WE ARE ALL SOUTH AMERICA NOW

At the point in the World Cup when five South American teams had made it to the knockout round and European teams like Italy and England performed badly, I wondered whether this year's Cup would be a kind of revenge on the IMF. All these South American countries that had spent much of the 80s and 90s struggling with onerous debt crises were winning. Teams from Europe, which is now being subjected to similar austerity measures, were losing or failing to qualify (and for a while, PIIGS countries like Ireland, Greece, and especially Italy were having particularly bad years). I thought the Cup might end up marking a symbolic shift of dignity away from Europe at a time when Europe is being treated as South America once was.

All that was before Spain won everything and Brazil and Argentina underperformed, of course. So now the lesson I take from the Cup is that in this day and age, when the Dutch go to South African and try to prevail through raw brutality, they fail.

While my first World Cup lesson was wrong, it does go to something I've been thinking about a lot lately: how average people in rich countries are being abused, through some old but also some new tactics, to the same treatment much of the developing world suffered from in earlier decades. The elite would suck the money out of the economy into their protected bank accounts, and then leave average people paying the debt.

I'll surely have more to say about what I mean. But with that in mind, read this post from Yves Smith and the Martin Wolf book review it links to. Wolf notes:

> We already know that the earthquake of the past few years has damaged western economies, while leaving those of emerging countries, particularly Asia,

> standing. It has also destroyed western prestige. The west has dominated the world economically and intellectually for at least two centuries. That epoch is over (see charts). Hitherto, the rulers of emerging countries disliked the west’s pretensions, but respected its competence. This is true no longer. Never again will the west have the sole word. The rise of the Group of 20 leading economies reflects new realities of power and authority.
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> Yet this is far from the only change in the global landscape. The crisis has revealed deep faults within western economies and the global economy as a whole. We may be unable to avoid further earthquakes.
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> In his book, Prof Rajan points to domestic political stresses within the US. Related stresses are emerging in western Europe. I think of it as the end of “the deal”. What was that deal? It was the post-second-world-war settlement: in the US, the deal centred on full employment and high individual consumption. In Europe, it centred on state-provided welfare.
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> In the US, soaring inequality and stagnant real incomes have long threatened this deal. Thus, Prof Rajan notes that “of every dollar of real income growth that was generated between 1976 and 2007, 58 cents went to the top 1 per cent of households”. This is surely stunning.
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> “The political response to rising inequality … was to expand lending to households, especially low-income ones.” This led to the financial breakdown.

Much of Yves’ response to this focuses on how a shift in policy emphasis away from full employment and a disempowerment of unions created the need to provide easy credit to ensure that people kept spending and therefore created the demand that makes the economic system hum.

> So the new program was to reduce workers' bargaining power, both by combating unions, and by tolerating un and underemployment. Rising worker wages had been seen as crucial to greater prosperity; it was quietly abandoned as a policy goal. But this has profound implications. As rising income inequality demonstrates, the benefits of growth accrued substantially to those at the very top. But absent a few wastrels, people with that level of income are not going to spend as much of their income on consumption as those less well off. Thus (in very crude terms) Keynes' problem of the paradox of thrift, that the understandable desire of households to save can result in insufficient demand, becomes even more acute when it it pretty much only the rich who are getting richer.

If workers' wages don't start growing, there won't be the demand for a full recovery. Yet the response has been to cut the safety net promised so long ago—to continue to take from the poor.

And in related news? The average American can't afford to buy the average American car.