

Economic Crisis: Austerity Measures Devastate Europe

By [Prof. William K Black](#)

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This column was prompted in part by reading RJ Eskow's column, which alerted me to [Anne Applebaum's September 13, 2010 column](#) celebrating [Britain's embrace](#) of austerity and the Conservative Party.

I was already planning a piece responding to [Applebaum's Washington Post column](#) about the consequences of European austerity published on July 25, 2012 (her birthday) and the contrast to a Wall Street Journal news story that same day announcing that austerity had, as we predicted, thrown Britain back into recession when I read Eskow's column.

With the U.K. in a double-dip recession that is the worst in 50 years, the data also add to pressure on Treasury chief George Osborne, who [faces calls](#) to ease the pace of [austerity] measures that critics say are stifling growth.

Applebaum's 2010 column on Britain's embrace of austerity deserves to live in infamy. Eskow is correct that she takes palpable glee in economically illiterate actions certain to throw Britain back into recession and harm the working class in order to make the wealthiest Brits even wealthier.

LONDON—Vicious cuts." "Savage cuts." "Swingeing cuts." The language that the British use to describe their new government's spending-reduction policy is apocalyptic in the extreme. The ministers in charge of the country's finances are known as "axe-wielders" who will be "hacking" away at the budget. Articles about the nation's finances are filled with talk of blood, knives, and amputation.

And the British love it. Not only is austerity being touted as the solution to Britain's economic woes; it is also being described as the answer to the country's moral failings. On Oct. 20, the government will announce \$128 billion worth of spending cuts, and many seem positively excited about it. OK, the trade unions are not so excited, but Nick Clegg, the deputy prime minister and leader of the Liberal Democrats—the smaller party in the governing coalition—is overjoyed. Recently, he gave a speech in which he explained that tough choices had to be made, so that "we will be able to look our children and grandchildren in the eye and say we did the best for them.

As a journalist, Applebaum knows not to bury the lead. She, appropriately, packs here two first paragraphs with her major themes. Those themes include the most vital issues of economics and governance that (modestly) democratic governments face. Britain was just emerging from recession. The nature of the recovery – modest and slow – was accurately predicted by many economists who had noted that the stimulus measures were grossly

inadequate, but barely sufficient to make a quick “double-dip” back into recession unlikely. These accurate economic predictions, of course, did lead to praise for the economists or large popular efforts for greater stimulus to build on the modest successes of the modest stimulus.

Instead, the framing became that sovereign debt, even in the midst of recovery from a “Great Recession” represented “moral failings.” Implicit in that framing was the concept that a government with a sovereign currency (like Britain) was just like a private household. From the standpoint of a private household, debt was framed as “moral failings” and conflated with being “profligate” and placing “our children and grandchildren” in dire straits as they tried to dig their households out of the debt burdens we had placed on them. Under this framing, we had not placed those burdens on our progeny for any higher purpose (such as defeating the Bosch), but rather for venal, selfish purposes – we used the debt to buy toys and then, childish, demanded that the State bail us out of the inevitable results of our profligacy.

None of this had much resemblance to reality. Nations with sovereign currencies (the Brits wisely refused to join the euro) are not remotely like private households when it comes to debt. The simile is one of the classic errors that economists always have to explain to students. Nations adopt “automatic stabilizers” in order to make recessions far less severe and recoveries quicker. The stabilizers work by acting in a counter-cyclical fashion. Austerity during the recovery from a recession is a pro-cyclical policy that makes the recession worse and harms the recovery.

The pro-austerity framing that Applebaum described also means that austerity must represent superior morality and that the greater the austerity we champion the greater our moral superiority. This explains the competition in calling for “savage” cuts and the delight in gore. The more programs that aid the poor that we “amputate”; the greater moral superiority we demonstrate. It reverses the Gospels, but it certainly is an attractive framing for the wealthy.

The Labour Party was not worth discussing. The British had just been repudiated in the polls. It was, in any event, the “New” Labour Party that explicitly repositioned itself as the friend of big business, particularly giant finance. The “Lib-Dems” were delighted to help the Conservatives “take an axe” to social programs that aided the poor and working classes. Nick Clegg asserted that austerity programs certain to cause large numbers of parents to lose their jobs while slashing working class wages for those who did not lose their jobs was essential to help working class children. The program was economically illiterate, self-destructive, brutal to the working class – and wildly popular at the outset. The Conservatives represent the wealthy and are proud of it – they salivated at the prospect of savage austerity aimed at the working class.

Only the unions were left as reliable defenders of working class families, but they were politically powerless to do so. Applebaum, of course, gives them no credit for their defense.

Applebaum then combines faux moral superiority with faux history, to explain the moral virtues of austerity during a Great Recession.

For these [Conservative and Lib-Dem] voters, the very idea of instant gratification is anathema, in theory if not in practice. And they elected this government because they’ve

convinced themselves they've had enough of it.

Austerity, by contrast, has a deep appeal. Austerity is what made Britain great. Austerity is what won the war.

No, none of this is true. Leaving millions of people unemployed harms the people, their families, and the national and global economy. It is pure economic waste and a terrible social harm that devastates families. Causing people to lose their jobs is not rational under either a "long run" or "short run" perspective. It has nothing to do with a desire for "instant gratification." The typical unemployed adult spent over 12 years developing his or her skills. They did not rely on "instant gratification."

Fiscal austerity is not what "won the war." The opposite is true. In the fiscal policy realm it was massive fiscal deficits – debt – that won the war. Applebaum is falsely conflating household sacrifices with fiscal austerity. Here is a thought exercise. Senior British officials have made the absurd statement that the government is "out of money." If Germany invaded Britain today would the Brits surrender because they were "out of money?" Of course not, they would run however large a deficit was required to defend Britain from the invasion. That would not destroy Britain's economy. Instead, it would take Britain out of recession and produce full employment. Self-sacrifice was important during World War II. The U.S. and Britain used rationing. (Indeed, Britain's rationing continued long after the end of the war.) Households donated silk and metal to the war effort – and their children's and spouses' lives. Those sacrifices are moral issues. Fiscal austerity by a nation with a sovereign currency is not a moral issue. In the context of a Great Recession it is simply a self-destructive fiscal policy. A potlatch, (rivals compete in destroying valuable household possessions in order to gain status) involves self-sacrifice but it is simply self-destructive as an economic policy. Britain's austerity was a massive potlatch in which the parties competed in claiming moral superiority based on their zeal in competing to destroy working class families.

The Conservatives generated a faux "moral panic" among the British. Britain had too small a deficit, not too large a deficit, to recovery quickly from the Great Recession. Fiscal austerity in that context was so self-destructive that it would virtually guarantee throwing the nation back into recession. Recessions are the primary drivers of national debt and deficits because they cause such a dramatic fall in revenues and greater need for services to those who lose their jobs. Here is one of the most common errors people make about fiscal policy. A nation suffering from a Great Recession cannot simply "decide" to end its budget deficit. Consider why this is true. A nation can try to end a deficit by some combination of cutting spending and raising taxes. The problem is that in a recession private sector demand is already grossly inadequate to employ all the people who want to work. Cutting public sector spending (demand) while private sector demand is grossly inadequate is an excellent way to make the recession (and budget deficit) much worse. Raising taxes during a weak recovery from a Great Recession will further reduce already grossly inadequate private sector demand and cause the nation to fall back into recession (and increase the budget deficit). Britain has a sovereign currency. Its debt is not remotely "ruinous." It can borrow money at incredibly low interest rates. Fiscal stimulus in response to a Great Recession has no "immoral" aspect and is economically desirable. The moral panic was a lie on both moral and economic dimensions. It was lie deliberately generated for political advantage. It has resulted in deeply immoral [policies](#) that harm working class families and the national economy. British austerity represents a spectacular "own goal." Applebaum wrote her 2010 column to deride America as lacking the moral clarity of the British because we had failed to

embrace austerity. Her prime targets for austerity were: “Medicare, Medicaid, [and] Social Security.” It is always the most successful, most popular government programs that conservatives are most eager to destroy because it is those programs that falsify their dogmas and pose their greatest political barriers in attacking the 99%. Applebaum was eager to generate the same faux moral panic in America and mimic Britain’s self-destructive assault on working class families.

How would Applebaum react in her July 25, 2012 column to the demonstration that austerity was throwing Britain and much of the Eurozone back into recession? Would she admit that austerity had failed economically and morally? Of course not, she was still propounding the faux moral panic about budget deficits that was crushing European economies and workers’ families. Indeed, she claimed that the “silver lining” of the austerity-induced second recession was the suffering it caused.

Another day, another set of crisis headlines — but there is a silver lining: Finally, Europeans are being forced to face up to decades’ worth of fundamentally dishonest politics. Since the 1970s, one government after the next has spent, borrowed and then inflated its way out of the subsequent debt. Then they recovered — only to spend, borrow and inflate once again.

She reveals again her real target – she wants to destroy the social programs that have improved the lives of the working class. She claims that social programs are merely political bribes to induce the working class to vote for leftist politicians. She glories in the fact that the euro is not a sovereign currency, exposing every euro nation to what is effectively the ability of the bond markets to veto social and fiscal policies. She loves the fact that the bond markets hate higher working class wages and social programs that aid working class families. She recognizes that when nations joined the euro they surrendered a key aspect of their economic sovereignty and that delights her.

Successive leaders in all of those countries have tried to “buy” the electorate with elaborate pensions, state-sector employment and other perks. Banks across the continent and around the world have greedily facilitated them.

Now they can’t. Though no one recognized it at the time, joining the euro was like adopting the gold standard: It meant that individual governments couldn’t inflate their way out of trouble anymore nor pass on to the next generation the bill for today’s expenditures — as they still can in the United States and Britain. All along, it has been a mistake to describe the euro zone’s difficulties as a “currency crisis.” In fact, it’s a political crisis, caused by an addiction to debt, and it requires a political solution. Electorates have learned the truth: They are bankrupt. Whatever decisions the European Union now makes, future recovery depends on how much of the plain facts ordinary people can bear to absorb.

Never mind that inflation of general price levels (as opposed to financial bubbles) was actually never severe in nations that had joined the euro zone. Applebaum’s schadenfreude is unlimited. She loves the euro zone disaster her austerity policies generated because she believes that the disaster will destroy the social programs she despises and bring the extreme right to power. I think she is wrong. Latin America has elected some right wing leaders in response to the failures of the Washington Consensus, but it has largely elected leftist leaders who ran on promises to oppose the Washington Consensus.

The Republicans in general and Governor Romney in particular, are (at least rhetorically) supporting extreme austerity. This is remarkable because Romney has twice said that

austerity would harm our economy. (Representative Ryan's fiscal plans are so vague and incoherent that they could actually be stimulative.) Rather than run against insane austerity policies that have proven to be economic and moral failures, President Obama has embraced his own fiscal incoherence. He talks of the government running out of money and being just like a household and is one of the worst of the enablers of Simpson-Bowles' self-destructive austerity ideas. Simpson and Bowles, along with Peter G. Peterson are the leading American proponents of the faux moral panic. Obama's repeated embrace of the faux moral panic has made it impossible for him to make a coherent attack on Republican embrace of austerity policies that have devastated much of Europe, Obama will pay a great political price for trying to be all things to all voters on the issue of austerity. Opposing a self-destructive economic policy, premised on lies and designed to harm popular, successful programs created by the Democratic Party to benefit working class families should have been Obama's signature economic policy. Instead, Obama tries to be in favor of stimulus and austerity. In Europe, Geithner urges the euro zone to reject austerity. In Washington, D.C., he urges Obama to reject stimulus. Obama chose Simpson and Bowles even though everyone knew they would propose austerity and cuts to Social Security. The administration is so incoherent on these issues that no one believes that it has any economic principles. This is not pragmatism, it is dishonesty. It is bad economics, bad morality, and bad politics.

Bill Black, the author of [The Best Way to Rob a Bank is to Own One](#) and an associate professor of economics and law at the University of Missouri-Kansas City. Cross posted from [New Economic Perspectives](#).

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