

Austerity – the issue of our day

A few days back, the Inky (Philadelphia Inquirer) ran a piece entitled "Parsing Santorum's Sweaters." This was a piece that attempted to derive meaning from what the candidate wore while speaking to crowds. If you're thinking "Good grief, what a moronic waste of space in a newspaper," well, you're in good company! Obviously, members of the public have better things to be concerned about than what dress code a presidential candidate observes. Austerity has been *the defining economic issue* of the Obama Administration. Here's an explanation as to what austerity is all about, from <http://crooksandliars.com/richard-rj-eskow/austerity-dummies-3-minute-guide-> or you can type in: <http://gocl.me/AqdtfZ>

Austerity For Dummies: A 3-Minute Guide To A Very Bad (And Very Powerful) Idea

By Richard RJ Eskow

"I feel stupid," someone said the other day. "I consider myself well-informed, but I have no idea what the term 'austerity economics' really means."

Actually it's not that complicated, and most of the lesson plan can be found in today's headlines.

We'll explain austerity to you in six steps, and we promise it it won't take more than 900 words. Since adults read an average of 250-300 words per minute - and we know all of you are above average - our little course shouldn't take more than three minutes.

It's certainly worth knowing. Despite its many failures, "austerity economics" keeps remaking - and *unmaking* - the global economy. The only disagreement at this weekend's Republican debate was over which candidate would push austerity more aggressively. And austerity dominated the political agenda last year - "Deficit Commission," anyone? - until Occupy came along.

Merriam-Webster named "austerity" the "Word of the Year" for 2010. But like the monster from a 1950's science-fiction movie, it just keeps on growing. This week alone the name was invoked in government houses from Athens to Lagos.

What is this creature called "austerity," and why does it still hold so much power? If you've got three minutes, let's get started.



1. What is it?

The Longman Dictionary of Contemporary English defines "austerity" as "when a government has a deliberate policy of trying to reduce the amount of money it spends."

Wikipedia calls it "a policy of deficit-cutting, lower spending, and a reduction in the amount of benefits and public services provided," adding that it's "sometimes coupled with increases in taxes to pay back creditors to reduce debt."

Got that? Austerity backers want government to spend less on benefits and public services, and to pay back its creditors more quickly. Higher taxes aren't part of the plan and they're strictly optional.

2. What's austerity supposed to accomplish?

Austerity advocates don't just see lower deficits and reduced debt as tools to promote long-term economic health. They consider them ends in themselves - sometimes even as moral values.

Many austerity advocates see government spending as inherently evil. That goes for all government spending, including police, teachers, nurses, and firefighters.

Sure, some of them will admit there can be *necessary evils* or *useful evils* - usually weapons procurement or law enforcement. But spending is always evil.

Other people aren't philosophically opposed to government spending, but have been convinced that it has become unaffordable today.

3. What's the theory behind austerity economics?

To answer that, it's important to understand that the economics profession has been systematically taken over by well-funded conservative academics. They've created elaborate theoretical constructs to prove that government spending is economically destructive.

These include theories like 'Barro-Ricardo equivalence,' which says people won't spend money when they know their government's incurring debts they'll have to pay someday. Conservative economists like Robert Barro insist this is true even in times of widespread unemployment, like now, and argue against stimulus spending to create jobs.

Oddly, they find this theory more compelling than the idea that people aren't spending money because *they don't have jobs*.

Then there's supply-side economics, which argues that the best way to grow the economy is by cutting taxes. That means smaller government. Supply-siders also rely on the "Laffer curve," which says people will stop investing, producing, and creating jobs if taxes are too high.

Austerity advocates also argue that international markets will lose confidence in governments if they don't curb spending and will charge them higher interest. So they even push cuts in Social Security, which doesn't even add to the deficit, because macroeconomists consider it 'government spending.'



4. Do these theories make sense?

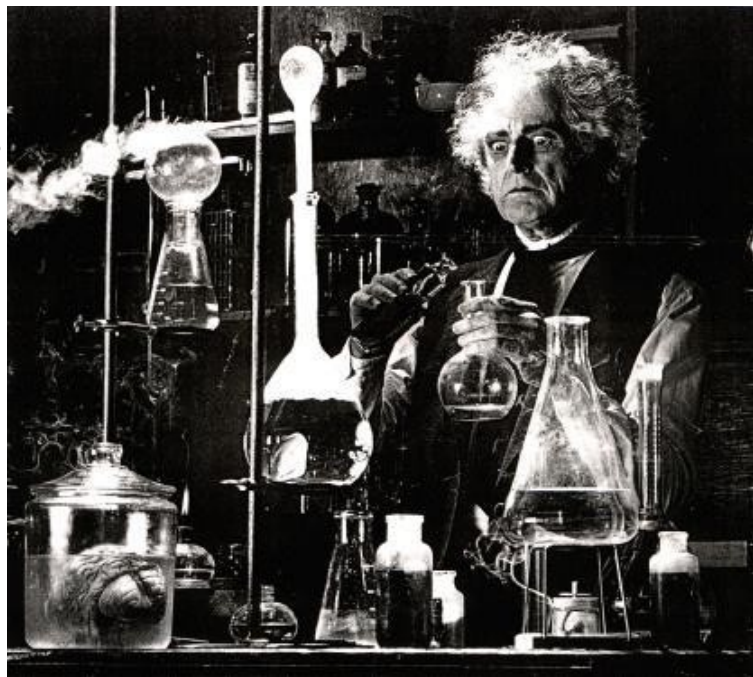
Economists argue about this kind of thing ferociously, but we can look at the record and reach some common-sense conclusions about whether these theories are right or wrong:

Barro-Ricardo Equivalence: Wrong. To affect demand, government spending would have to be much higher than it is today.

Supply-Side Economics: Ridiculously wrong. We've had lower taxes and less regulation for more than a decade. Where are the jobs?

Laffer Curve: Also wrong. This country had a 70% tax rate or higher for top earners and the economy was doing much better than it is today. At 98% or higher, as the top rates once were in Great Britain, this could be a legitimate concern.

But now? Nah.



5. Does austerity work?

A resounding no. That's the conclusion reached in [this paper](#) from the International Monetary Fund. (The IMF was once the world's leading enforcer of austerity measures.)

And here are some clips from this week's headlines:

[Austerity Reigns Over Euro Zone as Crisis Deepens](#), *New York Times*: " Europe's leaders braced their nations for a turbulent year, with their beleaguered economies facing a threat on two fronts: widening deficits that force more borrowing but increasing austerity measures that put growth further out of reach."

[Euro-Zone Manufacturing Activity Falls for Fifth Month](#), *Wall Street Journal*: " Manufacturing activity in the euro zone declined for the fifth straight month in December, although less sharply than earlier in the fourth quarter, according to a survey of purchasing managers released Monday. The survey is consistent with other indicators of recent activity, and together the numbers suggest the euro-zone economy contracted during the final three months of the year."

[Merkel, Sarkozy stress growth a priority in eurozone crisis, call for quick Greek accord](#), *Washington Post*: "The German and French leaders stressed Monday that boosting economic growth in the 17-nation eurozone is a priority, a recognition that the focus on austerity cuts is unlikely to get Europe out of its debt crisis. Some analysts fear excessive austerity measures will take a heavy toll on weakening economic growth and push the eurozone into recession this year, in turn hindering the region's deficit-cutting efforts."

Austerity's been a disaster for Great Britain and Europe, yet leaders are demanding more of the same - there, and here. They're ignoring the approaches that have worked in the past, as in the Great Depression: Invest in short-term growth, put people back to work, and then address long-term deficit issues once the economy's back on its feet.

6. Why do people still push austerity?

Some do it because they're still under the influence of economists indoctrinated in that profession's conservative intellectual orthodoxy.

It's also in many politicians' interests to promote austerity, since wealthy and powerful people like the idea of lowering their own taxes.

One thing's for sure: They're not doing it because they're looking at the facts.



That wasn't too bad, was it? And it only took 877 words. If you were one of those who felt you didn't understand austerity, hopefully this has helped. You probably realize now that you understood more than you realized. In fact, you were never the problem.

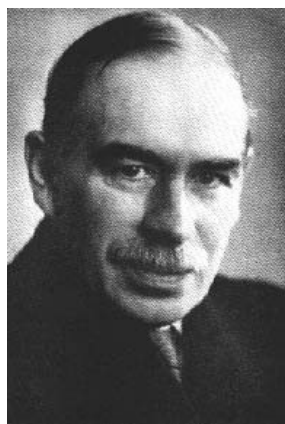
The real problem with austerity economics is that there's less there than meets the eye.

That hasn't stopped leaders all over the world from insisting that it's the solution to the very problems it has caused, and to other problems which it didn't cause but has made even worse. They're trying to impose even more of it on the global population.

Who's the dummy now?

Okay, so obviously, if austerity is the problem of our day, then what's the answer? I've been keeping an economics blog for a few years as a subsite of <http://www.ufpj-dvn.org/>. If you go to the site and then if you go the the link [The Economic Effects of the Iraq War](#), that will get you to the blog.

Two economists that I cite frequently, Paul Krugman and Dean Baker, are both Keynesians and have both been writing on economics for many years. Their record of telling the public what's going on in economics is an extremely good one and they've been far better at predicting events than just about anyone else in the field.



John Maynard Keynes, 1883-1946