public buildings on a low-carbon basis, and in public transport, a programme that has now been endorsed by the TUC. These proposals would have the double benefit of cutting CO2 emissions and addressing the unemployment crisis that even the IMF now recognises. Who after Copenhagen doubts that they could only be won over the fiercest resistance by capital?[23]

And, of course, any programme is empty without the political will and social power to translate it into reality. Whether or not these emerge will depend on the developing movements against austerity. Resistance may need a political alternative, but that alternative will remain a dream without resistance. Nevertheless, one important element of an effective response by the anti-capitalist left to the crisis is explaining what we want as well as what we’re against.

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Notes

1: Reich, 2010.

2: Krugman, 2010.

3: Eckholm, 2010.

4: Hall, Hollinger and Barber, 2010.

5: ILO-IMF, 2010, p4.

6: ILO-IMF, 2010, pp22, 8.

7: Pimlott, 2010.

8: http://www.ipsos-mori.com/researchpublications/researcharchive/poll.aspx?oItemId=2672

9: Press Association, 2010.

10: Rawnsley, 2010.

11: Milne, 2010b.

12: Milne, 2010a.

13: This ideological crisis is one of the main themes of Callinicos, 2010.

14: Oakley and Hope, 2010.

15: Lapavitsas and others, 2010b, p52.

16: Lapavitsas and others, 2010b, p53.

17: People Before Profit Alliance, 2009. For supporting analysis and argument, see Allen, 2009.

18: For a critique of the Irish version, see Allen, 1990.

19: Lapavitsas and others, 2010a and 2010b.

20: For Keynes's shifting views on wage-cutting, see Harman, 1996, pp15-17.

21: Holland, 1975, is the most substantial case made for the alternative economic strategy; for a critique, see Sparks, 1977.

22: Degras, 1956, volume 1, pp248-249. Thanks to Sam Ashman for clarifying this issue.

23: Campaign against Climate Change, 2009.

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