

Paul Krugman - New York Times Blog

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The Smith/Klein/Kalecki Theory of Austerity

Noah Smith recently offered an interesting take on the real reasons austerity garners so much support from elites, no matter how badly it fails in practice. Elites, he argues, see economic distress as an opportunity to push through “reforms” — which basically means changes they want, which may or may not actually serve the interest of promoting economic growth — and oppose any policies that might mitigate crisis without the need for these changes:

I conjecture that “austerians” are concerned that anti-recessionary macro policy will allow a country to “muddle through” a crisis without improving its institutions. In other words, they fear that a successful stimulus would be wasting a good crisis.

...

If people really do think that the danger of stimulus is not that it might fail, but that it might succeed, they need to say so. Only then, I believe, can we have an optimal public discussion about costs and benefits.

As he notes, the day after he wrote that post, Steven Pearlstein of the Washington Post made exactly that argument for austerity.

What Smith didn't note, somewhat surprisingly, is that his argument is very close to Naomi Klein's Shock Doctrine, with its argument that elites systematically exploit disasters to push through neoliberal policies even if these policies are essentially irrelevant to the sources of disaster. I have to admit that I was predisposed to dislike Klein's book when it came out, probably out of professional turf-defending and whatever — but her thesis really helps explain a lot about what's going on in Europe in particular.

And the lineage goes back even further. Two and a half years ago Mike Konczal reminded us of a classic 1943 (!) essay by Michal Kalecki, who suggested that business interests hate Keynesian economics because they fear that it might work — and in so doing mean that politicians would no longer have to abase themselves before businessmen in the name of preserving confidence. This is pretty close to the argument that we must have austerity, because stimulus might remove the incentive for structural reform that, you guessed it, gives businesses the confidence they need before deigning to produce recovery.

And sure enough, in my inbox this morning I see a piece more or less deploring the early signs of success for Abenomics: Abenomics is working — but it had better not work too well. Because if it works, how will we get structural reform?

So one way to see the drive for austerity is as an application of a sort of reverse Hippocratic oath: “First, do nothing to mitigate harm”. For the people must suffer if neoliberal reforms are to prosper.

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