The Wrong Economic Prescriptions: Deeper Austerity as a "Solution" to Austerity

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Leeches could also be used in bloodletting. The withdrawal of so much blood as to induce syncope (fainting) was considered beneficial, and many sessions would only end when the patient began to swoon.

As the economy shows signs of recession, the leeches return. Alan Simpson and Erskine Bowles have issued a new report calling for even deeper austerity. It is not what the economy needs as it stagnates and sputters toward a possible new collapse. Their report combined with President Obama's State of the Union, the sequestration and Republican dogma are all combining to bring on another round of budget cuts, which will only make recession more likely. It is important to put the current economic debate in context. Dr. Jack Rasmus, an economist who gets it right more than any other we are aware of, provides the framework with his in-depth analysis of the US GDP over the last 15 months. He summarizes the present dismal situation:

"Nearly the entire European Union, including its core economies of Germany, France, and the United Kingdom are all now clearly mired in recession. The Euro southern periphery is in a bona fide depression. Japan has entered its third recession since 2008. China, India, and Brazilian growth rates have fallen by half. And the US in the fourth quarter 2012 has come to a virtual economic standstill, the second time in two years in which a quarterly GDP recorded virtually no growth."

Rasmus predicts "The dual strategy of capitalist politicians across the globe—of QE and money injections into the banks and financial system combined with austerity for the rest—has clearly failed and will continue to fail even more visibly." Rasmus foresees a double dip recession, with the shrinking US GDP of the last quarter as a harbinger of things to come.

Simpson and Bowles come into this situation recommending the wrong prescription – more cuts to Medicare, Medicaid, Social Security and other social programs, as well as closing corporate tax loopholes. They want to cut $2.4 trillion from the federal deficit over the next decade, $1.5 trillion more than President Obama has called for and this is on top of the $2.7 trillion in reductions that have already been implemented causing the most rapid fall in deficit to GDP ratio since World War II. All of this means an 'Obama recession' becomes more likely.

No doubt Republican dogma of shrinking federal government and low taxes deserve a lot of the blame, but President Obama does as well. His State of the Union address kept the Grand Bargain of cuts to essential programs along with closing corporate tax loopholes on the table.

Dr. Richard Wolff cuts through the rhetoric of "fiscal cliff," "austerity" and "market" to pinpoint who benefits from austerity, writing that those who own the "US public debt are easy to list: large banks, insurance companies, large corporations, wealthy individuals and central banks around the world. Austerity justified as satisfying 'the market' in fact serves those US creditors first and foremost."

Multiple commentators have noted President Obama's sly language on Medicare cuts and his silence on protecting Social Security. Symptoms of a sick health care system continue to show. Executive salaries at non-profit hospitals continued to rise despite a frail health care system. And though the US ranks dead last in male life expectancy and near the very bottom in prevention of premature deaths, infant mortality, total health care coverage, number of practicing doctors, and prevention of deaths due to heart disease among developed nations; we may begin to look better in the international rankings soon – not because health care is improving here but because bankers are now demanding privatization of European heath care systems which will bring their outcomes down too.

The more we learn about Obama's Treasury Secretary appointment, Jacob Lew, the less hopeful we are of decent policies coming from his leadership. Confirmation hearings have brought out his Romney-like economics: personal investment in the Cayman Islands, creating foreign tax havens for customers when he was at Citi, and that prior to Citi, when he was an executive at NYU, he steered students to expensive Citigroup loans. Of course, we remember his $950,000 bonus when Citigroup was bailed out. It seems impossible for Americans to trust Lew's economic ethics and plutocratic economic behavior.

All this talk about austerity comes as we learn that the Federal Reserve continues to bailout the big banks, not only by pumping $85 billion each month into banks through Quantitative Easing, but court documents revealed that the Fed also forgave $7 billion in mortgage security losses by Bank of America. Bailouts continue but outside of the public eye and should lead to more calls for Fed transparency, which is unlikely to come from the two Wall Street parties.

And, austerity comes at a time when new census analysis shows that during the Obama 'recovery' only the rich got richer; the poorer got poorer. According to a new analysis by Emanuel Saez. perhaps the leading economist on incomes in the world, from 2007-2009 the "average real income for the bottom 99% . . . fell sharply by 11.6%, . . . by far the largest two year decline since the Great Depression." And new data covering 2009-2011 indicate that "Top 1% incomes grew by 11.2% while bottom 99% incomes shrunk by 0.4%. Hence, the top 1% captured 121% of the income gains in the first two years of the recovery." [Emphasis added.] We got a glimpse into the rigged system this week when it was reported that Facebook, which made $1 billion in profits, will be paying no income taxes, indeed will receive a $429 million refund. Why? Tax deductions allowed for executive pay in stock options.

And, don't believe that the rich getting richer will create jobs. The claim that the wealthiest are job creators has been proven to be a myth. Another myth exploded in this week's news was that it was important to pay CEO's exorbitant pay to preventtheir unique talents from being lured away. Both myths are not consistent with the facts.

What will another economic collapse cost us? The GAO issued a report this week that indicated the last collapse cost the US economy $22 trillion; that is about 1.5 years of total GDP. And, most of that came on the back of homeowners suffering from the housing collapse.

What is the alternative? Countries that are breaking from the Washington Consensus are showing the way. This week an analysis by the Center for Economic and Policy Research of Ecuador found "government's taking control of the Central Bank, implementation of capital controls, increased taxation of the financial sector, and other regulatory reforms. It concludes that these played a major role in bringing about Ecuador's strong economic growth, increased government revenue, a substantial decline in poverty and unemployment, and other improvements in economic and social indicators." Unemployment has fallen to 4.1 percent, the lowest level in 25 years and poverty has been cut 27 percent below its 2006 level.

The report gives us hope finding: "Ecuador's success shows that a government committed to reform of the financial system, can – with popular support – confront an alliance of powerful, entrenched financial, political, and media interests and win." By the way, Raphael Correa won re-election on Sunday by a landslide with more than 60% of the vote in a race with 8 candidates. **Is there any US politician that wants to get on the side of the people?**

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