

# Stimulus or Austerity: The People vs. the Banks

By [Shamus Cooke](#)

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Region: [USA](#)

Theme: [Global Economy](#)

The most powerful nations in the world met recently at the G-20 in Toronto and managed to agree on only one thing of significance: the need to reduce deficits, “half by 2013.” Implied by the statement is the need to lower deficits via “austerity,” meaning eliminating or reducing social programs.

Why does every mainstream political pundit or corporate CEO fanatically agree that reducing deficits is the most important thing to do now? Let Obama explain:

“... if financial markets are skittish and don’t have confidence in a country’s fiscal soundness, that is also going to undermine our recovery.”

Apparently, the most important policy for the world economy cannot be said in plain English. What does Obama mean? Essentially, he is saying that “financial markets” should determine how wealth is distributed and how the economy is directed.

What are financial markets? And why must every country be at their mercy?

A financial market is anyplace the super-rich invest their money. It can be done through a bank, hedge fund, or a private equity firm, etc. The rich demand that their investments are safe and therefore are especially “skittish” at the slightest hint of inflation or other economic distress.

The rich who dominate financial markets advocate only one solution to balancing budgets: reducing or eliminating social programs. They ignore the other solution— a massive public works project— because it directly affects them in a negative way: raising taxes on the wealthy.

This raises another issue. The investors who control financial markets know that a day of reckoning is coming: the massive debt that was pushing forward the world economy for years needs to be paid back, and those who own the banks don’t want the responsibility. Better for millions of workers to sacrifice social services, pensions, wages, etc., than for thousands of rich investors to be taxed.

Some people will argue that it is counterproductive to tax the rich, since they will then choose not to invest their money, causing further harm to the economy. But this is already happening and happens every time a recession hits.

The New York Times describes one example of the rich hoarding their money, until better, profitable times return:

“Only on Wall Street, in the rarefied realm of buyout moguls, could you actually have too much money.... Private equity firms, where corporate takeovers are planned and plotted, today sit atop [are hoarding] an estimated \$500 billion. But the deal makers are desperate to find deals worth doing...” (June 24, 2010).

Rich investors are not investing in companies because consumers are not buying the products that corporations produce. And where mainstream economists blame “consumer confidence” for this problem, the real issue remains “consumer impoverishment.”

It is the rich investor that lacks the “confidence” that the unemployed or low-waged worker can buy enough of the products produced by corporations. This is the problem that will continue to haunt the establishment economists, who will incessantly preach that the economy is on a perpetual verge of recovery.

This illusion of recovery is being instituted into government policy. The Obama administration has argued that federal stimulus money is only needed in small doses to put the economy back on track. With politicians agreeing that the recession is “basically over,” less stimulus money is being offered.

Indeed, Congress has had a terrible time passing the tiniest stimulus bill, which would extend unemployment benefits and help states with Medicaid costs. If such a bill is eventually passed, it will be a mere fraction of what is needed.

Because Obama insists that “reducing deficits” is the new governmental priority, the stimulus faucet will quickly dry up (since government stimulus is financed through deficit spending).

But for millions of U.S. workers, the debate over stimulus spending is not theoretical, but a matter of life and death. If no federal stimulus is passed— and the current one has virtually died in Congress— millions of unemployed people will have zero income. Meanwhile, the states budget crises will worsen, shutting off state-run health care, social services and education, while slashing public sector jobs by the thousands.

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.

The American labor movement must find an independent voice to demand that a stimulus bill be passed. Labor — especially public sector workers — must ally themselves with the unemployed, students and teachers, and other victims of the states’ budget crises who will suffer real tragedies unless a federal stimulus bill is passed.

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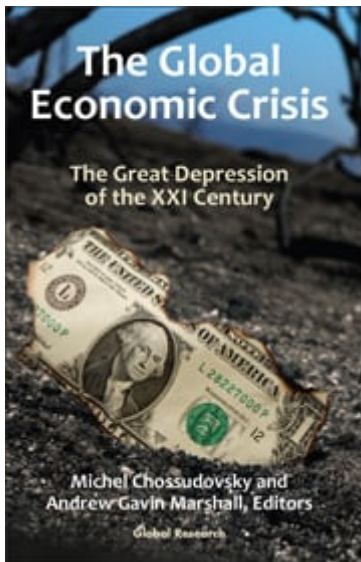
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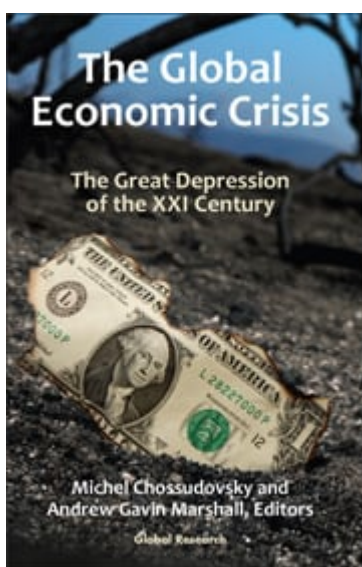
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and *America's "War on Terrorism"* (2005). He is also a contributor to the Encyclopaedia Britannica. His writings have been published in more than twenty languages.

**Andrew Gavin Marshall** is an independent writer both on the contemporary structures of capitalism as well as on the history of the global political economy. He is a Research Associate with the Centre for Research on Globalization (CRG).

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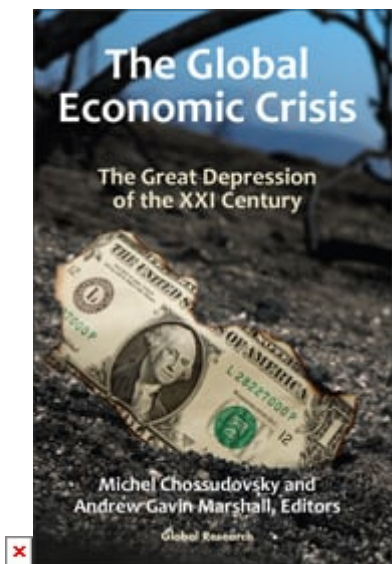
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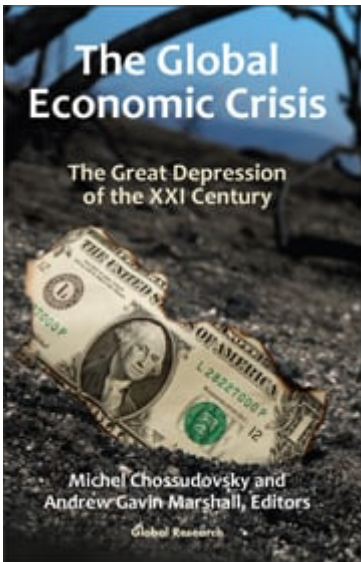
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