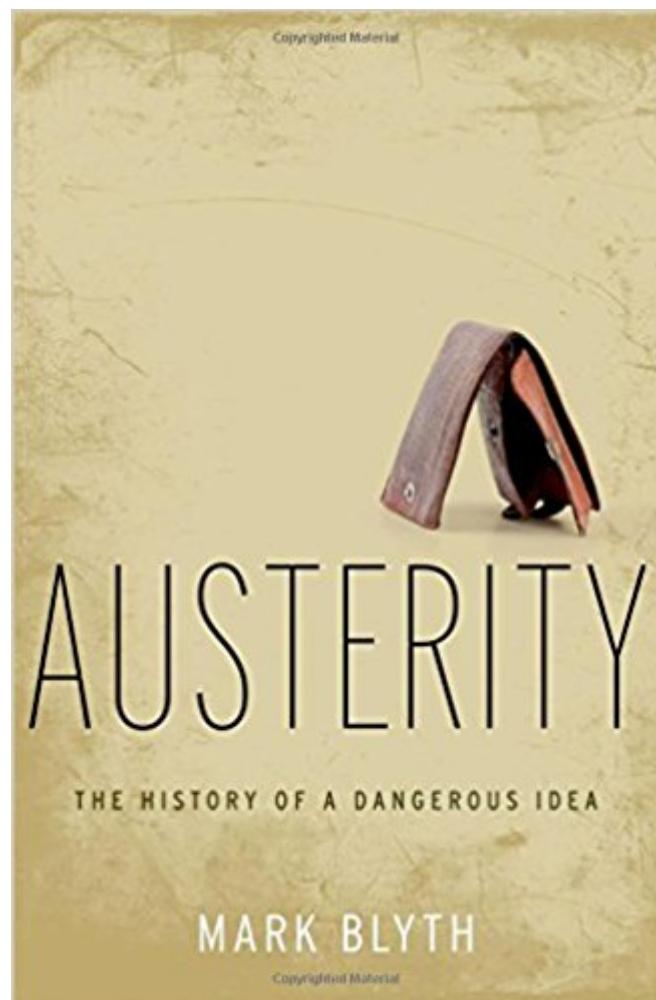


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# Austerity: The History Of A Dangerous Idea



## Synopsis

Selected as a Financial Times Best Book of 2013Governments today in both Europe and the United States have succeeded in casting government spending as reckless wastefulness that has made the economy worse. In contrast, they have advanced a policy of draconian budget cuts--austerity--to solve the financial crisis. We are told that we have all lived beyond our means and now need to tighten our belts. This view conveniently forgets where all that debt came from. Not from an orgy of government spending, but as the direct result of bailing out, recapitalizing, and adding liquidity to the broken banking system. Through these actions private debt was rechristened as government debt while those responsible for generating it walked away scot free, placing the blame on the state, and the burden on the taxpayer. That burden now takes the form of a global turn to austerity, the policy of reducing domestic wages and prices to restore competitiveness and balance the budget. The problem, according to political economist Mark Blyth, is that austerity is a very dangerous idea. First of all, it doesn't work. As the past four years and countless historical examples from the last 100 years show, while it makes sense for any one state to try and cut its way to growth, it simply cannot work when all states try it simultaneously: all we do is shrink the economy. In the worst case, austerity policies worsened the Great Depression and created the conditions for seizures of power by the forces responsible for the Second World War: the Nazis and the Japanese military establishment. As Blyth amply demonstrates, the arguments for austerity are tenuous and the evidence thin. Rather than expanding growth and opportunity, the repeated revival of this dead economic idea has almost always led to low growth along with increases in wealth and income inequality. Austerity demolishes the conventional wisdom, marshaling an army of facts to demand that we austerity for what it is, and what it costs us.

## Book Information

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## Customer Reviews

I found this to be a very interesting and thought provoking book. The author makes his viewpoint very clear with the book's subtitle "The History of a Dangerous Idea". The essence of the author's argument is that austerity is unfair because it makes workers pay for the mistakes of banks, and even more importantly, dangerous because it does not lead to prosperity, but only to decreased economic growth and increased unemployment. This thesis is backed up by an analysis of the banking crisis of 2008, how it spread from the US to the EU, why the single currency Euro has made the problem worse for the EU and why using austerity to solve the problems will not work. It also discusses the history of the idea of austerity, both in terms of the economic theory that promotes it and the economic history that does not. Conservatives, who find Keynesian economics to be not only wrong, but also the road to economic ruin, will likely be turned off by the book's subtitle and many of the arguments that Professor Blyth utilizes. However, there is a lot of data in this book that they should look at, if only to criticize it. I found this book very enlightening and while I do not agree with all of Professor Blyth's ideas (particularly those of the last chapter), I learned a lot, so for me it was 5-stars.

What is in the book? The book is divided into 7 chapters, which cover the following:

Chapter 1 - A Primer on Austerity. This is a short chapter that summarizes the main thesis of the book (mentioned above), and sets the stage for the more detailed discussions in subsequent chapters.

Chapter 2 - America: To Big to Fail? This is an excellent chapter that summarizes the origins and unfolding of the 2008-banking crisis in the US.

Blyth shows how the piling on debt in the US was not due to wasteful profligate policy, but instead associated with the bailing out of the private sector, and the banking and financial system. For another excellent coverage of this period see Mark Zandi's Paying the Price: Ending the Great Recession and Beginning a New American Century. Mortgage borrowers were defaulting en masse, housing prices were dropping like a rock, and the banks and overall financial system were either heading towards insolvency or in a freeze. Without extension of credit and the associated brutal deleveraging of all sectors at once, an economy not only contracts... it just about dies. If the economy is left to its own devices resulting GDP contraction is very severe and unemployment rate can reach 20%+. You are in a Depression. The solution is for the Government to pick up the slack in Demand and counterbalance the deleveraging and contraction occurring in all other sectors with

expansive policies. That's an effective Keynesian response. Blyth advanced that's what the US did and it worked. The US is now undergoing a slow and sustainable recovery and has seen its unemployment rate dropped markedly already (instead of heading towards 20%+). As the financial crisis contaminated Europe through the conduits of complex misrated housing related securities such as MBS and CDOs Europe faced a banking and sovereign debt crisis of its weak peripheral members of the Euro Zone. After, a short and incomplete Keynesian response, the Euro Zone lead by Germany went on a destructive austerity path.

All we hear about in the news these days is the need to cut the deficit, cut the debt, sequester, shrink government, etc. But this book demonstrates how wrong-headed this idea is. It may seem like common sense that cutting government expense will make the economy stronger, but in fact, as he amply demonstrates, it will do the exact opposite, and for reasons that are not too hard to understand. I appreciated the clear exposition of how both the US and the Eurozone got into our current semi-crisis. The answer is simple: banks did foolish things, and the banks were in danger of collapsing. Banks are private businesses, and when they make a profit, that money goes into private pockets. And a LOT of money flowed into the pockets of investment bankers over the past 10-12 years. But unlike other businesses (well, actually, like some other large, favored businesses such as automotive manufacturers) when things went south, when the richest among us faced the consequences of their big gambles, a hue and cry went up, and the government essentially took the losses onto their own balance sheets. And then, in the shadow of that mess, the real economy also started collapsing, and so revenue into government coffers declines, while the need for help from the government for laid-off workers increased. But note carefully that the root cause of the crisis was bad business decisions made by well-paid private companies--the banks. Suddenly, the banks losses are on our backs, and then we are told that the only solution (TINA, There Is No Alternative) is for ordinary working people, who never benefited from the banking excesses, have to tighten their belts, absorb the losses, in order to let the banks go on their merry way.

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