

Understanding and Responding to the Global Economic Crisis

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We are living in a world where the people of most countries are suffering from high unemployment, heightened job insecurity, continuing and obscene inequalities of wealth and income both within most countries, and between the global North and global South, with widespread hunger and poverty. Most of the corporate and government elites are claiming that the major economic problem right now are large government deficits and government debt; and that government spending for pensions, for public sector wages, and for social programs must be cut back. Greece, which you know much more about than me, in order to get loans from the IMF and European Union is consciously following these austerity policies. By cutting consumer, business and government demand, these inhumane and unnecessary austerity policies are causing the already high unemployment and poverty to worsen and grow towards 15-20% in the next few years with output, GDP, and real incomes and wages also falling. The unemployment rate for young people in Greece is even more unacceptable, more than twice the overall rate. Jean Claude-Trichet, the President of the European Central Bank, is calling for further and deeper cuts in government spending throughout the world as did the G-20 in their meetings in Toronto in June, 2010. In the United States, where I live, the official unemployment rate is almost 10%; when we also count those who have given up looking for work and those who want to work full-time and can't, the real unemployment rate climbs to 17%. The unemployment rate is almost twice that for African-Americans than for whites. The already inadequate social welfare programs and education spending in the U.S. are being further cut as many are primarily funded by city and State governments whose revenues have fallen because of the recession-depression, meaning they have to cut back on their spending since by law, they must balance their budgets. Teachers are being laid off, parks are closing, and public transportation is being cut back as are many programs for the poor such as health-care and food assistance. Immigrants are being scapegoated.

I will make some comments on the causes of the current economic crisis, the inadequate and wrong responses by most governments, the likely economic situation in the near future, and what we should be demanding and organizing and mobilizing for in the immediate future and beyond. What happens in Greece is particularly important for people all over the world. You are facing some of the most serious cutbacks in employment and your standard of living, but by your resistance you are also an inspiration to those around the world who believe another world is necessary and possible. When I told friends of mine in the United States that I was coming to Greece, they said I was very lucky as they consider Greece and particularly the anti-authoritarian current as leading the fight against this global crisis and that we have much to learn from you.

Neoliberalism

Since the late 1970's, we have been living in a global neoliberal system, what is often called globalization. In 1979, Margaret Thatcher, the prime minister of Great Britain claimed There is No Alternative, TINA to this form of globalization. The creation of this unequal world system was and is a conscious response by those in power and especially the financial sector to restore **and increase profits**. Global neoliberalism was a response against movements in the Global South or third world who were demanding a new international economic order, for fair trade and for a fairer global economic system where the wealth would not flow from the third world to the first world multinationals. Global and national neoliberalism was also a planned response by corporate leaders and their academic and think tank apologists and pro-corporate politicians and the political parties they lead to restore and increase corporate profits by weakening workers bargaining power, by disciplining labor, through higher unemployment rates, weaker unions, reduced social programs, reducing the real minimum wage, and

making it easier to fire workers, so-called flexible labor. The threat and reality of capital flight has further weakened labor's bargaining power.

They use words such as free trade and deregulation to disguise the neoliberal capitalist reality of money of the wealthy flowing across borders to make the highest returns; of multinationals moving their capital to where they can make the highest profits and cause a race to the bottom in wages and benefits, in environmental regulations and taxes. It has meant privatizing public services and production like the current effort to privatize the trains in Greece and in the U.S., making people pay more out of their often shrinking incomes for public education, health care and public transportation. Taxes on corporations and the wealthy have shrunk while retirement benefits and the quality and accessibility of most social programs have declined. The market is worshipped, public production is demonized. In the United States, the part of the government that is growing is the repressive side—the military, the prisons and the police. It is also becoming privatized, corporations of mercenaries such as Backwater, now XE, and the growth of private prisons.

Neoliberalism is simultaneously a global system with institutions like the IMF, World Bank and World Trade Organization; a complementary structure at the regional level, e.g., The European Union and the North American Free Trade Organization; and a national system. There are important differences at the national level; the social wage or social programs, e.g. access to health care access is more limited and expensive in the United States than in most of Europe. Because of popular resistance and because it started at a more generous level, the destruction of social welfare has been partial and advanced less in most of Europe than in the United States, New Zealand, the countries of the former Soviet Bloc and much of Latin America. An aspect of the current call for balanced budgets by those in power is in reality a call for further shrinking social programs that benefit the popular classes. Let us not let this happen.

In Latin America, the battering ram to transform economies to neoliberal ones was in some cases, brutal military dictatorships, e.g. Chile, Argentina, beginning in the mid 1970's. In other cases, Mexico, Venezuela, the immediate cause was the "third-world" debt crisis, the inability to pay the skyrocketing interest costs on the country's loans to foreign creditors. In 1982, when the Mexican government declared they did not have sufficient dollars to pay off the interest payments that were due to large banks, mainly U.S. ones, they were granted new loans on the condition that they would move their economy in a market oriented and privatizing direction called **structural adjustment**. This pattern of having to accept the neoliberal agenda in order to receive loans of dollars and other internationally accepted currencies was repeated in country after country—in Latin America, most of Sub-Saharan Africa, in the Philippines and since 1991, in most of what had been the Soviet Union. Just like the case of the ruling party in Mexico in the early 1990's supporting the North American Free Trade Agreement, a treaty to lock in neoliberalism, neoliberal policies and structures were not only imposed by the United States and the IMF. They were also promoted and instituted by internal, by national advocates of neoliberalism. For example in Mexico and Latin American, those who hoped to be managers in foreign firms and buy imported luxury goods promoted this transformation. We should challenge both the national and international organizers of neoliberalism and the related structural adjustment policies.

The impact of these policies on the lives of the popular classes has been very damaging. The 1980's was called the lost decade in Latin America. Real wages fell and poverty and economic inequality between the rich and poor grew and grew, and burdens on women increased as the time and labor to maintain households, e.g., the price of public transportation increased while family income decreased.

Fortunately, this isn't the end of the story. Neoliberalism is being challenged in major ways in Latin America. Growing social movements, often community based, often indigenous, and also many governments in power and parties vying for power, have become a strong and inspiring and powerful popular current confronting neoliberalism, U.S. domination and U.S. foreign policy, e.g., the U.S.

blockade of Cuba. Venezuela is the most clear cut case of this challenge but it is also happening in Bolivia, Ecuador, Paraguay, El Salvador, Nicaragua, and Argentina. These changes are uneven and incomplete, and sometimes more in rhetoric than reality, and there are setbacks, the 2009 military coup in Honduras, but what is going on is a very hopeful sign for the people of this region and the entire world. For example, the Bolivarian Alliance for the Americas (ALBA), originally started by Cuba and Venezuela in 2004, now includes eight countries who are working on developing fair trade relations and cooperation, and are establishing a currency, the Sucre, to replace the dollar for international trade between them. The cracks and resistance and alternatives to neoliberalism are growing and deepening. In Venezuela, many of the social movements as well as President Hugo Chávez have moved beyond targeting neoliberalism as the underlying cause of poverty and vast inequality. They are now naming capitalism as the system that causes oppression and calling for and working to construct socialism for the 21st century.

The Current Economic Crisis

The current economic crisis is in some ways a replay of the political economic situation of the early 1980's. For example, the official unemployment rate in the United States in 1982 was over 10%, similar to today, and social programs were being cut as military spending and aggression were increasing. Most major banks in the United States in the early 1980's would have gone bankrupt if some of the third world countries such as Brazil, Mexico, Argentina and the Philippines had defaulted on their debts to these banks. These countries could not pay the rapidly rising interest rates being set by the Federal Reserve Bank of the United States which then caused the interest rates on their loans to sky rocket. These economic policies caused severe hardship in the United States but even worse problems in heavily indebted countries such as Mexico and the Philippines. In Europe, the capitalist class was only partially successful in rolling back social programs and the welfare state in this earlier period. They are using the current recession-depression to complete their project of totally dismantling social democracy. They can only get away with this if the people of these targeted countries accept the lie that there is no alternative to austerity.

Greece as well as Ireland, Portugal, Spain and many of the Eastern European countries like Latvia are suffering the same increases in poverty, growth of unemployment and inequality, and increased burdens on women that were caused by structural adjustment programs in the 1980's and 1990's. These are the same failed policies that were promoted then and are being promoted today with only slightly different labels. Let us learn from these destructive policies of the past and not allow for them to be imposed on Greece or anywhere in the present.

There are also important differences between the serious economic recession of the early 1980's and the current crisis. A major difference is the increased power of global finance which was unleashed in the earlier period and has become even more of a destructive and dominant force today. Corporate profits rose substantially from the early 1980's to 2007 but especially in the financial sector. The financial sector share of total corporate profits grew from less than 20 to 40%. Global neoliberalism is a horrible failure. It has not improved economic conditions for the majority but it has also failed on its own terms of creating an economic system that was stable with growing output and profits. The current recession/depression is vivid evidence of this failure.

The growth of finance and financial speculation and of all forms of debt, consumer, government, non-financial corporate and financial sector, is a necessary result of global neoliberalism. Financial deregulation and the end of controls on capital moving across border created conditions where banks and other financial institutions could make huge amounts of money by buying and selling pieces of paper. These securities or bonds were created and bought and sold between financial institutions who borrowed money for short periods of time in the expectation of high returns that they would earn by buying these securities whose return was supposed to come from the mortgages, auto loans, credit card and commercial debt, and high interest loans that backed them up. Many of these bonds, sometimes called collateralized

debt or collateralized mortgage obligations often had their origins in the United States but were then bought by banks and other financial institutions all over the world.

In the United States this unsustainable financialization could only last as long as housing prices continued to rise. From 1995 to 2006, they rose far more than family incomes or prices of other goods or rents. It was an unsustainable housing bubble that burst as all bubbles do as housing prices began to fall in 2006 and then dropping even faster from 2007 to 2009. They are still falling in most housing markets although more slowly. This economic expansion was based on housing prices rising rapidly and people using the rising value of their houses to pay for the increasing interest payments on their houses and for other consumption expenses. At first, the inability by households in the United States to make their monthly housing payments were primarily in what was known as sub-prime mortgages; mortgages that charged much higher than normal interest rates, often with low teaser rates to fool the buyer. These sub-prime mortgages were extended disproportionately to low income people and especially working class blacks and Latinos. Non-payment on these mortgages and foreclosures, people losing their homes, grew rapidly as unemployment rates more than doubled from late 2007 through 2009. Foreclosures spread rapidly to include holders of regular mortgages. The non-payment of mortgages caused the holders of these mortgages, mainly banks, and even more significantly, the holder of the bonds that were backed up by mortgages to take big losses or in some cases go bankrupt, e.g., Lehman Brothers in 2008. Non-payment on more and more mortgages reduced the revenues these financial institutions were receiving, cutting their profits. More significantly, the value of these mortgage-backed securities collapsed as financial institutions such as Bear-Stearns had to sell these securities that nobody now wanted. The short-term loans they had made to purchase these securities became due, and they could not get new loans as credit became frozen so they had to sell the mortgaged-back securities to pay back the loans they could not roll over. So prices of these collateralized securities collapsed and a growing number of financial institutions became insolvent as their assets were worth less than what they owed out.

Moreover, these securities had been sold to financial institutions all over the world contributing to a global financial crisis. Big banks of other countries had followed similar policies to the United States of leveraging their capital, buying risky assets on more and more borrowed money. The subsequent drying up of credit caused the decline of production and income far beyond the financial sector.

As these financial institutions moved closer and closer to bankruptcy, many of them were loaned money or had these near worthless securities purchased by their central banks. They were bailed out. In the countries who are members of the European Union (EU) they were also purchased by the European Central bank. This may have saved the private banks but so far little of this money has been lent out by these financial institutions in ways that will stimulate production and employment. The current financial reforms and regulation are inadequate and insufficient to deal with future financial speculation or to guarantee the extension of credit to spur production. A far better solution would have been and still is to have local and national governments take over, nationalize these failing banks, and have them managed by community and labor groups who would extend credit, not to maximize profits for their stockholders, but rather to further employment and living wage jobs, and to stimulate socially useful production and a more environmentally sustainable economy.

Another major and interrelated cause of the current crisis and an integral aspect of neoliberalism has been the reduced income going to labor, the growing inequality in income and wealth, the growing job insecurity, and falling real wages for more than 30 years. A central aspect of neoliberalism is weakening the power of working people and increasing the power of capital, particularly financial capital. Productivity and profits have increased substantially since the 1970's but in general, the growth of real wages has been much smaller; and in the United States wages have stagnated and declined for many. In the U.S., money wages have risen less than prices since 2000. So working class households in the U.S., in order to maintain their consumption in a period of declining purchasing power have increased their

borrowing, their consumer debt to maintain their standard of living. Growing medical expenses have been a major cause of increased borrowing and of bankruptcy. Much of this consumption was financed by households borrowing on the values of their housing, what is called refinancing. So growing consumer debt spurred the economic expansion but also has made the economy far more likely to suffer a more severe recession/depression once people could not pay their debts. This caused a snowballing effect as my not being back my loan to your business or bank causes them to not be able to pay off their debts to their suppliers or lowers the value of credit card backed securities. It has also contributed to millions of people owing more on their houses than the value of their house as housing prices declined an average of 30% in the United States over the last four years.

The current economic crisis continues with high unemployment throughout most of the world and probably worsening in many countries in the foreseeable future. Cuts in government spending in a period of recession/depression in order to reduce the government deficit, as was practiced in the early 1930's by the United States and Britain, did not make the deficit smaller then or now as tax revenues fell further because of the decreasing level of production and income. It also increased unemployment and the severity of the depression. It was exactly the wrong policy then and now. John Maynard Keynes, certainly not a radical, but with some important and worthwhile ideas, taught economists and politicians alike that their knee jerk reaction to cut spending when tax revenues fall due to recession is exactly backwards. And yet this is what Germany and England are doing. This is what the European Commission and European Central Bank are forcing Portugal, Ireland, Italy, Greece, and Spain to do. This is what governments of Eastern European countries are doing in an attempt to spruce up their resumes as they get ready to apply for admission into the Euro zone. This is what the IMF is pressuring third world governments to do and what it has pressured them to do for the last 30 years. And this is the road that deficit mania has now sent the United States and Japan down as well. Those with power are doing this to destroy what remains of the social welfare state; they are doing this to further the neoliberal assault on workers and their communities, to create a neoliberal dystopia no matter what the human costs. Of course, this must be resisted and stopped.

What Should Be Done?

If stonewalling financial reform and fiscal austerity will only make matters worse, what should be done instead? When unable to defend bad policies advocates always resort to TINA – There Is No Alternative. This is what Prime Minister George Papandreou and PASOK now claim in defense of caving in to financial speculators, the European Commission, and the IMF, and imposing an austerity budget on ordinary Greeks who did nothing to cause the economic crisis. Papandreou now claims fiscal austerity is regrettable but unavoidable. In the words of Bill Clinton, “he feels his fellow Greeks’ pain.” However, there is a better alternative for Greece, just as there is for the world at large.

(1) Instead of imposing wage freezes, reducing vacation and retirement benefits, and laying off public employees providing useful services and public goods, taxes should be raised on the wealthy, and financial transaction taxes should be levied to discourage speculative, destabilizing activity. Raising the value added tax (the European equivalent of a sales tax) is highly regressive. Going after taxi drivers for tax evasion is small change and petty. Tax evasion by wealthy Greeks is notorious, and forcing the wealthy to pay their fair share of taxes is where fiscal austerity and raising taxes should begin and end for the foreseeable future!

(2) Greece needs fiscal stimulus not fiscal austerity to pull its economy out of its economic depression. Moreover, the world needs fiscal stimulus not fiscal austerity to end the current recession/depression. There will be an increase in unemployment and poverty in far more countries than Greece in the coming year. Governments everywhere, including Greece and the United States, should engage in aggressive fiscal stimulus, which means increased government spending and increased government deficits. Greece has every reason to be angry at Germany for not engaging in more fiscal stimulus, while Germany has no reason to criticize Greece for running a budget deficit -- since it should be! Right now Germany can

borrow at very low interest rates to finance a deficit, or to lend to Greece, whereas financial speculators are forcing Greece to pay much more than warranted by any objective criterion. All the so-called PIGS – Portugal, Ireland, Italy, Greece, and Spain -- should unite and (a) refuse to accede to counterproductive demands that they engage in useless fiscal austerity, (b) demand that the stronger European economies like Germany launch strong fiscal stimuli as the best way to reduce unsustainable trade imbalances within the EU (European Union) and (c) demand underwriting protection from the EU sufficient to earn smaller EU countries reasonable interest rates to refinance their debt.

We should demand the European Union use its considerable powers to do what its citizens need it to do to engineer an economic recovery. The EU needs to insist on meaningful international financial reform at IMF and G-20 meetings, and on imposing restraints on those who would speculate at the expense of European governments who merely want to roll over their sovereign debts on reasonable terms. Unlike the Greek government, or the government of a small third world country, the EU has the power to stare down financial markets. What it lacks is the will to do so. The reason it lacks the will is that the EU governing institutions are more beholden to financial interests than they are to the EU citizens they are supposed to represent.

(3) In the words of former US Treasury Secretary Hank Paulson who told the US Congress in October 2008 that they had no choice but to approve his \$700 billion TARP bailout request for US banks because Congress was “already on the hook,” this time it was Greece who had the stronger countries in the euro zone “on the hook.” PASOK needed to take advantage of its leverage. Much of Greek debt is owed to banks from other European countries and Germany in particular. The euro would take a serious hit if Greece defaulted. After incompetent delay which multiplied the size of the necessary bailout several times, German Chancellor Angela Merkel finally agreed to a bailout package to save Germany’s own banks and protect its precious euro – certainly not to help Greek workers who German politicians and newspapers slander as lazy and greedy. Had PASOK hung tough and defended the Greek economy against demands for greater austerity they could have gotten financial backing on much better terms. PASOK was a lousy negotiator on behalf of Greek citizens and deserves to be fired for incompetence as well as for trying to force Greek workers to tighten their belts to pay the bill for a party the previous conservative government threw for its wealthy Greek supporters. Big private banks are being bailed out at the expense of the people of Greece. **Let us challenge this dominant narrative that puts the blame in the wrong place, on Greek workers and their benefits, and present our alternative one that targets financialization.**

Severe budget cuts are crippling the Greek economy. The European Union could roll over the debt without requiring these inhuman cuts and the increasing of the value added tax. There are advantages in defaulting on sovereign debt. The Russian economy was far better off after the government defaulted in 1998 than it would have been had they acceded to onerous IMF conditions in exchange for a bailout. The Argentine economy was in free fall before the government defaulted on international loans in 2001, but has enjoyed strong positive growth ever since. But of course when PASOK made clear to all that it would do anything international creditors and the European Commission demanded to avoid default, it lost any chance of securing favorable terms. Unless a government is willing to say “no” to a deal that should not be accepted there is no chance to secure a favorable outcome. People need to organize and mobilize to force the Greek government to repeal its austerity policies and cancel its onerous agreements with the IMF and European Central Bank and to seriously consider whether to partially or fully default on the government debt.

(4) Similarly, there are both advantages and disadvantages of being inside the euro zone. The principle advantage is a large and stable currency that is relatively – although not entirely -- immune from speculative attacks, and possibly lower interest rates when borrowing money. The chief disadvantage is Greece cannot devalue its currency relative to the stronger economies in the euro zone to reduce

unsustainable trade imbalances. But for Greece it is becoming increasingly apparent that the disadvantages for maintaining the euro as its currency outweigh the advantages. And even if the advantages still outweigh the disadvantages now, it is better to leave the euro zone now, rather than agree to damage the economy severely for three years and have to leave the euro zone in any case -- which is what current policies will lead to. According to the calculations of IMF officials who helped negotiate the bailout deal, even if Greece carries out the austerity program to the letter, its sovereign debt will be even higher in three years than it is today!

If the EU will not offer Greece a way to grow out of the crisis, Greece is better off leaving the euro zone. From 1998 to 2001 Argentina tried what PASOK is trying now, internal devaluation, only to drive half its population into poverty. After devaluing and defaulting, Argentine GDP dropped for one more quarter and then climbed 63% over the next six years.

A program of economic reform would be to coordinate economic stimulation across countries with increased public investment to provide "green jobs," to maintain wages and benefits for both public and private sector workers, maintain and increase social programs and transfer payments to low income people, impose substantial financial regulation, and make the government the employer of last resort! That is a viable program in general, and a viable option for Greece as well. Greeks deserve a government committed to this option, which means a government willing to default and/or leave the euro zone if creditors and the EU are unwilling to provide the Greek people an opportunity to grow their way out of a crisis that was not of their making.

These significant improvements in economic policy will require a strong and militant movement committed to advancing and struggling for an economic program that puts people and their communities before profits and financial capital. To be successful, we need a high level of unity of popular movements including labor, within and across borders. Let us be inclusive in our movements. These economic reforms are worth struggling for. It is possible to win them.

Reform and Revolution

However, the problem is much more than neoliberalism; it is more than the power of banks and financial capital. Neoliberalism is more than just anti-labor and anti-environmental programs and policies promoted by influential foundations, intellectuals and corporate and political leaders that just happened to get their way in many nations and globally. Rather, it was a logical response by capital to the declining profit rates of the late 1960's and early 1970's. The problem facing humanity today is **global capitalism** not only the neoliberal variant of it. The so-called golden age of capitalism, the period after World War II until the 1970's still meant vast inequality on a national and global level, colonialism and neo-colonialism, imperialist wars like Vietnam, racism, alienated work for the majority, patriarchy, high rates of unemployment, dispossession of people from their land, environmental destruction, and a world dominated by the wealthy and multinational corporations. So in challenging the present let us not romanticize the past, e.g., Greece in the 1980's. Some forms of capitalism are more oppressive than others but they are all oppressive. Capitalism cannot be reformed into a humane and just and sustainable system. We must replace it.

Moreover, financial crises are an integral part, not only of neoliberalism, but also of capitalism, no matter what type. Financial crises and the interconnected major declines of employment, income and production, are continuing and unavoidable recurrences throughout the history of capitalism and will continue to occur and destroy lives and communities and societies as long as capitalism continues.

We need to build movements that combine struggles for reformist and revolutionary change. For example, while demanding that social programs and public employment be maintained and increase, we should also demand community and worker control of these programs. In demanding full employment, we should

simultaneously demand meaningful jobs that produce useful goods and services, and reduced hours at a living wage. While working on reforms, we should point out their limitations and also project and organize for and fight for a society and world of meaningful work and relations, for the end to poverty and hunger and inequality, for the end of racism and sexism, for climate justice and for a world we can live in harmony and cooperation with the environment and each other. Let us build our capacity and understanding to demand and go beyond social democracy. We need to construct alternatives to capitalism conceptually, in our institutions and in our practice.

Resistance to injustice and opposing capitalism are necessary but not sufficient. When some of my comrades in Olympia, Washington chant, "Tear It Down", at our demonstrations and actions, I modify it to "Tear It Down, Build It Up".

In closing, I want to thank the people in Greece who are resisting in large numbers and militantly, against austerity and cutbacks. You are in a very difficult and serious situation but your actions for economic justice are a beacon of hope and a signal to social movements and people all over the world who believe, "There is An Alternative" to the economic crisis. You are inspiring us. We also have a responsibility to support your struggle as we struggle for the liberation of our society. Your fight is also ours.

SOLIDARITY!!