US Fed Chairman Bernanke demands austerity

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In remarks Monday to a conference on Asia and the global economic crisis held by the San Francisco Federal Reserve Bank in Santa Barbara, California, Federal Reserve Chairman Ben Bernanke called for austerity policies to rein in US budget deficits and the ballooning national debt.

In the name of reducing global economic imbalances between debtor countries with large trade deficits, such as the US, and creditor nations with large trade surpluses, such as China and Japan, Bernanke demanded that the US government adopt policies in the medium-term to cut domestic consumption and reduce social spending. At the same time, he called on China and other export-oriented Asian countries to reduce their trade and current account surpluses by encouraging a growth in domestic demand.

Bernanke declared that Asia was leading a world economic recovery, but warned that the recovery could not be allowed to produce a renewed growth of “unsustainable” imbalances in trade and capital flows. While couched in diplomatic and technical terminology, his remarks had definite and ominous implications for the working class, above all in the United States.

Reflecting the consensus within the American ruling elite, and the class policy of the Obama administration, the central bank chief was implicitly insisting that the economic crisis be used to carry through a drastic and permanent lowering of the wages and living standards of the American working class. In essence, the United States is to be transformed into a cheap-labor center for the export of industrial and other goods to the world market. The living standards and conditions of American workers are to be brought more closely into line with those of super-exploited workers in Asia.

At the San Francisco conference, attended by bankers and finance officials from the US and Asia, Bernanke said it was “extraordinarily urgent” that a new global economic balance be established. In reply to a question, he said the US faced a “difficult fiscal situation,” but said US policymakers had to “recognize that we need to develop a fiscal exit strategy” to rein in deficits expected to total $9 trillion over the next decade.

In his prepared remarks, Bernanke said, “The United States must increase its national saving rate…. the most effective way to accomplish this goal is by establishing a sustainable fiscal trajectory, anchored by a clear commitment to substantially reduce federal deficits over time.”

He neglected to note that the major factor in the explosive growth of the federal deficit is the multi-trillion-dollar bailout of Wall Street, which he and the Obama administration are carrying out.

Bernanke called the development of a rebalancing plan, including a regime of fiscal austerity in the US, “critically important to maintain confidence in our economy and confidence in our currency.” He added: “I know that’s very well understood in Washington.”

In fact, the top economic figures in the Obama administration have in recent days been publicly assuring Wall Street and America’s global creditors, who hold trillions in dollar-denominated US government bonds and other securities, that the administration is committed to a policy of deficit reduction.

Lawrence Summers, Obama’s chief economic advisor, in a speech last week to business economists in St. Louis declared that no actions by the government “must be allowed to call into question our national commitment” to reduce government debt.

Treasury Secretary Timothy Geithner stressed the same point last Friday, saying the US must “live within its means.” He added, “The president is committed to working with Congress to bring [deficits] down to a sustainable level…”

These calls for austerity come in the midst of a deepening social crisis, with the official unemployment rate poised to breach 10 percent and the real jobless rate at 17 percent or higher. They reflect the opposition of the administration to calls for new government spending to address the growth of poverty, homelessness and hunger.

This class-war policy was at the heart of the “framework for strong, sustainable and balanced growth" adopted at the G20 summit of leading economies in September and ratified at the semi-annual meeting of the International Monetary Fund held earlier this month in Istanbul. The basic outline of the "framework" was drafted by the US and pushed through over objections from major exporting countries, particularly Germany and China.

They correctly saw the US proposal as an attempt to offload the crisis of American capitalism onto Washington's major economic rivals. While the internal side of the "framework" is a brutal assault on the American working class, its external aspect is a drive to increase US exports at the expense of America's European and Asian competitors.

To this end, the US has unofficially encouraged a decline in the value of the dollar, which has fallen by 12 percent against a basket of currencies since Obama took office, and has dropped particularly sharply in recent weeks. The devaluation of the dollar cheapens US exports and makes foreign imports more expensive.

US monetary policy is heightening tensions with exporting countries in Europe and Asia, raising the possibility of competitive devaluations and trade war, on the one hand, and the threat of a full-blown dollar crisis that could quickly tip the US and world economy into an outright depression. It is further eroding the status of the dollar as the world reserve currency, undermining what remains of the international capitalist financial order established under US hegemony at the end of World War II.

A central focus of US monetary policy is to force China to revalue its currency, the renminbi. In his remarks on Monday, Bernanke indirectly pressed the Chinese to revalue, criticizing "trade surpluses achieved through policies that artificially enhance incentives for domestic saving and the production of export goods" and calling on Asian surplus countries to adopt "greater exchange rate flexibility."

In all the talk by government leaders and central bankers about the need to combat global economic imbalances, there is no reference to the imbalances—including the virtual bankruptcy of national states—caused by the funneling of trillions of dollars to the banks and financial elites of the major powers.

In a column published Wednesday, *Financial Times* economic commentator Martin Wolf gave some indication of the scale of this plundering of global resources. He wrote: "According to the IMF's World Economic Outlook, the outlay of advanced economies on capital injections, asset purchases, guarantees and liquidity provision amounts to 30 percent of gross domestic product.

The result, he said, will be "decades of fiscal austerity."

One remark by Bernanke in the question-and-answer period following his speech was particularly significant. According to a report in the *Financial Times*, "Bernanke said the US-centered crisis had many similarities with past emerging market crises—fuelled by giant capital inflows that overwhelmed both market discipline and regulatory safeguards…"

This comparison between the US financial crisis and previous crises in the "developing world," such as the Asian crisis of the late 1990s, suggested that the remedy being proposed by Bernanke for the US was similar to those pushed by the US, through the International Monetary Fund, for South Korea, Thailand, Indonesia and other debt-ridden nations.

This confirms the analysis made by the *World Socialist Web Site* of the class character of US economic and monetary policy. As we wrote on October 13 in "Dollar devaluation and the working class":

"In the name of global economic rebalancing and reform at home, the Obama administration is seeking to cut the consumption of the working class, slash production costs and drive up US exports.

"This amounts to subjecting American workers to the type of economic 'shock therapy' that the US-dominated International Monetary Fund has prescribed for a host of indebted Third World countries over the past quarter century. Currency devaluation, accompanied by cuts in state expenditure for social services and the use of mass unemployment to drive down wages and increase exploitation—these are the methods that are now being employed against the American working class."