

The New York Times

OP-ED COLUMNIST

The Austerity Agenda

By PAUL KRUGMAN

Published: May 31, 2012

“The boom, not the slump, is the right time for austerity.” So declared John Maynard Keynes 75 years ago, and he was right. Even if you have a long-run deficit problem — and who doesn’t? — slashing spending while the economy is deeply depressed is a self-defeating strategy, because it just deepens the depression.

So why is Britain doing exactly what it shouldn’t? Unlike the governments of, say, Spain or California, the British government can borrow freely, at historically low interest rates. So why is that government sharply reducing investment and eliminating hundreds of thousands of public-sector jobs, rather than waiting until the economy is stronger?

Over the past few days, I’ve posed that question to a number of supporters of the government of Prime Minister David Cameron, sometimes in private, sometimes on TV. And all these conversations followed the same arc: They began with a bad metaphor and ended with the revelation of ulterior motives.

The bad metaphor — which you’ve surely heard many times — equates the debt problems of a national economy with the debt problems of an individual family. A family that has run up too much debt, the story goes, must tighten its belt. So if Britain, as a whole, has run up too much debt — which it has, although it’s mostly private rather than public debt — shouldn’t it do the same? What’s wrong with this comparison?

The answer is that an economy is not like an indebted family. Our debt is mostly money we owe to each other; even more important, our income mostly comes from selling things to each other. Your spending is my income, and my spending is your income.

So what happens if everyone simultaneously slashes spending in an attempt to pay down debt? The answer is that everyone’s income falls — my income falls because you’re

spending less, and your income falls because I'm spending less. And, as our incomes plunge, our debt problem gets worse, not better.

This isn't a new insight. The great American economist Irving Fisher explained it all the way back in 1933, summarizing what he called "debt deflation" with the pithy slogan "the more the debtors pay, the more they owe." Recent events, above all the austerity death spiral in Europe, have dramatically illustrated the truth of Fisher's insight.

And there's a clear moral to this story: When the private sector is frantically trying to pay down debt, the public sector should do the opposite, spending when the private sector can't or won't. By all means, let's balance our budget once the economy has recovered — but not now. The boom, not the slump, is the right time for austerity.

As I said, this isn't a new insight. So why have so many politicians insisted on pursuing austerity in slump? And why won't they change course even as experience confirms the lessons of theory and history?

Well, that's where it gets interesting. For when you push "austerians" on the badness of their metaphor, they almost always retreat to assertions along the lines of: "But it's essential that we shrink the size of the state."

Now, these assertions often go along with claims that the economic crisis itself demonstrates the need to shrink government. But that's manifestly not true. Look at the countries in Europe that have weathered the storm best, and near the top of the list you'll find big-government nations like Sweden and Austria.

And if you look, on the other hand, at the nations conservatives admired before the crisis, you'll find George Osborne, Britain's chancellor of the Exchequer and the architect of the country's current economic policy, describing Ireland as "a shining example of the art of the possible." Meanwhile, the Cato Institute was praising Iceland's low taxes and hoping that other industrial nations "will learn from Iceland's success."

So the austerity drive in Britain isn't really about debt and deficits at all; it's about using deficit panic as an excuse to dismantle social programs. And this is, of course, exactly the same thing that has been happening in America.

In fairness to Britain's conservatives, they aren't quite as crude as their American counterparts. They don't rail against the evils of deficits in one breath, then demand huge tax cuts for the wealthy in the next (although the Cameron government has, in fact,

significantly cut the top tax rate). And, in general, they seem less determined than America's right to aid the rich and punish the poor. Still, the direction of policy is the same — and so is the fundamental insincerity of the calls for austerity.

The big question here is whether the evident failure of austerity to produce an economic recovery will lead to a "Plan B." Maybe. But my guess is that even if such a plan is announced, it won't amount to much. For economic recovery was never the point; the drive for austerity was about using the crisis, not solving it. And it still is.