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Making sense of austerity: The rationality in an irrational system

Bill Dunn
The University of Sydney, Australia

Abstract
This article understands contemporary austerity through historical comparisons informed by Marxist insights into the nature of the state. It argues that austerity policies make sense from the perspective of capital–labour, inter-capitalist and international competition. Differences among states over time, in terms of their size and international situation and contested domestic relations, produce varied imperatives towards austerity and prospects of effective resistance.

JEL Codes: B51, E60, H11

Keywords
Austerity, Marxism

Introduction

Austerity is 'absurd' (Arestis and Pelagidis, 2010), 'madness' (Krugman, 2012). The lessons of Keynes, briefly remembered in the immediate aftermath of the 2007–2008 crisis, were quickly forgotten. Instead, the policies that had led to the crash were promoted with renewed vigour. Fiscal stimulus was replaced by austerity, and when this failed, the logic was to demand more austerity (Schulmeister, 2013). The results were miserable, even in narrowly economic terms, and the human consequences appalling (McKee et al., 2012).

This article tries to make sense of this turn. It argues that seeing austerity as a 'mistake' underestimates the powerful vested interests supporting it and the structural obstacles confronting its opponents. It draws on four Marxist insights into the nature of states under capitalism. These provide a basis for understanding how capital and states can

Corresponding author:
Bill Dunn, Department of Political Economy, The University of Sydney, Sydney, NSW 2006, Australia.
Email: bill.dunn@Sydney.edu.au

quite 'rationally' pursue strategies that become economically and socially destructive. Contrary to the popular caricature of Marxism as functionalist economic determinism, these perspectives emphasise that policy varies across time and place. State action needs to be understood in the context of capitalist imperatives but cannot be reduced to them, while these imperatives themselves are changeable. Theory is seen as only the starting point for a properly historical analysis. The four perspectives frame a more concrete commentary in the subsequent sections on why austerity continues to be pushed.

The first point is simply that states are not neutral social arbiters. Although they cannot be conceived just as instruments or executives of capital, there is at least a systematic class bias. Understanding something about capital's interests and the contradictory dynamics of accumulation provides a useful starting point for theorising the politics of austerity. Capitalist imperatives, particularly in times of crisis (now as in the 1930s and 1970s), provide a powerful incentive to restore profit rates through anti-labour austerity policies. Nevertheless, the distinctive nature of particular crises produces different relative incentives to prioritise policies sustaining demand. The crisis now has much in common with the 1930s and contrasts with that of the 1970s, although unsurprisingly, policies which were relatively successful (in narrowly capitalist terms) in recovering from the 1970s crisis continue to dominate.

Second, policy outcomes are produced through contested social relations, the result of open-ended inter-class but also intra-class competition. It is argued that the social and political achievement of the New Deal and Keynesianism in the 1930s and post-World War II (WWII) period contrasts with the outcome of social struggles in the 1970s. Labour's defeats in the latter period continue to inform policy orientations. Opposition to the present austerity measures has not been comparable to the upheaval that forced the reorientations of these two earlier periods. Indeed, particularly in the US, the political moment was this time grasped by the right, itself backed by powerful business interests, but pushing an austerity agenda beyond, even against, the needs of leading capitalists.

Third, each state should be considered in relation to other states and to a worldwide capitalist system. Cutting costs can make sense in the context of international competition. Again, the current situation contrasts with that of the inter-war period and 1970s. The more extensive character of contemporary capital accumulation makes reflationary policies (even) less attractive to capital now than in the Great Depression. As with structural adjustment policies pursued in poorer countries since the 1980s, even devastating social and often economic consequences made sense in helping to restore international financial stability and protecting elite incomes within the restructured economies. The structural constraints of the Eurozone provide an additional reason for the particularly harsh and direct form austerity has taken.

Fourth, some states are more powerful than others and what states can do changes over time. Austerity has tended to be imposed on smaller, weaker economies like Iceland, Greece and Ireland. Although the Eurozone imposed powerful constraints even on large economies, such imperatives have been weaker for larger states with currency autonomy, notably the UK and US. Nevertheless, even in America, austerity makes sense for powerful sections of capital.

These observations might seem rather banal, were they not ignored by much mainstream and even putatively radical economic theory. The article concludes that the shift to austerity policies can be understood as entirely rational in the context of class and international competition. There is nothing to suppose that austerity must 'work' in the sense of resolving capitalism's underlying problems. Nor do the powerful vested interests supporting austerity make it inevitable. Policy changes remain contested social processes, but oppositional practice and critical social theory should begin with a sober assessment of the interests and structures they confront. Presenting policy as good or bad, wise or mad, is antithetical to critical political economy in general and to Marxism in particular.

Following a brief theoretical commentary in the next section, the empirical focus in the remainder of the article is restricted mainly to the US, Greece, Spain, Britain and Iceland and is therefore illustrative rather than conclusive. There is no general analysis of the economics of the crisis, nor does the article engage directly with influential alternative narratives of ideological shifts. Rather, the aim is to provide the foundations for a properly theorised and historicised interpretation of the social bases of austerity.

Capital, the state and the interstate system

Marx never developed a systematic theory of the state, and his original plans to extend the analysis in *Capital* remained incomplete (Rosdolsky, 1977). The extant work was envisaged as part of a broader project, which would go on to discuss the state, international relations of production and only then, finally, the 'world market and crises'. At a methodological level, Marx (1973a) saw an analysis of the state as coming after that of more abstract general features which occur in most forms of society and following an analysis of the social relations of capital, labour and land within capitalism – the analytical level that would become *Capital* (p. 108). The primary bases of social power for Marx lie in the relations of production, and the specific state form of power relations under capitalism has to be understood in the context of those social relations. Marx's ordering is about levels of abstraction and does not suppose that states can be deduced from the level of *Capital*, any more than *Capital* can be deduced from the prior analytical level of common social characteristics. The method implies that the relatively abstract analysis in *Capital* is insufficient and that it is necessary to move to more concrete historical investigations of both states and crises. The following sections use an essentially arbitrary fourfold categorisation of insights that follow from Marx's method, drawing on the writings, among others, of Draper (1977), Rosdolsky (1977), Barker (1978) and Clarke (1991).

First, states are not neutral arbiters apart from or above society. Initially, Marx (1975) saw states as pursuing their own, rather than general, interests. Later, as for most subsequent Marxists, the state is an organ of class rule, 'but a committee for managing the common affairs of the whole bourgeoisie' (Marx and Engels, 1975: 35). Marx himself and more sensible Marxists qualify this bold approximation in their more considered writing, but it remains a useful contrast to persistent hopes in state benevolence and in the role of enlightened intellectuals within it. Capitalists have resources with which to influence states while states need to foster accumulation within their borders. They at least need to protect capitalism's fundamental priorities of private property and the exclusion of labour from ownership of that private property (in the Marxist sense of needing to work for others). While capitalist imperatives limit and condition what states can do, these imperatives are both complex and contradictory. This is not an essay on Marx's analysis of capitalism and crises (see, for example, Clarke, 1994; Dunn, 2014). However, it is worth emphasising that Marx's analysis of capitalism's dynamics was multilayered and not mono-causal. Historically, crises have occurred for different reasons. So, for example, that of the 1930s had much in common with the recent recession but also important differences from it. The crisis of the 1970s had fewer similarities. The 'solutions' to one crisis can become the causes of the next, and states should not be expected to 'resolve' capitalism's contradictions on anything but a temporary and insecure basis.

Second, state forms and functions cannot be deduced from capital; politics from economics. Capitalism is a realm of many capitals, of contest and particular interests, of distinct sectors and industries. States lack the 'omniscience and omnipotence' which would be needed to implement any putative 'general interest' (Clarke, 1991: 10). Capitalism has no telos. Only through competing particulars is some semblance of general interest achieved, and it is only ever a semblance, the resultant of more or less parallel forces. Capital, narrowly conceived, is in dynamic struggles with land and labour. Labour's subordination to capital, while all too real, is always a contested process and one of degree. State policies and structures are only likely to persist if they prove broadly compatible with accumulation, but they are achieved through open-ended struggles. Policies cannot produce any easy exit from crises.

Third, conceived systemically, capitalism's competitive unevenness includes territorial dimensions of which states are a vital constitutive element. Therefore, in contrast to Marx's (1973a) original plans, questions of international relations cannot be left to a later analytical stage but need to be brought into the analysis of states themselves. Capitalism is a global system and the *whole* bourgeoisie is intrinsically supranational (Barker, 1978; Braunmuhl, 1978). 'The state' cannot be understood in the singular. So while states may act against the interests of any given capitalist within their national economies (Kalecki, 1943), they themselves become subject to similar pressures. Capitalist imperatives and the law of value are global and imposed on states, much as they are on particular capitalists (Clarke, 1991). Competitive, and sometimes destructive, dynamics can make sense from the perspective of individual states.

Fourth, states themselves are a vital element of capitalist particularity. They have a 'motley diversity of form' (Marx, 1974) and a moment and interests of their own (Clarke, 1991; Meszaros, 1994). This was the young Marx's (1975) starting point against Hegel, a view he retained, albeit as a secondary or subordinate part of his understanding (Miliband, 1983). States make strategic decisions even as changing forms of accumulation at a global level impact on pre-existing national economies and states themselves. States have led national (but still recognisably capitalist) development, even acting against particular capitalists, for example, nationalising their assets (Harman, 1991). In general, states' size and influence have risen over the last 200 years, relatively recent moves towards liberalisation notwithstanding. The US state can do things that Australia's cannot, which in turn has more power than that of Panama.

Thus, it is necessary to move from abstract theory to consider the historical concreteness of what in practice are complex and hybrid social relations. These observations

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structure the following, necessarily stylised, discussions of the contemporary crisis and austerity.

Capitalist imperatives and the crisis this time

If the state responds – of course only as a tendency, disproportionately and not mechanically – to the imperatives of capital, a 'first cut' at understanding austerity policies might reasonably consider what capital requires and how this varies.

The effect of crisis is to undermine profits and for each firm the most direct way to restore profit is at labour's expense. The simple antagonism between profits and wages identified by Ricardo and Marx means that from each particular firm's perspective, wage cuts and cuts of indirect wage costs through reduced state spending make sense.

Today's anti-labour strategies echo those of earlier recessions. Whatever happened later after 1929, Hoover's Treasury Secretary, Mellon insisted, 'Liquidate labor, liquidate stocks, liquidate the farmers and liquidate real estate' (cited in Blyth, 2013: 119). Real wages fell 25% between 1929 and 1933 (Bureau of the Census, 1975). In Britain, the austere 'Treasury View' held until 1941. Again in the 1970s, real wages, which had risen in the 1960s, now came under attack. In the US, real weekly earnings fell from USD582 in 1973 to USD562 in 1979 and USD508 in 1995 (Mishel et al., 2007). By the 1980s, labour shares of income were in decline in most rich countries. Glyn (2007) calculates a cross-17 Organisation for Economic Co-operation and Development (OECD) – country labour share of income – which peaks in 1975 at around 75% and falls to 69% by 1990.

In the current crisis, US employment compensation reportedly fell by an unprecedented 6% in the year to March 2009 (Morgan Stanley, 2009). Table 1 details growth, unemployment and wages in the five countries considered here. It shows that average US wages did then creep up after 2009, but such an average masked growing income inequality. There were also fewer jobs, with little sign of any return to pre-crisis levels of unemployment. Even in early expansionary policy, Obama ratified tax cuts which gave the top 1%, 25% of the gains, the bottom two-thirds just 9% (Crotty, 2012). The poor bore the brunt.

By 2010, attacks on workers became a consistent feature of European austerity, most dramatically in Greece. The government accepted International Monetary Fund (IMF) recommendations of 15% wage cuts and 20% reductions in the minimum wage for those aged under 24 years. National collective bargaining was scrapped. Unemployment reached extraordinary levels while unemployment benefits were slashed by €500 million. The qualifying period for pensions was increased to 40 years. Even for those with jobs, real average annual wages fell steeply (Table 1). Corporate taxes were reduced by 20%, while regressive consumption taxes rose from 19% to 23% (Papadopoulos and Roumpakis, 2012). Spain saw a less dramatic version of the same thing, with 5% cuts in public sector pay and a 2011 wage freeze, increases in the retirement age and an increase to 37 years in the qualification for a full pension (Ramos-Diaz and Varela, 2012). Here too, unemployment reached a quarter of the workforce. In Britain, profits and top incomes recovered quickly, while average wages again fell and unemployment rose (Allen, 2013; McNally, 2011). Iceland, an early and dramatic victim of financial collapse, took a somewhat different and less regressive course, but radical currency devaluation in a country heavily

Table 1. GDP, unemployment, government debt and wages in five countries, 2006–2012.

		2006	2007	2008	2009	2010	2011	2012
GDP, constant prices, percentage change	**World**	**5.3**	**5.4**	**2.8**	**−0.6**	**5.2**	**4.0**	**3.2**
	Greece	5.5	3.5	−0.2	−3.1	−4.9	−7.1	−6.4
	Spain	4.1	3.5	0.9	−3.7	−0.3	0.4	−1.4
	Iceland	4.7	6.0	1.2	−6.6	−4.1	2.9	1.6
	UK	2.6	3.6	−1.0	−4.0	1.8	0.9	0.2
	USA	2.7	1.9	−0.3	−3.1	2.4	1.8	2.2
Unemployment rate	Greece	8.9	8.3	7.7	9.4	12.5	17.5	24.2
	Spain	8.5	8.3	11.3	18.0	20.1	21.7	25.0
	Iceland	1.3	1.0	1.6	8.0	8.1	7.4	5.8
	UK	5.4	5.4	5.6	7.5	7.9	8.0	8.0
	USA	4.6	4.6	5.8	9.3	9.6	8.9	8.1
Central government debt as a percentage of GDP	Greece	128	126	121	137	129	108	164
	Spain	34	30	34	47	49	56	68
	Iceland	44	43	83	105	112	118	118
	UK	46	46	56	72	85	100	103
	USA	55	56	64	76	86	90	94
Average annual wages, USD (PPP basis)	Greece	28,620	28,950	28,878	30,483	28,011	26,295	n.a.
	Spain	31,471	31,872	32,740	34,792	34,769	34,387	n.a.
	Iceland	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	UK	45,500	46,563	45,930	46,353	45,760	44,743	n.a.
	USA	52,705	53,786	53,414	53,773	54,137	54,450	n.a.

Sources: IMF (2013), OECD (2013) and World Bank (2013).
GDP: gross domestic product; PPP: purchasing power parity; IMF: International Monetary Fund; OECD: Organisation for Economic Co-operation and Development.

dependent on consumer imports meant that real wages fell by 23% from 2007 to 2011 (Irving, 2012; Ólafsson, 2011). Even with some moderately progressive redistribution, the interests of capital were protected at labour's expense.

Crotty (2012) describes a 'one-sided austerity-focussed class war in the USA and around the globe' (p. 79). Among other things, by 2012, the collective profits of the Fortune 500 leading global companies had doubled from USD800 billion in 2009, rebounding to their pre-crisis levels. Their total revenues reached new heights of USD29.5 trillion (Dunn, 2014: 142). Austerity met capital's immediate interests.

Falling profits may be a common consequence of crisis, but crises have different origins and different potential 'solutions'. Cost-cutting can come into tension with the imperative to sustain markets. This has been highlighted by Keynesians as the madness of current austerity but also by many Marxists, particularly those of the Monopoly Capital or *Monthly Review* school (see, for example, Foster and McChesney, 2012). While not possible here to provide a detailed analysis of the crisis, it may be useful to reflect briefly on the nature of the preceding booms to understand how they were transformed into crisis and what this means for strategies of recovery.

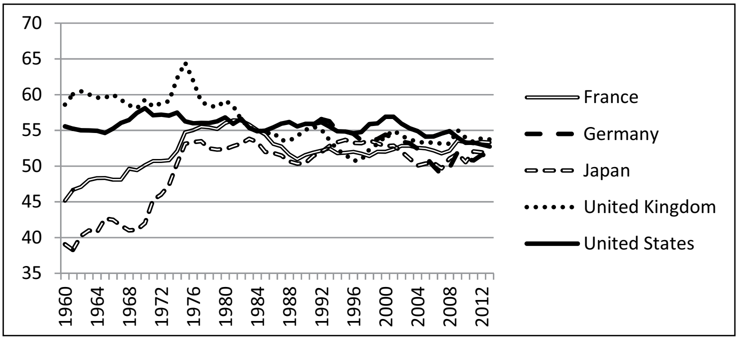

Figure 1. G5 Employee compensation as a percentage of GDP, 1960–2013.
Source: OECD (2014).
GDP: gross domestic product; OECD: Organisation for Economic Co-operation and Development.

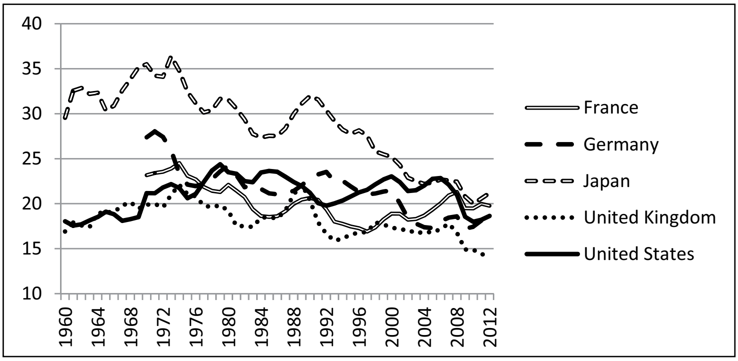

Figure 2. G5 Gross fixed capital formation as a percentage of GDP, 1960–2012.
Source: World Bank (2014).
GDP: gross domestic product.

Figures 1 and 2 lend support to the story of aggregate demand problems in the current crisis, showing that in the years preceding it, both wages and gross fixed capital formation (GFCF) were falling as a share of national income across the largest G5 rich country economies. However, both figures also indicate that something very different happened in the 1970s. It appears that the crisis of the 1970s was fundamentally predicated on rising capital compositions and thence falling profit rates, as predicted by other aspects of Marx's (1981) analysis and emphasised by other Marxists (Freeman, 1999; Harman, 2009; Kliman, 2012). At a global level, rates of GFCF edged up steadily from 21.1% in 1960 to 24.1% in 1973 (World Bank (WB), 2013). By the end of the 1960s, wage rises (while only maintaining their previous upward trend in real terms) also now exceeded those in productivity and so took a higher share of national income and ate into profits (Armstrong et al., 1984; Webber and Rigby, 1996). Claims of demand insufficiency seem hard to sustain. There were, of course, many aspects to the crisis of the 1970s, but the underlying challenge for capital appears to have been more one of high

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costs than lack of demand, and this provoked strategies that reduced relative investment and wage levels.

The crisis drove firms to reduce investments in plant and equipment and move money from investment into finance (Krippner, 2011). The monetarist turn and financialisation were therefore not, or were not simply, the triumph of finance capital over non-financial sectors but reflected the reorientation of capital on the whole. Obviously, not every capitalist benefited, and many firms went to the wall, but the locus of capital as a whole shifted to finance. Financial re-regulation also fitted capital's need to restructure, in particular for greater mobility both across space and between sectors (Stockhammer, 2011). For example, it enabled American firms to transfer funds abroad and to repatriate profits (Milberg and Winkler, 2010). As Volcker made clear at the time, raising interest rates protected finance (and the US dollar) but also induced recession and disciplined labour. The subsequent period would see more extensive forms of accumulation with investment levels falling, a reorientation towards lower cost locations and falling wages shares of income. Without hitting the heights of the long boom, profits now rose and elite incomes soared (Dumenil and Levy, 2011). Marx (1973b) famously once remarked that the 'traditions of dead generations weighs like a nightmare on the minds of the living' (p. 146). Policies that had seen a huge growth in elite and corporate wealth over the previous decades were unlikely to be abandoned lightly.

States, policy and social struggles

It was stressed above that states can never discern and act on some 'objective' capitalist interest. To the extent states behave as 'capitalist' states, this is only ever imperfectly – the outcome of the push and pull of more or less parallel and more or less capitalist influences. Although reforms like those of the New Deal and Keynesianism may eventually have worked for capital, they were never simply the gift of wise, let alone omniscient, policy makers. Similarly, the reorientations of the 1970s and 1980s were the outcome of contested social struggles in which labour was substantially defeated, and those defeats provide a necessary context for the 'successful' adoption of austerity this time around.

The rapid retreat from an apparent Keynesian reorientation in response to the crisis of 2008 warrants a comment on the original version. The earlier response to crisis and its eventual resolution can be understood substantially as an unplanned accommodation of capital to changed class relations. By the time Keynes published the *General Theory* in 1936, its ideas were 'in the air' (Hall, 1989). On the ground, important social and economic shifts were already well under way, particularly in the US. As early as 1932, Roosevelt publicly invoked the threat of revolution during his election campaign (Boyer and Morais, 1977). It is hard to discern how real such a threat was, but it was sufficiently plausible to inform a campaign that helped to win not just popular support but sections of corporate America to an agenda of reformed capitalism. The subsequent rising of the unions and the passage of more tolerant labour law saw average annual real earnings rise from USD677 in 1933 to USD1109 in 1941, despite mass unemployment (calculated from Bureau of the Census, 1975). The war further strengthened the position of organised labour, precluding a return to pre-New Deal liberalism. By 1945, the scale and productivity advantage of US capital over its competitors also made it at least relatively tolerant of labour – prepared to deal in return for industrial peace and control on the shop-floor. Problems of demand (at home and abroad) loomed larger than those of wage costs.

In Europe, the war had even more radicalising effects, intensifying the more tentative moves of the pre-war period towards what we now think of as Keynesianism. Threats of revolution and its avoidance through reform often played at least some part in European reorientation in the immediate aftermath of WWII. Explicitly Keynesian policies competed with more or less complementary traditions of *dirigisme* and social democracy and were sometimes mixed with more radical plans (Krippner, 2011). De Angelis (2000), however, sees Keynesianism 'recuperating' 'widespread social antagonism from below and its transformation into an engine of growth and capitalist accumulation' (p. 3). Meanwhile, some elements of the post-war settlement were anti-Keynesian, particularly the policies imposed on the defeated countries, Germany and Japan, and elements of the international system, which punished only deficit, not surplus, countries. The national exceptions confirm the thesis in the negative sense that the weakness of labour and left traditions in Germany and Japan – victims of the earlier dictatorships but (after 1947) now also suppressed by the occupying powers – coincides with anti-Keynesian orientations.

In contrast to the 1930s, the initial 1970s responses were broadly Keynesian, but the crisis proved a genuine turning point. A wave of social conflicts, involving levels of strike activity in most developed economies not seen since the 1930s, contested this reversal. However, this time, the crisis was resolved on terms substantially unfavourable to labour. The victories of Reagan over the air traffic controllers and of Thatcher over the miners are usually identified as signal moments. In many conflicts and many countries, the outcomes were less emphatic, but figures for declining wage shares of national incomes confirm the general direction of change. By at least the early 1980s, a long period of relative wage decline was under way (IMF, 2008, 2012b). Cutting wages (or at least wage shares of national incomes) and levels of investment helped to restore profitability.

Labour's defeats and institutional weakness provide an important basis for understanding the severity and persistence of austerity this time. There were considerable variations among countries, notably in the ongoing Greek resistance and the rejection of austerity in the Icelandic referendum. Established rules and institutions, most obviously in the Eurozone, were clearly not inviolable. Debt ceilings were ignored and pressure mounted for a more fundamental challenge, especially in Greece, where default and exit from the Eurozone emerged as real political possibilities. In Spain, resistance and institutional structures meant that despite mass unemployment, average wages for those with jobs did creep up. However, in general, there was little sign of the emergence of a movement capable of reversing austerity, let alone producing anything comparable to that which achieved the earlier Keynesian transformation. Even in Greece, resistance abated in the aftermath of New Democracy's (narrow) election victory in 2012. In both Greece and Italy, elected governments could be replaced by 'technocratic' administrations – not without protest but without fundamental social rejection.

The relevance of political mobilisation becomes clear in the effectiveness of the American political right. The economic imperatives towards austerity in the US were weaker than in Europe. Trade levels were lower, the level of federal debt and its rise after 2007 were also modest by international standards and America could also finance deficits with its own currency. However, there was an influential political movement for austerity, seen in the ratings downgrades of Federal Debt and opposition within Congress. Driven by the Tea Party and Republican Right, but with Obama and the Democrats acquiescing to less drastic versions, austerity policies were adopted (Crotty, 2012). By the 2013 budget crisis, even leading Republican business sponsors were reportedly becoming disillusioned with their erstwhile champions (Lipton et al., 2013). But an austerity agenda fitted the interests of an important constituency. Table 1 confirms that although unemployment remained at very high levels, the aggregate US growth rates from 2010–2012 were near their 2% historical average of the previous 100 years. Several sectors of the US economy grew strongly after 2009 (Ashkenas and Parlapiano, 2014). There were important interests in sustaining austerity and the downward pressure on wages, and these become particularly clear in a global context.

International competition

Competition among states can produce a logic broadly comparable to that among firms, whereby there is a real imperative for each to cut costs, even as this undermines the market as a whole. The greater openness of the global economy achieved since the 1970s increases the importance of international competitiveness, compared with previous crises, and constitutes an important driver of austerity.

Again, the contrast with the initial implementation of Keynesian policies seems revealing. In the inter-war period, national economies were relatively closed. This, of course, is a question of degree and international trade, and financial imbalances then as now contributed to the crisis (see, for example, Kindleberger, 1973). However, for most countries, including the US, levels of trade as a proportion of gross domestic product (GDP) were already falling during the 1920s. Exports represented just 5% of US GDP in 1928. Trade barriers remained very high, except in Britain (Dunn, 2014). The prevalence of relatively closed national economies lent itself to the specifically (Keynesian) national responses to the crisis and their relative success. Multiplier effects from state spending tended to stay 'at home' (Keynes, 1973). Increases in domestic demand were experienced substantially as increases in demand for domestic products.

In the post-war period, openness increased but from a low base. Again, international competition was an important contributory factor to the crisis of the 1970s, and this raised fears of a fall-back to the competitive devaluations of the 1930s. These were not realised and instead, increasing openness became an important part of capitalist restructuring. However, the earlier success of Japan and Germany which had relied on anti-Keynesian domestic policies combined with trade surpluses, and increasingly provided a model for other countries, particularly many poorer ones.

The most notorious examples were enforced 'structural adjustments'. These provide important parallels with the current austerity (Greer, 2014). Typical 'Washington Consensus' measures included currency devaluation, cuts in state spending and wage repression. Their implementation was a victory for Western finance, which substantially redeemed its bad debts and contained the crises of both 1982 and 1997. It was also part of a wider capitalist restructuring. Poorer countries were opened for business, not least as providers of (competing) cheap export locations. This restructuring found willing collaborators among ruling elites within the relevant countries who could also welcome lower wages, anti-inflationary priorities and the retreat of already thin welfare states. There is little need to reprise the widely acknowledged brutality of structural adjustment and its (at best) equivocal results even in narrowly economic terms (Greer, 2014). However, several national economies, particularly in East Asia, grew strongly on an export-oriented basis, while increased inequality would imply that even zero growth represented a gain for the already rich. Probably more pertinently, export earnings enabled countries to service their debts and accumulate dollar reserves.

The ways in which the processes of liberalisation and financialisation, of which structural adjustment was a part, led to the crisis now seems fairly well established – although different commentators emphasise different elements. Declining levels of capital formation and weakening consumer demand within leading high-income countries, capital mobility, trade imbalances and the financial flows needed to sustain them were products of changed capitalist imperatives (Callinicos, 2010; IMF, 2010; Wade, 2009; Wolf, 2010).

Restructuring meant that when the crisis came, sustaining domestic demand would be less important for firms than in the 1930s, while the effectiveness of national multiplier effects was reduced by greater openness. Firms and consumers increasingly bought foreign rather than locally produced inputs. Restructuring also meant protecting finance and capital mobility. Ultra-liberal arguments to let the banks fail never found much support among major capitalist interests. This was confirmed in the financial rescues and the forms they took. Talk of radically re-regulating finance was soon reduced to a 'specialists debate on technicalities' (Stockhammer, 2011: 237). Critics complained that '(pseudo-Keynesian) deficit spending policies cannot do their job under "finance-capitalistic" framework conditions' (Schulmeister, 2013: 399): banks could simply take the easy money and use it for further speculation, including against the governments that were lending it.

The comparisons with structural adjustment again seem useful in understanding the crisis response strategies. First, from the perspective of foreign creditors, there were vested interests arguing that 'the debt crisis was caused by government profligacy, tax evasion, people's overconsumption, lax work ethics and the pervasive sense of entitlement in the debtor country' (Park, 2013: 193). Already by 2010, Eurozone (primarily French and German) banks had a collective exposure of USD727 billion to Spain, USD402 billion to Ireland and USD206 billion to Greece (Blyth, 2013: 86). Demands for austerity, ensuring the debts would be serviced, made perfect sense from the perspective of German and French creditors and their national executives who had ultimate responsibility for their banks. The increased costs of the debts of the worst hit 'peripheral' countries were at the same time the gains of foreign creditors.

Second, austerity also made sense as a national competitive strategy for local elites. The first badly hit country, Iceland, received IMF bailouts, and while it avoided many of the conditionalities imposed upon poorer countries, it nevertheless adopted some of the key prescriptions. Currency devaluation saw the Krona fall from 82 to the Euro in mid-2007 to 187 in October 2009 before flattening out around 160 (Oanda, 2013). Higher import costs combined with some painful domestic measures meant that even without a direct assault on labour of the sort seen in southern Europe, the poor and unemployed suffered most, with perhaps a bottom 15% being very badly hit (Ólafsson, 2011). These measures worked in that by producing more cheaply and buying less, Iceland's trade balance was transformed from a deficit of USD1918 million in 2007 into a surplus of USD370 million in 2012 (United Nations (UN), 2012).

Several Eurozone countries faced more acute pressures. Euro membership already limited national policy autonomy. Meanwhile, the structural asymmetries within the Eurozone, different real interest rates and changes in costs (including wage costs) had involved growing trade imbalances in the years preceding the crisis. With the Eurozone as a whole remaining in rough overall balance, as German surpluses increased, weaker European economies, most spectacularly Greece, ran large and growing deficits. The Eurozone precluded currency adjustments so trade balances diverged. The single currency meant that for the deficit countries, any restoration of trade balances and improved competitiveness had to be achieved through a more direct repression of domestic demand and local wages. Austerity did substantially achieve this. For example, between 2008 and 2012, Greek exports increased by USD7.9 billion and imports fell by USD35.9 billion, reducing the deficit by more than two-thirds. The story in Spain was broadly similar; exports increased by USD7.0 billion, and imports fell by USD92.9 billion (calculated from UN (2012) and WB (2014)). Table 2 summarises the trade positions and their transformation by the crisis.

If the Eurozone limited the options for Greece, Spain and other countries, British austerity underlines the insufficiency of strategies of Eurozone exit (quite apart from the difficulties and costs associated with countries' extracting themselves). Between 2008 and 2012, the pound fell 15% against the dollar and 3% against the Euro (Oanda, 2013), but the structure of Britain's economy and powerful vested interests, particularly in finance, militated against more substantial devaluation. The UK remained firmly committed to financial and trade openness and to domestic austerity as the means of restructuring. As the next section discusses, even the US would face currency dilemmas and pressures for austerity.

In this situation, demand remained depressed and recovery at best sluggish. Across high-income countries, rates of capital formation fell steeply. In 2012, GFCF was still USD624 billion and 9% below 2006 levels (WB, 2014). Technical recovery would be achieved in some places but at still very high levels of unemployment. By 2012, GDP in 15 of 22 high-income European countries listed by the IMF (2013) had still not regained its 2008 level. However, many poorer countries did much better, and as Table 1 shows, growth at a global level remained over 3%. In 2012 GFCF in East Asia was USD1218 billion and 93% above what it had been in 2006. Investment also rose strongly, if less dramatically, in every other developing country region (WB, 2014). There were dynamic sites of growth in the global economy. This presented firms with opportunities even as it intensified downward wage pressures in high-income countries. It is easy to foresee problems as final demand often remained in fragile rich country markets. However, a competitive logic continued to drive austerity, and it had some successes in reducing trade imbalances and re-establishing financial confidence.

Table 2. Trade in goods and services as percentage of GDP in five countries, 2006–2012.

		2006	2007	2008	2009	2010	2011	2012
Greece	Exports	23.2	23.8	24.1	19.3	22.2	25.1	27.0
	Imports	34.6	37.9	38.6	30.7	31.5	33.1	32.0
	Balance	−11.4	−14.1	−14.5	−11.5	−9.3	−8.1	−5.0
Iceland	Exports	32.2	34.6	44.4	52.9	56.4	59.1	59.4
	Imports	50.5	45.3	47.2	44.2	46.3	50.7	53.3
	Balance	−18.2	−10.7	−2.8	8.6	10.1	8.4	6.1
Spain	Exports	26.3	26.9	26.5	23.9	27.4	30.8	32.7
	Imports	32.7	33.6	32.3	25.8	29.5	31.9	31.9
	Balance	−6.4	−6.7	−5.8	−1.9	−2.2	−1.1	0.7
United Kingdom	Exports	28.7	26.6	29.4	28.4	30.1	32.1	31.5
	Imports	31.3	29.2	31.6	30.0	32.3	33.6	33.7
	Balance	−2.6	−2.6	−2.2	−1.6	−2.2	−1.5	−2.1
United States	Exports	10.7	11.5	12.5	11.0	12.3	13.5	13.5
	Imports	16.2	16.4	17.4	13.7	15.8	17.2	16.9
	Balance	−5.5	−4.9	−4.8	−2.7	−3.5	−3.7	−3.4

Source: Calculated from World Bank (2014).
GDP: gross domestic product.

The growing power of (some) states

Blyth (2013) has argued that it makes little sense even to talk of austerity in the early 20th century because state budgets were so small. They jumped particularly during the wars. The relatively intensive form of accumulation from the 1930s to the 1970s also strengthened specifically national capitalisms and both fostered and was fostered by an increasingly statised economy. States themselves grew in size, whether measured by levels of income or employment, and often took responsibility for managing large swathes of the productive economy. The legitimacy and reality of state economic planning became widely accepted. The crisis of the 1970s has often been perceived as one of state finances and the predominant responses to have involved state retreat. This is somewhat ambiguous. Despite reductions in the level of direct state ownership and control of the productive economy in most rich countries, overall levels of state spending, including welfare spending, tended to increase (Glyn, 2006). Markets, including financial markets, needed state support, and there was no return to small state budgets nor, in many cases, to fiscal balance. Here, in contrast to the argument in the previous section, there would appear to be greater potential for the implementation of Keynesian policies even than in the 1930s.

When the crisis hit, governments responded quickly to prop up failing financial institutions and with what appeared to be effective monetary and fiscal policy. National lender of last resort functions, even for banks' foreign speculations, was never seriously questioned, as they had been even in the 1970s (Helleiner, 1994). Fallacies of state powerlessness and of the separation of finance from national authority were starkly revealed. Despite claims of state retreat, many of the welfare systems also remained substantially intact and 'automatic stabilisers' kicked in.

This implied considerable costs, with steep jumps in fiscal deficits in many countries (Table 1). Levels of debt remained far from extraordinary compared with the situation immediately after WWII, and varied enormously between countries. Japanese government debt, for example, already at 144% of GDP in 2007, continued its rise, reaching 196% by 2012 (WB, 2014). This created problems for Japanese governments, but there was little suggestion that it required the sort of drastic restructuring or credit downgrades that would ravage Europe, including countries like Spain where the debt levels remained much lower. However, the power of states varied enormously. For several smaller countries, notably Iceland and Ireland, the scale of financial losses was very large in relation to GDP and the power of foreign creditors, private and public, relatively greater. In Britain, too, the size of the financial sector meant the crisis brought both big losses and, because tax revenues had relied disproportionally on finance, sharp falls in income. At the same time, a crucial difference between Britain and even large European countries was that because Britain had its own central bank and currency, it could potentially pay its own debt, much of which was denominated in pounds. The inability effectively to print their way out of debt would be a major constraint on the small European countries but also meant that even Spain, Italy and France had limited options (Blyth, 2013). As the crisis deepened, Greece, Spain and a succession of other countries, including Portugal and Cyprus had to raise money through bond markets in which lenders demanded extraordinary returns, with state credit being downgraded in a vicious cycle of increasing risk and interest payments.

At the other end of the spectrum, the US state appeared to be in a much stronger position. Central government debt jumped, but there appeared to be less pressing need to turn to austerity and stronger imperatives to sustain national markets. Exports amounted to only 13.5% of GDP in 2012 (Table 2). Imports remained considerably higher but import competition remained less than in other leading countries. The US also continued to enjoy privileges of seigniorage, being able to run trade deficits and pay for them using its own currency (Panitch and Gindin, 2012). Persistent use of the dollar and trust in the US currency, even while its financial system stood at the core of the financial meltdown, appeared to refute repeated claims of declining American hegemony. Objective possibilities of default were effectively zero because the US could pay its debts using its own currency. Credit downgrades were therefore a political act, with little impact on the state's borrowing ability. However, as the stand-off in Congress revealed, it was also entirely possible for a default to be manufactured. As extreme as some of the right's demands sounded, the polarisation reflected not only particular interests in cutting wages and taxes but also real dilemmas for US capital. The situation had been transformed from that at the end of WWII when dollar hegemony was established. Then, US productive superiority was overwhelming and the US lent around the world. Now, it was mainly poorer countries (along with Germany, Japan and some rich oil exporting ones) that lent to the US, and which needed to continue doing so to preserve their existing dollar reserves and American export markets. A strong dollar would reassure lenders but exacerbate the US loss of competitiveness. Devaluation would reduce American debts and increase US competitiveness but seemed likely to further strain dollar hegemony and the willingness of others to sustain the precarious balance of trade, debt and its recycling (Brenner, 2003; IMF, 2012a).

Even the US had limited options: its economic problems were less pressing than those in peripheral countries like Greece, but similar logics of restoring competitiveness and reducing costs pushed at least some powerful American interests to resolving them in the same direction. In relative terms, even the US state is not what it was.

Conclusion

This article has argued that austerity makes sense as a class and national strategy. The crisis meant that profits fell, increasing pressures for firms and states to restore them through reducing real wage costs. Capitalist states are not neutral arbiters and should not be expected to provide what from an abstractly theoretical 'declassed' perspective for national or global prosperity might be reckoned a sensible economic reorientation. Labour's weakness muted opposition and meant austerity policies could be pushed vigorously even as they exacerbated problems of effective demand across the global economy. States were in different situations, with smaller, poorer ones, those which suffered particularly large financial losses and those in the Eurozone more severely constrained in their policy options. However, most states experienced imperatives, albeit of varying intensity, to increase national competitiveness at others' expense. Even the IMF (2010) came to acknowledge the destructive consequences of competitive trade strategies. Unfortunately, no theoretical about-face seemed sufficient to halt the process. Within a competitive international environment, in which trade openness and financial flows have greatly increased, there are substantial imperatives to reduce national labour costs and significant impediments to the implementation of national Keynesian strategies. There is no superordinate authority or hegemonic state able to impose what might be less destructive beggar-thy-neighbour and beggar-thy-labour policies. The relative economic decline of the US over the previous 70 years also makes the sort of solutions produced at the end of WWII extremely unlikely.

This does not make austerity inevitable. States and national economies differ from each other. Interests in pursuing national development at least potentially come into conflict with austerity. There are tensions between the interests of capital in general, and those of specific firms and states. While lower wages might everywhere help to restore profitability in the short-term, there are varied imperatives towards preserving national markets, stronger in the US than in smaller, more open economies. The crisis produced deep social dislocations. As yet these have provoked nothing comparable to the movements which achieved the reforms of the New Deal or the post-WWII reconstructions. The advance of the political right in the US provides only a negative example, where austerity exceeds any obvious general capitalist imperative, but it does highlight the importance of political mobilisation. The vested interests facing any potential anti-austerity movement are considerable, requiring critical evaluations of the obstacles opposition faces and the spaces where it can be developed. As austerity deepens, it deepens resentments and the need for more effective resistance.

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Author biography

Bill Dunn is a Senior Lecturer in the Department of Political Economy, University of Sydney, Australia. His principal research interests are in the contemporary global political economy of labour, crises, international trade and in Marxism. His most recent book is *The Political Economy of Global Capitalism and Crisis*, published by Routledge in 2014.