

# **Holes in the Keynesian Arguments against Neoliberal Austerity Policy—It Is not “Bad” Policy, It Is Class Policy**

BY ISMAEL HOSSEIN-ZADEH (July 22, 2010)

Instead of calling the recent G-20’s brutal austerity declaration (issued at the conclusion of its annual summit in Toronto last month) an orchestrated declaration of class war on the people, many progressive/Keynesian economists and other liberal commentators simply call it “bad policy.” While it is true that, as these commentators point out, the Hooverian message of the declaration is bound to worsen the recession, it is nonetheless not a matter of “bad” policy; it is a matter of class policy.

“Bad” policy for whom?

For the powerful international financial gamblers the declaration is a good, not bad, policy. Indeed, it represents a monumental victory for these gamblers—an economic coup—as it converts tens of trillions of their gambling losses into gains by virtue of having their bought-and-paid-for governments force the people to cut on their bread and butter in order to pay for the fraudulent credit claims of the financial moguls. What is bad for the people is, therefore, a boon for the captains of high finance, who are the main architects of the G-20’s austerity policies.

Viewing the savage class war of the ruling kleptocracy on the people’s living and working conditions simply as “bad” policy, and hoping to somehow—presumably through smart arguments and sage advice—replace it with the “good” Keynesian policy of deficit spending without a fight, without grassroots’ involvement and/or pressure, stems from the rather naïve supposition that policy making is a simple matter of technical expertise or the benevolence of policy makers, that is, a matter of choice. The presumed choice is said to be between only two alternatives: between the stimulus or Keynesian deficit spending, on the one hand, and the Neoliberal austerity of cutting social spending, on the other.

Experience shows, however, that economic policy-making is not independent of politics and policy-makers who are, in turn, not independent of the financial interests they are supposed to discipline or regulate. Economic policies are often subtle products of the balance of social forces, or outcome of the class struggle.

Keynesian economists seem to be unmindful of this fundamental relationship between economics and politics. Instead, they view economic policies as the outcome of the battle of ideas, not of class forces or interests. And herein lies one of the principal weaknesses of their argument: viewing the Keynesian/New Deal/Social Democratic reforms of the 1930s through the 1960s as the product of the Keynes’ or F.D.R.’s genius, or the goodness of their hearts; not of the compelling pressure exerted by the revolutionary movements of that period on the national policy makers to “implement reform in order to prevent revolution,” as F.D.R. famously put it. This explains why economic policy makers of today are not listening to Keynesian arguments—powerful and elegant as they

are—because there would be no Keynesian, New Deal, or Social-Democratic economics without revolutionary pressure from the people.

A closely related flaw of the liberal/Keynesian “bad policy” argument against the Neoliberal austerity strategy stems from the optimistic perception of the State that views its power as above economic or class interests; a perception that fails to see the fact that the national policy-making apparatus is largely dominated by a kleptocratic elite that is guided by the imperatives of big capital, especially finance capital.

Liberal critics of the vicious austerity policies passionately argue against such policies as “bad,” “misguided,” or “unwise” as if the governments that make such policies do not know what they are doing. Accordingly, these critics offer all kinds of elegant Keynesian arguments in favor of stimulus deficit spending that could lead to improved economic conditions, increased tax revenues, and decreased debt and deficit. What these critics tend to overlook, however, is the fact that the governments that impose austerity policies are serving as bailiffs or debt-collecting agencies on behalf of their corporate/financial masters.

If you plead with a court-appointed bailiff who is about to foreclose a debt-burdened family’s house, “please, have mercy, don’t you see this poor family is going to be homeless?” his/her answer would most probably be “I already know that; I am sorry, but I have no choice, or that’s not my problem.” The difference between this type of traditional or ordinary bailiffs and today’s governments serving as bailiffs to collect the fraudulent claims of the international financial moguls is that while the former honestly admit that they have no choice because they have orders, the latter pretend that they are independent of special interests, and that they are simply carrying out policies of national interests!

Liberal/Keynesian critics of the Neoliberal austerity measures as “bad policies” can also be faulted for their belief that the Democratic Party is very different from the Republican Party, and that the blame for the atrocious cuts in social spending should be solely or primarily placed at the doorsteps of the Republicans. The reality, however, is that both parties are beholden to powerful financial interests, and that, individual exceptions aside, their public posturing as opposition parties are essentially tantamount to the proverbial *good cop – bad cop* game. As [Shamus Cooke](#) recently pointed out on this Website, “Both Democrats and Republicans agree that ‘financial markets’ should dictate the economic policy of the U.S. The two parties disagree only to what degree and how quickly to implement the same policy.”

President Obama himself has frequently stressed fiscal “responsibility” as a catch phrase to justify cuts in social spending. For instance, in a news conference at the conclusion of the Toronto G-20 summit, the President expressed satisfaction at the G-20’s commitment to cut their deficits by half in three years, arguing that “... if financial markets are skittish and don't have confidence in a country's fiscal soundness, that is also going to undermine our recovery.”

Another major weakness in the liberal/Keynesian criticism of the Neoliberal austerity strategy as “bad policy” is that, aside from the contractionary/recessionary argument, they have not thoroughly explained why this strategy is a “bad policy”; in other words, they have not vigorously challenged or exposed the flaws and myths of the Neoliberals’ fiscal “responsibility” claim. This claim, self-righteously touted by deficit hawks, rests upon these theoretical presumptions: lower social spending would lead to lower deficits; lower deficits would lead to lower interest rates; lower interest rates would lead to higher borrowing for investment/spending purposes; which would then lead to economic growth. In this way, austerity hawks can (and indeed do) claim that it is their fiscal “responsibility” strategy, not the Keynesian deficit spending strategy, that is pro-growth.

Despite its prima facie reasonableness, this theoretical postulate is not as foolproof as it sounds. Investment decisions depend on more factors than just interest rate. Business or market environment in terms of certainty, or lack thereof, and the prospects of sales or effective demand is one such factor. This explains why despite the extremely low interest rates of recent years lending/borrowing/spending for productive purposes remains stagnant, if not frozen. Burdened by too much debt, neither traditional borrowers dare or can afford to take on more debt, nor lenders dare to part with their cash—a classic situation of the so-called “liquidity preference,” or “liquidity trap,” as Keynes put it.

The claim of the champions of austerity policies that cuts in social spending would necessarily lead to lower deficits has also been disproved by the experience of recent decades. Since the late 1970s and early 1980s, social spending has been systematically cut while, at the same time, debt and deficit have been rising—except, of course, for the second half of the 1990s, when deficits shrank, not due to cuts in social spending but because of economic expansion of that period.

As long as the liberal/Keynesian proponents of deficit spending do not or cannot expose these flaws and fallacies of the claims of the neoliberal champions of fiscal “soundness” they are bound to be entangled in an ineffectual, circular debate with the deficit hawks without much success. These proponents may argue elegantly and passionately in favor of “bold, additional deficit spending in order to grow ourselves out of this crisis,” but without compelling grassroots pressure on policy makers they would not get very far with those arguments. Furthermore, as was just pointed out, champions of fiscal “responsibility” can just as forcefully claim to be “the real champions of economic growth” as do the liberal proponents of additional deficit spending.” Indeed, due to its prima facie reasonableness, the fiscal “responsibility” argument often wins over stimulus spending argument—again, as long as the Neoliberal-Keynesian debate remains within the narrow circles of the elite policy makers and their intellectual talking heads on both sides, that is, as long as the broad masses of people are not actively involved in the fight against the obfuscationist arguments of fiscal “responsibility.”

Perhaps the most important weakness in the liberal/Keynesian arguments against the Neoliberal austerity measures is the presupposition (or the acceptance of the premise) that deficit spending is the only alternative to cuts in social spending. This weakness, in turn, stems from another flaw in their arguments: neglect of the issues of accountability and/or

culpability. The three major factors that are largely responsible for the colossal debt and deficit are: the multi-trillion dollar Wall Street bailout, the out-of-control military/security expenditures, and the huge supply-side tax giveaways to the wealthy since the early 1980s. Doggedly focused on additional deficit spending, Keynesian partisans (like Neoliberal deficit hawks) let these culprits of the global debt crisis go scot-free, so to speak. They either do not mention these real sources of debt and deficit, or mention them only in passing—just for the record! Unwilling to challenge these sacred cows (their election/reelection benefactors), they tout deficit spending as the only viable alternative to cuts in social spending.

The Neoliberal fiscal responsibility vs. the Keynesian deficit spending debate thus seems more like a trap, or diversion, than an effective strategy to replete the public purse and bring about an economic recovery, as it sidetracks the root causes of debt and deficit, and accepts the Neoliberal argument that blames social spending as the culprit—in effect, blaming the victims (the people) for the crimes of the perpetrators: the Wall Street gamblers, the military/security spending, and the supply-side tax cuts. This insidious argument and the fake debate between the Democrats and the Republicans pursue two objectives: first, to absolve the real perpetrators of their responsibility for the colossal debt and deficit; and second, to restructure the debt and the economy in ways that would dismantle the welfare state, and throw back the working conditions, living standards, inequality and class divisions more than a century earlier—the late 19<sup>th</sup> and early 20<sup>th</sup> centuries.

Therefore, it is time to change the premises or parameters of the debate from “when or by how much social spending should be cut” to “why should the people pay for something they are not responsible for?” It is time to turn the tables and start asking: Why should the Wall Street gamblers not pay to rebuild the economy they drove to ruins, or pay the debt they accumulated? Why can’t a part of the hugely redundant and destructive military spending be reallocated to non-military public spending? Why do we need to have over 800 military bases around the world? Why can’t unearned incomes (capital gains, interest, dividends, rents from property) be taxed at least as much as earned incomes, income from work and profit from real production? What are the benefits of the numerous tax shelters (tax-free bonds, family trusts, oil depletion allowances, etc.) to national or public interests?

Obviously, there is not much room for these kinds of questions to be raised within the two-party political machine. It is, therefore, time for the broad masses of the working people, that is, not just the traditional blue color workers but also perhaps over 90% of the so-called white color workers and “professionals,” especially public-sector employees, to mobilize and organize independently of the two-party system in order to fend off the brutal Neoliberal offensive against their living and working conditions. It is abundantly clear that the illusions over Obama’s message of change have turned to nightmares as he has betrayed the grassroots who voted for him. More generally, the policy of working and pleading with the Democratic Party in the hope of reversing or containing the relentless attack of capital on labor (and other disenfranchised social

strata) must be abandoned, since Democrats are only slightly less Neoliberal than Republicans—they may as well be called stealth Neoliberals.

When the workers and other grassroots will gain the necessary consciousness and determination to actually appropriate and utilize the existing technology and resources for a better organization and management of the world economy in the interests of the majority of world citizens no one can tell. One thing is certain, however: to play such a role, the working class needs entirely new visions and new politics. The new, independent labor politics will need to (a) go beyond trade unionism, (b) go beyond national borders, and (c) operate through coalitions and alliances with non-labor grassroots opposition groups. There is definitely no shortage of material resources for this purpose, certainly not in the US and other industrialized countries. What is lacking is the political will and/or capacity to reorient the society's priorities and reallocate its resources. The feasibility of these proposals (and the fate of capitalism), ultimately, comes down to the relationship of social forces and the balance of class struggle.

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