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# Why Paul Krugman Needs to Run a Teach-in for Ignorant New York Times Business Reporters

*International business reporters are helping the economic quacks who prescribe austerity snake oil.*

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The Washington Consensus, as the name implies, was an "inside the beltway" series of neo-liberal policies embraced by the IMF, the World Bank, and the U.S. government. It called for a minimal state and an all-powerful private sector. The private sector and de facto private central banks would discipline the State by insisting on balanced budgets – perpetual austerity. Democracy was unreliable, indeed dangerous, so the central banks had to be "independent" of the democratic process (and wholly dependent on the largest banks). Only the private sector had the proper incentives that could be relied upon to create vibrant growth and a self-correcting economy. The Consensus was developed in the context of the policies that should be imposed on Latin America -- and Latin Americans were the guinea pigs of Consensus. (This metaphor was particularly troubling for Latin Americans who knew that their ancestors raised guinea pigs as a reliable source of meat.)

The Consensus led to weak growth, high unemployment, and repeated privatization scandals. It enraged ordinary citizens in much of Latin America, which is why there has been a landslide of national leaders elected because of their promises to oppose the Consensus and their open disdain for Washington's neo-colonial diktats. There is nothing unusual about the Latin American reaction to the Consensus. What is startling is that at the same time that Latin America was rising up to reject the Consensus, the dominant neo-liberal politicians and economists in Europe were passionately worshiping its failed dogma with the zeal of the convert. They created the Berlin Consensus, and it rested on austerity today, austerity tomorrow, austerity always.

Overall, European nations showed significant budgetary restraints in the decade leading up to the Great Recession. Most of the periphery did so – Greece is a special case. The Cato Institute, for example, praised Iceland and Ireland as models of restraint. Spain also received praise. The claim that the periphery was “profligate” through large budgetary deficits in the run up to the crisis reverses the facts.

Austerity during a serious recession is economically insane. It is a pro-cyclical policy that makes the recession more severe. A more severe recession is a mass destroyer of wealth and quality of life. It is pure waste. It is the primary cause of dramatic increases in public deficits and debt. Unemployment reduces tax payments and increases demands for public spending. One cannot decide to end a budgetary deficit during a recession by adopting austerity. Austerity (some combination of cutting government spending and increasing taxes) reduces private and public sector demand. This means that imposing austerity is likely to deepen the recession and can make the national deficit and debt larger. It is analogous to the medical insanity of bleeding patients to cure them of disease – and then bleeding them more because the prior bleeding make them sicker.

Europeans of the periphery are having austerity imposed on them by German demands – and they are subjected to repeated insults from German and Dutch leaders for failing to balance their budgets because the austerity imposed by Germany deepened their recession and slashed their tax revenues. Germany’s demands for austerity have thrown the euro zone back into recession – but it has forced the periphery into Great Depression levels of unemployment. German-imposed austerity, the Berlin Consensus, is even more draconian than the Washington Consensus in Latin America. Germany and the ECB are open that they are not simply demanding austerity and massive privatization – they are also demanding dramatic reductions in working class wages throughout the EU. The German’s and the ECB are not demanding any sacrifices from European elites. They explicitly target the working class and government workers’ wages and oppose any increased taxation of the wealthy. The Berlin Consensus is a road map to ever greater inequality.

The reaction among Europe’s citizens has been overwhelmingly negative. Every nation that has agreed to austerity has suffered economically and every ruling party that agreed to austerity in return for EU aid has fallen. Austerity is the leading cause of disintegrating EU unity. The nice thing about democracy is that the people are often less wedded to failed economic dogma than are the academic devotees of the cult of austerity.

The *New York Times* has a very good economist, a Nobel laureate, working for it as a regular columnist. His name is Paul Krugman and among his areas of primary study is how to recover from a severe recession. Regular readers of the paper will know that recovery is the most common subject Krugman's columns discuss.

Sunday's elections in France, Greece, Germany, and the UK have spawned a spate of articles in the *New York Times* that have focused on finance and recovery from the Great Recession in Europe. The reporters' collective take on the elections demonstrates that they are in the grip of dogmas that are so powerful that they have come to believe in anti-facts and to rely on "economic" theories that are rarely believed by economists and have been continuously falsified by reality.

It is now apparent that the paper's journalists that cover the EU do not read or do not understand Krugman. Here is how they began a story on the French electionand the import of Hollande's victory.

"Mr. Hollande's campaign promised a kinder, gentler, more inclusive France, but his victory over President Nicolas Sarkozy will also be seen as a challenge to the German-dominated policy of economic austerity in the euro zone, which is suffering from recession and record unemployment."

Notice the logical disconnect? There is "austerity" and there is "suffering from recession and record unemployment." The two are presented as if they are not connected. Austerity during a weak recovery from a Great Recession will cause intense "suffering from recession and record unemployment." That is a fact as we have taught it in economics for over a half-century. It has strong theoretical and empirical support. Indeed, Mr. Draghi, the head of the European Central Bank (ECB) has conceded that austerity deepens recessions and unemployment. He claims that eventually this turns around and austerity aids recovery. When and how austerity turns around and eventually aids a recovery has neither theoretical nor empirical support (hence Krugman's derisive allusion to the stealth "confidence fairy"). Note also that the interrelationship of the German-imposed austerity and the resultant return to recession in France is precisely why Hollande won the election and is therefore critical to the article.

The article's economic analysis descends from that failed start. The next sentence reads: "French voters may not like the belt-tightening, but both Mr. Hollande and Mr. Sarkozy had promised to balance the budget in the next five years." This sentence contains two false implications. First, it implies that a nation suffering from recession can simply decide to "balance the budget." As I explained, and as the EU's tragic experience under German austerity confirms, trying to balance the budget not only makes recessions and unemployment worse, but can make the deficit grow. Severe recessions are the great cause of rapidly expanding budget deficits. Second, no patient likes being bled by quacks (whether their doctorate is in medicine or economics). The implication of the article is that austerity in a Great Recession or a depression (which is what the periphery is suffering) is some kind of unpleasant medicine or form of virtuous self-discipline ("belt tightening" is an absurd metaphor for German-imposed austerity). The journalists portray the French as refusing to continue to drink the vital but bad tasting medicine that the wise Germans stoically took a decade ago. No, the French object to further bleeding by German and French quacks whose answer to everything is austerity (Sparmaßnahmen).

The journalists continue the theme of the selfless German economic doctors attempting to convince the frivolous French to take the ill tasting cure for their economic ills.

"The presidential election in France and the parliamentary vote in Greece on Sunday have been closely watched in European capitals, particularly in Berlin, where Chancellor Angela Merkel has led the drive to cure the debt and banking crisis in the euro zone with deep budget cuts and caps on spending."

The Berlin consensus has not and cannot "cure" the debt and banking crisis – it has made it vastly worse. We are all able to observe the German snake oil "cure" forcing the euro zone back into a gratuitous recession.

The journalists soon slip into TINA (there is no alternative) and implicitly embrace the bond vigilantes (aka, the banks whose frauds and abuses drove the financial crisis that caused the Great Recession) as the appropriate arbiters of public policy.

"While crowds in Paris cheered Mr. Hollande's victory, investors were more cautious in their reactions.

They are concerned that Mr. Hollande might choose to spend more money to jump-start the economy rather than move ahead with labor and business reforms that economists say France sorely needs to improve its competitiveness to prevent it from getting caught in the euro zone crisis.

‘Markets will not attack France right away,’ said Jacob Funk Kirkegaard, a research fellow at the Peterson Institute for International Economics in Washington. ‘But there is a risk that if Mr. Hollande does not act early on, France will become the next sick man of Europe.’”

Where to start? First, the bond vigilantes have been attacking Italy and Spain’s sovereign bonds for weeks even though both nations are slavish in their devotion to the Berlin consensus. Italy and Spain make good targets because they have adopted austerity and forced their economies back into recession, which meant that the promises to reduce the budget deficit to meet Berlin’s destructive targets were impossible to meet. The journalists’ implication is that imposing austerity during a recession improves an economy. We have run many real world tests of this dogma and it does the opposite.

Second, the journalists imply that TINA rules – there is no alternative to austerity because the bond vigilantes will crush any alternative. It that were true, then it would be all the more reason for the citizens of Europe to rise up and restore their national sovereignty that they have ceded to Berlin and the largest banks who caused the financial crises that drove the Great Recession. The largest banks are the principal bond vigilantes. If the only alternative available to Europe under the euro and the Berlin Consensus is to force the euro zone into recession, the periphery into depression, and slash working class wages then the euro and the Berlin Consensus have to go because they are destroying the Europeans, their economies, and the EU project. The Berlin Consensus invokes the same “logic” that became infamous in one American unit’s response to the Tet offensive – “it became necessary to destroy the village in order to save it.” Berlin is happily destroying the periphery in order to save it – and is distressed that not enough inferior Europeans praise Berlin for imposing discipline on the ungrateful periphery.

Third, consider the multiple fictions posing as indisputable facts in this sentence taken from the passage quoted above: “[Investors] are concerned that Mr. Hollande might choose to spend more money to jump-start the economy rather than move ahead with labor and business reforms that economists say France sorely needs to improve its competitiveness to prevent it from getting caught in the euro zone crisis.” I will start with the metaphor. When your car battery dies your car will not start. Your car may have other flaws that make it less than ideal, but if you need to get to work tomorrow do you (1) jump start the car or (2) spend the day ordering racing tires and then wait two weeks for them to arrive and be installed before jump starting the car? Jump starting cars works. We have sound empirical and experiential bases for knowing that it works. Running an international competition among nations based on a race to the bottom on working class wages does not work for the world or the working class. It is a wonderful way to make the one percent even wealthier.

Who are the “economists” who say that France “sorely needs” as its priority to cut working class wages? If international “competiveness” on working class wages determines which nations are “caught in the euro zone crisis” then this is another form of dogma that relies on TINA. Again, assume for the purpose of discussion that the economic world we live in has become a negative sum war against the working class. This is what we call the “Road to Bangladesh” strategy. The only way to win a race to the bottom is to refuse to play the game – and create a new system in which we race to the top. It is bizarre that the Berlin Consensus fundamental policy – slashing working class wages – is a straight steal from Marx’s critique of capitalism. The Berlin Consensus’ labor policy is premised on the inherent downward pressure on working class wages imposed by the global “reserve army of the unemployed.” The Berlin Consensus’ further problem is that the enhanced global competitiveness that other EU nations are supposed to obtain by sharp cuts in working class wages are supposed to turn EU nations into massive net exporters like Germany. This is a classic example of the fallacy of composition. We cannot all be net exporters. Indeed, Germany’s large net trade surplus makes it far harder for other EU nations to become net exporters. The Berlin Consensus cannot “succeed” even under its own terms for the EU, much less the global economy.

Fourth, who is the only “expert” cited to support the proposition that France has no alternative, it must balance its budget during a recession in order to avoid becoming “the next sick man of Europe”? That would be a representative of the Peterson Institute’s international program. The original Peterson Institute was established for the purpose of lobbying for balanced budgets. The Peterson Institute researcher continues the medical metaphor under which austerity is the essential but bad tasting medicine that the wise Germans took and cured their economy and are prescribing for the frivolous French. The Peterson Institute loves the Berlin Consensus. The Peterson Institute is one of the groups claiming that U.S. is minutes away from hyper-inflation and that only slashing Social Security, Medicaid, and Medicare can save the nation. Meanwhile, we continue to borrow at historic low interest rates. Their predictions about hyper-inflation and high U.S. interest rates have consistently proven false. Krugman’s (and UMKC’s) predictions about interest rates and hyper-inflation have proven correct.

I don't mind the journalists quoting Jacob Funk Kirkegaard of the Peterson Institute. I object to his statements being treated as indisputable fact. Readingrecent columns he has posted on the Peterson web site demonstrates (1) that he reads Krugman, (2) he admits former ECB President Trichet's claims that austerity produced more rapid and successful economic recovery are false, (3) he admits that austerity produces deeper recessions and has forced the periphery into depression, (4) he discloses that his priority for the EU is to break its unions, particularly in Spain, so that working class pay can be reduced substantially and employment expanded, and (5) he argues that the reason he supports austerity for Europe is that it is a political act required to convince Germany to support a revised, more stable euro. He has an interesting background as an ex-intelligence officer for the Danish army.

The dogmatic austerity devotees who consistently get it wrong are treated as undisputed authority while the New York Time's own expert who has consistently gotten it right, and has a Nobel Prize in economics, is ignored. (Krugman was formerly more of a deficit hawk. He now takes into account how different sovereign monetary systems, e.g., the U.S. and Japan, are from currencies like the euro and is more of a dove. UMKC economics consists of deficit "owls.")

A related *New York Times* story about investor reactions to Hollande's victory buys into austerity and the assault on working class wages even more wholeheartedly.

It cites no contrary views by economists. It does not even mention austerity throwing the euro zone back into recession and periphery into depression. It embraces TINA and the Road to Bangladesh strategy. It sees no irony in this, warning that unless France makes deep cuts to working class wages: "'France runs the risk of becoming more of a periphery country than remaining in core," Mr. Kirkegaard of the Peterson Institute said." So the only way for France to avoid becoming like the periphery is to force cuts in working class wages to levels where France can outcompete China – and Germany and Bangladesh. And what does Kirkegaard think the Spanish will be forced to do under this strategy? They'll have to make deeper cuts than the French. And what will the French do in response to the Spanish working class wage cuts? And what will Vietnam and Bangladesh do if the EU nations cut their working class wages to levels that allow them to "win" the race to the bottom? Won't they be forced to react by further cuts in their working class wages? Who is going to buy Germany's VWs under this strategy? To sum it up: in order to avoid becoming a part of Europe's periphery France's working class must become part of the third world.

I will close by using the medical metaphor. Bleeding patients, or nations, to cure them is quackery that harms the patient and the nation. Economists pushing the Berlin Consensus violate the first principle of the Hippocratic Oath – do no harm. Paul Krugman needs to run a teach-in at the New York Times for its international business reporters. They are helping the economic quacks who prescribe the snake oil of austerity and have as their real objectives (1) gutting Social Security, (2) destroying unions, (3) slashing working class wages, and (4) making the one percent ever richer and more politically dominant.

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