Analysis: Attacks on public sector

By Marshall Auerback

As we begin the New Year, public sector unions have come under serious attack which is also an attack on middle class and working class Americans. As the January 2nd front page article in The New York Times, "Public Workers Facing Outrage in Budget Crisis," reflects.

It is fascinating to see how the public narrative in the media has gradually shifted over the past year from Wall Street's sociopathic practices which were directly responsible for the creation of the crisis to the alleged greed of public employee unions and their pension benefits, many of which were the product of agreed upon wage negotiation packages in which unions were receiving these pension benefits in lieu of increased wage benefits.

During 2008, we were told that the government's hands were tied and that the sanctity of contracts had to be honored. This was when the Federal Reserve authorized 100 percent pay outs to the likes of Goldman Sachs on AIG's credit default swaps in effect allowing the Fed to act as an extra budgetary vehicle of the Treasury, which is a violation of the Constitution and shows how patently false the Fed's claims of independence are. But I don't seem to recall many Wall Street types going on about the sanctity of contracts when agreements with the UAW were reworked to save GM or now when public employee union pension benefits are under attack.

And to judge from statements on both the left AND the right, it is clear that social programs will continue to come under attack in 2011. This has already occurred in the UK over the past few months. There, a Tory-led coalition government has completely drunk the deficit reduction "Kool-Aid.". Instead of the public sector providing employment leadership at a time when the private sector is not yet ready to expand jobs growth, David Cameron's administration has been cutting jobs and forcing unemployment up (see the UK's Labour Market Statistics). As the austerity drive deepens, the deflationary impact of these job cuts will undermine private sector employment growth. Not that this will stop the cuts from happening here in the US. This sort of economic vandalism has now metamorphosed into "responsible fiscal action," if one is to believe the vast majority of the "experts" in the mainstream commentariat.

The argument seems to be that the states are suffering from a genuine solvency crisis in which everybody has to make sacrifices, including the "greedy" unions. So why should big financial firms, which would otherwise have been toast but for the munificence of the suffering American taxpayer, be any different? If the attacks outlined in The New York Times piece reflect a broader trend this year, then it has ominous implications for the country as a whole.

Bank regulators continue to impose policies that work against small bank lending, whose wholesale funding costs are substantially higher than their "too big to fail" counterparts. The Dodd-Frank "financial reform" entrenches the dominance of the systemically dangerous institutions at the expense of the 6,000 or so other banks that engage in classic loan intermediation activity - the sort of thing we want our banks to be doing.

The revolving door between Wall Street and Washington calls attention to the rotten heart at the core of the American polity today - what James Galbraith has felicitously termed "the predator state". The state has become too weak and therefore remains another instrument of corporate predation. The revolving door policy (eagerly embraced by this president, much like his predecessors) perpetuates the problem because it enhances the dominance of the so-called "FIRE" (finance, insurance, real estate) sector of the economy.

The FIRE sector simply acts as a parasite on the production and consumption core, extracting financial and rent charges that are not technologically or economically necessary costs. Its revenue takes the form of what classical economists called "economic rent," a broad category that includes interest, monopoly super-profits (price gouging) and land rent, as well as "capital" gains.

Its ethos consists largely of denuding the state of any provision of public goods, privatizing the public domain and erecting tollbooths to charge access fees for basic necessities such as health insurance, land sites, home ownership, the communication spectrum (cable and phone rights), patent medicine, water and electricity, and other public utilities, including the use of credit cards or the credit needed to get by. It's a zero-sum economic activity. One party's gain (that of Wall Street usually) is another's loss.
It looks like we'll have much more of the same as we enter into 2011.

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