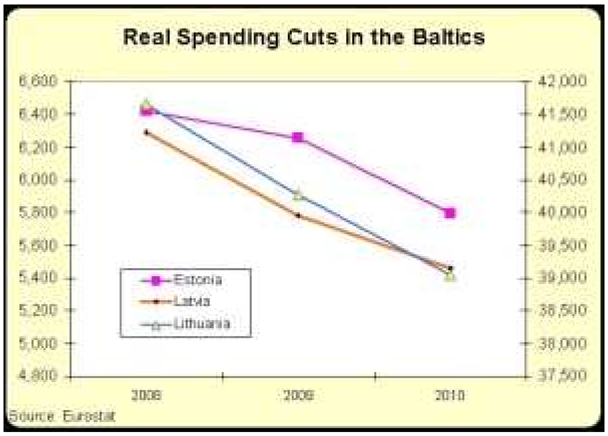
Matt Yglesias

Today at 8:31 am

Cato’s Daniel Mitchell Calls For US To Imitate Mass Unemployment Policies of The Baltics



The Cato Institute’s Daniel Mitchell says the United States ought to consider taking a page out of the Baltic playbook:

> **Too bad American policymakers can’t copy the Baltic nations** of Estonia, Latvia, and Lithuania. Like the United States, these nations got in fiscal trouble, thanks to the combination of excessive spending and an economic downturn triggered by falling real estate prices.
>
> But unlike the United States, **these nations didn’t follow the Keynesian policy of more deficit spending**. Lawmakers in the Baltic nations recognized, to borrow the words of Dan Hannan, that “you cannot spend your way out of recession or borrow your

> way out of debt."
>
> **So they reduced spending**. Not in the Washington sense, where politicians get to increase spending and call it a cut because outlays didn't rise even faster. The Baltic nations imposed real cuts. And not just for one year, but in both 2009 and 2010. Here's the data from the European Union for the Baltic nations. [at right]

So how's this working? Well, terribly! Estonia has a 14.3 percent unemployment rate and it's doing way better than the other two:

Unemployment rate **Loading...**

The percentage of the labour force that is unemployed, seasonally adjusted.

Data from Eurostat - Powered by Explore data

Also note that back in the spring of 2007, Mitchell was hailing the Baltics as a model of economic success. Then came some of the most severe crashes in Europe.

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Slink Today 08:45 AM

When someone's argument in favor of a certain fiscal policy consists of an explanatory Youtube video, you can stop paying attention.

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Thomasy Today 08:54 AM

Obviously we care about the absolute rate of unemployment, but it seems to me that we're trying to measure the effectiveness of the fiscal policy response to the recession, and so we care most about the rate of decline in the unemployment rate. And on that measure Estonia in particular is doing well, and much better than the US. Estonia's fiscal policy doesn't appear to be responsible for the increase in unemployment rate to 18.9%. And it's fiscal policy response has been consistent with a decline from 18.9% to 14.3%. Meanwhile, US unemployment has gone from 10.2% to 9%. If Matt thinks setting out that comparison is an effective response, he's mistaken.

4 people liked this. Like Reply

njorl 31 minutes ago in reply to Thomasy

So it would be a good thing if more people had been out of work longer, and more people were out of work now?

2 people liked this. Like Reply

Racht 20 minutes ago in reply to Thomasy

So basically what you're saying is if we make huge cuts to spending and give tax cuts to rich people, that we'll solve the unemployment problem?

Like Reply

valar84 6 minutes ago in reply to Thomasy

The thing you're not considering is the fact that more and more of the people in these countries are giving up on searching for jobs in their countries and taking advantage of the EU's loose borders to get jobs in other countries. The US' population on the other hand has kept increasing, so the US needs to create much more jobs than Estonia to lower the unemployment rate since the population increases instead of decreases.

Also, I think you're wrong that the fiscal policy is innocent in the rise of unemployment to 18,9% in the case of Estonia. That might be possible if the unemployment had jumped up in a few months, before the government had time to react and apply new fiscal policies, but this isn't what happened. It wasn't a one-off crash in one moment in time, it was a slow, drawn-out crash lasting years. Unemployment increased for 2 years straight, from may 2008 to may 2010, fiscal policy had enough time to act on that, to either stop the bleeding or to worsen it, and it has evidently worsened it. Had they acted in a counter-cyclical manner instead of pro-cyclical, unemployment would have increased, of course, but they likely could have prevented it from reaching the heights reached here.

Like Reply

Mark Carpenter Today 09:00 AM

In the video he presents a graph showing a rise in Irish government spending as a share of GDP as an argument that someone increased government spending had a significant part to play in the Irish recession in an of itself. This is simply ludicrous. Firstly, the main reason that Irish spending has been rising as a share of GDP since the end of the Celtic Tiger is due to the fall in GDP, not a rise in spending. Secondly, in as far as there has been a rise in spending, this has been as a result of the economic crisis (a huge increase in unemployment levels inevitably leads to a huge increase in social welfare payments) rather than its cause. To try and obscure this fact is simply daft.

3 people liked this. Like Reply

Mark Carpenter Today 09:01 AM

*somehow rather than someone in the first sentance

Like Reply

Nicholas Shaxson Today 09:12 AM

And then there's Mitchell's Iceland miracle: http://bit.ly/j8fWyh

1 person liked this. Like Reply

shooter242 51 minutes ago

So our U-6 is 15.9 %

Is there any difference between that definition of unemployment and the chart's? If not, they are doing considerable better than we are.

1 person liked this. Like Reply

Racht 23 minutes ago in reply to shooter242

Had you actually clicked on the Eurostat link in the chart and clicked the handy "definitions" tab to the left, you'd have found they define unemployed as having looked for work in the past four weeks, the same definition used by our U3 (and every other country's generally-recognized unemployment statistic).

Of course, that would have required 30 seconds of research, which is far more than you're capable of. Much better to just use your limited knowledge and lack of curiosity to make an easily-rebutted partisan talking point.

3 people liked this. Like Reply

Steve LaBonne 49 minutes ago

People like Mitchell (and pooter) should be treated as what they are- dangerous lunatics.

Like Reply

ApeMan1976 48 minutes ago

Anyone who makes a comparison between Estonia, which just a few months ago switched to the Euro, and the US, which is fully sovereign in the dollar, either doesn't know what they are talking about or is just shilling. Or both.

Actually, it's Cato. So it's both.

2 people liked this. Like Reply

drew9182 26 minutes ago

1) The Baltic states are tiny, extremely open economies, largely influenced by outside factors - that they crashed during the global downturn doesn't really say anything about their economic policies.

2) Even after the crash, they are way better off than they were 10 years ago - Mitchell was right to hail them as a model of economic success.

Like Reply

CastorpI 13 minutes ago in reply to drew9182

Mitchell was right to hail them as a model of economic success.

For other tiny, open economies trying to get into the euro.

Like Reply

matthew moseley 10 minutes ago

It looks like unemployment is already down 3-5% from the peak in each country, without Keynesian pump-priming. If that trend continues, then in another year the Baltic countries will be in pretty good shape, AND their fiscal house will be in order. I'd say that compares very favorably to the situation in the United States, where unemployment is also coming down from the peak, but where we have added north of $4 trillion to the debt in the past three years.

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