The Heavy Price of Economic Policy Failures*

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A lot of the media discussion on the global economy nowadays is based on the notion of the "new normal" or "new mediocre" – the phenomenon of slowing, stagnating or negative economic growth across most of the world, with even worse news in terms of employment generation, with hardly any creation of good quality jobs and growing material insecurity for the bulk of the people. All sorts of explanations are being proffered for this state of affairs, from technological progress, to slower population growth, to insufficient investment because of shifts in relative prices of capital and labour, to "balance sheet recessions" created by the private debt overhang in many economies, to contractionary fiscal stances of governments that are also excessively indebted.

Yet these arguments that treat economic processes as the inevitable results of some forces outside the system that follow their own logic and are beyond social intervention, are hugely misplaced. Most of all, they let economic policies off the hook when attributing blame – and this is massively important because then the possibility of alternative strategies that would not result in the same outcomes are simply not considered.

In an important new book (Failed: What the "experts" got wrong about the global economy, Oxford University Press, New York 2015) Mark Weisbrot calls this bluff effectively and comprehensively. He points out that "Behind almost every prolonged economic malfeasance there is some combination of outworn bad ideas, incompetence and the malign influence of powerful special interests." (page 2) Unfortunately, such nightmares are prolonged and even repeated in other places, because even if the lessons from one catastrophe are learned, they are typically not learned – or at least not taken to heart – by "the people who call the shots".

The costs of this failure are indeed huge for the citizenry: for workers who face joblessness or very fragile insecure employment at low wages; for families whose access to essential goods and social services is reduced; for farmers and other small producers who find their activities are simply not financially viable; for those thrown by crisis and instability into poverty or facing greater hunger; for almost everyone in the society when their lives become more insecure in various ways. Many millions of lives across the world have been ruined because of the active implementation of completely wrong and unnecessary economic policies. Yet, because the blame is not apportioned where it is due, those who are culpable for this not only get away with it, but are able to continue to impose their power and their expertise on economic policies and on governing institutions. For them, there is no price to be paid for failure.

Weisbrot illustrates this with the telling example of the still unfolding economic tragedy in the eurozone. He describes the design flaws in the monetary union that meant that the European Central bank (ECB) did not behave like a real central bank to all the member countries, because when the crisis broke in 2009-10 it did not behave as a lender of last resort to the countries in the European periphery that faced payment difficulties. Instead the most draconian austerity measures were imposed on these countries, which simply drove these countries further into economic decline and made their debt burdens even more burdensome and unpayable.

It took two years of this, at a point when the crisis threatened to engulf the entire EU and force the monetary union to collapse, for the ECB Governor Mario Draghi to promise to "do whatever it takes to save the euro". And then, when the financial bleeding was stemmed, it became glaringly evident that the European authorities, and the ECB, could have intervened much earlier to reduce the damage in the eurozone periphery, through monetary and fiscal policies. In countries with their own central banks, like the US and the UK, such policies were

indeed undertaken, which is why the recovery also came sooner and with less pain than still persists in parts of Europe.

Why could this not have been done earlier? Why were the early attempts at restructuring Greek debt not more realistic so as to reduce the debt levels to those that could feasibly be repaid by that country? Why was each attempt to solve the problem so tardy, niggardly and half-hearted that the problem progressively got worse and even destroyed the very fabric of social life in the affected countries? Why was the entire burden of adjustment forced upon hapless citizens, with no punishment for or even minor pain felt by the financial agents who had helped to create the imbalances that resulted in the crisis?

Weisbrot notes that this entire episode "should have been a historic lesson about the importance of national and democratic control over macroeconomic policy – or at the very least, not ceding such power to the wrong people and institutions". (page 4) Unfortunately, the opposite seems to be the case, with the lessons being drawn by the media and others still very much in terms of blaming the victim. Indeed, Weisbrot makes an even stronger point, that this crisis was used by vested interests (including those in the IMF) to force governments in these countries to implement economic and social reforms that would otherwise be unacceptable to their electorates.

The significance of vested interests – finance and large capital in particular – in pushing economies to the edge to force neo-liberal reforms that operate to their favour, has been noted in many countries before, especially developing countries facing IMF conditionalities. The standard requirements: fiscal consolidation led by budget cuts in pensions, health and social spending; reductions in public employment; making labour markets more "flexible" by effectively reducing labour protection; cutting subsidies that benefit the poor like food subsidies while providing more tax cuts and other fiscal incentives to the rich, etc.

Weisbrot notes that such policies are neither necessary to emerge from a crisis (in fact in most cases they are counterproductive) nor are they conducive to long term development. He provides concrete examples of countries that did things very differently, and were successful as a result. The most important such example he provides is that of China, a country that systematically followed a state-led heterodox strategy for industrialisation, with the state controlling the banking system and a huge role for state-owned enterprises. The unorthodox policies it followed brought about the fastest growth in history, lifted hundreds of millions of Chinese people out of poverty and also pulled along other developing countries because of its rapidly growing demand for imports.

Weisbrot identifies other successful examples of heterodox policies that helped countries to emerge from crisis and improve living standards for their people, such as Argentina in the mid 2000s and a range of other explicitly progressive governments in Latin American countries that followed alternative approaches to increase wage incomes and formal employment through active state intervention. One important reason they were able to implement unorthodox economic policies was the relative decline in the power of the International Monetary Fund (IMF) in this period. Weisbrot argues that the IMF began to lose influence in the wake of the Asian crisis of 1998, when it so clearly got both its assessment of the problem and its proposed solutions completely wrong. The geopolitical and economic changes that this loss of IMF influence enabled were hugely beneficial for the citizenry in these countries – and point to the huge costs still being paid by those forced to live under neoliberal economic orthodoxy.

Weisbrot ends his book on a positive note (other than for the eurozone, where he forecasts continued pain for the near future). He believes that "in the developing world, economic policy and the rate of increase of living standards are likely to show improvement in the foreseeable future". (page 236) This is largely because of his belief that the existing multilateral arrangements and institutions that forced orthodox policies upon developing

countries will continue to decline, and they will have freedom and ability to pursue heterodox policies that served them well in the recent past.

Unfortunately, this belief now seems over-optimistic. In the past year we have witnessed “emerging markets” in retreat as global finance has pulled out of them, and the reinforcement of institutions and arrangements (in trade and investment treaties and other financial agencies) designed to dramatically reduce the autonomy of national policy making. We are seeing political changes in several countries that suggest a renewed dominance of neoliberal market-driven economic approaches that privilege the interests of large capital. And even in China, there are signs of confusion, as the growth process runs out of steam, with recent moves towards more financial liberalisation that could have huge implications in terms of future viability of independent economic strategies.

This is somewhat depressing, but it makes Weisbrot’s main argument even more important and compelling. The standard economic policy model fails, and the costs of such failure are huge – so it is critically important for more people across the world to be aware of them and to demand that their governments opt for more democratic and just economic strategies.

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