Alternet

10 Reasons Austerity Is a Crock

New Economic Perspectives By Stephanie Kelton [2]

May 7, 2013

Steve Kraske of The Kansas City Star recently interviewed me for a piece about austerity. The story [3] ran in today's paper. It doesn't provide much depth (unlike bloggers, journalists have strict space constraints!), so I followed up with a few comments on the Star's website. I thought I'd share them here, since I'm always trying to improve the way I communicate these ideas with non-economists. So here's my best effort to make the anti-austerity case in simple terms.

1. When we allow our economy to operate below full employment (as now), we are sacrificing trillions of dollars in lost output and income each year. We can never go back and recover it. It is gone forever. You've seen the debt clock? Here's the lost output clock. [4]

2. Capitalism runs on sales. In survey after survey, we find that the Number One reason businesses are slow to hire and invest in new plant & equipment is a lack of demand for the things they produce. Businesses hire and invest when they're swamped with customers. See this story in The Wall Street Journal [5].

3. The two decades after WWII certainly aren't the only time that robust growth reduced the DEBT/GDP ratio. During the late 1990s and early 2000s, the economy grew at an above average clip. Unemployment fell to 3.7%. Inflation remained modest. There was a job vacancy for every job seeker in America — genuine full employment. Because people were working, there was less spending to support the unemployed (food stamps, unemployment compensation, etc.) and more people paying income taxes. The deficit disappeared, and the national debt fell to around 40% of GDP. So you do not need post-WWII conditions to support the argument that economic growth is the way to reduce the debt.

4. The debt/GDP ratio falls when the denominator grows faster than the numerator. Right now, just about everyone is fixated on using austerity (raising taxes and slashing spending) to reduce the numerator (DEBT). The problem, as Europe has kindly shown us for years, is that austerity "works" by crushing incomes, which in turn crush sales (or what we call GDP). So instead of bringing the ratio down, austerity hampers growth, which causes deficits and debt loads to rise.

5. Although virtually no one bothers to mention it, the deficit is currently falling at its fastest pace since the end of WWII. Yes, right now in America, even before the sequester, the deficit was plummeting at a scorching rate [6]. Why? Because the economy was recovering from the Great Recession. Unemployment was falling and growth picked up to around 2.5 percent. When people get jobs, they earn wages/salaries, pay income taxes and stop collecting unemployment.

6. Policymakers on both sides of the political aisle are moving us in the wrong direction. The fiscal cliff and the sequester both impose austerity (tax increases and spending cuts) at a time when there

are vast unused resources (labor, raw materials, excess capacity in our factories) and inflation is running below the Federal Reserve's target. These are exactly the wrong policies and they will hurt the economy.

7. Saying that austerity is bad policy ? saying government needs to spend more money. Businesses need customers, but the government does not have to be the one doing the buying. We have been advocating a full payroll tax holiday (extended to the employee and the employer) for 5 years now. That amounts to a 6.2 percent across-the-board cut in the wage bill, and the addition of almost $300/month to the take-home pay of the average worker. Businesses need customers, and customers can be created by leaving more money in the hands of those who work for a living.

8. We have a serious infrastructure problem in this country. The American Society of Civil Engineers just released its 2013 Report Card [7], and it is ugly. Our ports, roads, waterways, etc. are in serious disrepair. This makes it more expensive for businesses to produce/ship goods, which raises U.S. prices and reduces our global competitiveness. Meanwhile, we have millions of out-of-work construction workers and manufacturing workers — the people with exactly the kinds of skills that are needed to repair and rebuild our national infrastructure. So we have useful work that needs to be done, millions of people who want to contribute and policymakers with no plan to connect the two.

9. What holds us back? Fear of the Chinese? Fear of bond vigilantes? Fear of the ratings agencies? Fear of becoming the next Greece? Fear of turning into Zimbabwe? Fear of sticking our grandchildren with a huge tax bill? This is what they tell us as they impose austerity. None of it — I repeat — none of it has the slightest bearing on our reality.

10. Final (and most important) point: The United States of America has sovereign money. The US dollar comes from the US government. It cannot come from anywhere else. We can never run out of dollars or be forced into default like Greece, which does not have its own currency. We do not need to borrow from the Chinese to do the things that we decide to do for our economy. As long as the real resources (labor, raw materials, factory capacity) are available, the financial resources (money) can always be there. This can be done without causing inflation as long as the additional spending does not outstrip the economy's capacity to produce. We can afford to cut taxes and spend more money to improve our infrastructure without burdening the next generation. Failing to get the economy back to full employment will burden us all for years to come.
See more stories tagged with:
america [8],
American Society of Civil Engineers [9],
Anti-austerity protests [10],
austerity [11],
business [12],
economic policy [13],
economics [14],
europe [15],
fiscal policy [16],

Government debt [17],
greece [18],
gross domestic product [19],
inflation [20],
labor [21],
Public economics [22],
public finance [23],
Steve Kraske [24],
tax [25],
The Kansas City Star [26],
the wall street journal [27],
US Federal Reserve [28],
US government [29],
USD [30],
unemployment [31],
united states [32],
zimbabwe [33],
average worker [34],
food stamps [35],
manufacturing workers [36]
Source URL: http://www.alternet.org/economy/10-reasons-austerity-crock

Links:
[1] http://neweconomicperspectives.blogspot.com/
[2] http://www.alternet.org/authors/stephanie-kelton
[3] http://www.kansascity.com/2013/05/03/4216270/austerity-cure-or-illness.html
[4] http://lostoutputclock.com/
[5] http://online.wsj.com/article/SB10001424052702303661904576452181063763332.html
[6] http://news.investors.com/blogs-capital-hill/112012-634082-federal-deficit-falling-fastest-since-world-war-ii.htm
[7] http://www.infrastructurereportcard.org/a/#p/home
[8] http://www.alternet.org/tags/america
[9] http://www.alternet.org/tags/american-society-civil-engineers
[10] http://www.alternet.org/tags/anti-austerity-protests
[11] http://www.alternet.org/tags/austerity-0
[12] http://www.alternet.org/tags/business-0
[13] http://www.alternet.org/tags/economic-policy
[14] http://www.alternet.org/tags/economics-0
[15] http://www.alternet.org/tags/europe-0
[16] http://www.alternet.org/tags/fiscal-policy
[17] http://www.alternet.org/tags/government-debt
[18] http://www.alternet.org/tags/greece-0
[19] http://www.alternet.org/tags/gross-domestic-product

[20] http://www.alternet.org/tags/inflation-0
[21] http://www.alternet.org/tags/labor-0
[22] http://www.alternet.org/tags/public-economics
[23] http://www.alternet.org/tags/public-finance-0
[24] http://www.alternet.org/tags/steve-kraske
[25] http://www.alternet.org/tags/tax
[26] http://www.alternet.org/tags/kansas-city-star
[27] http://www.alternet.org/tags/wall-street-journal-1
[28] http://www.alternet.org/tags/us-federal-reserve
[29] http://www.alternet.org/tags/us-government-0
[30] http://www.alternet.org/tags/usd
[31] http://www.alternet.org/tags/unemployment-0
[32] http://www.alternet.org/tags/united-states
[33] http://www.alternet.org/tags/zimbabwe-0
[34] http://www.alternet.org/tags/average-worker
[35] http://www.alternet.org/tags/food-stamps
[36] http://www.alternet.org/tags/manufacturing-workers
[37] http://www.alternet.org/%2Bnew_src%2B