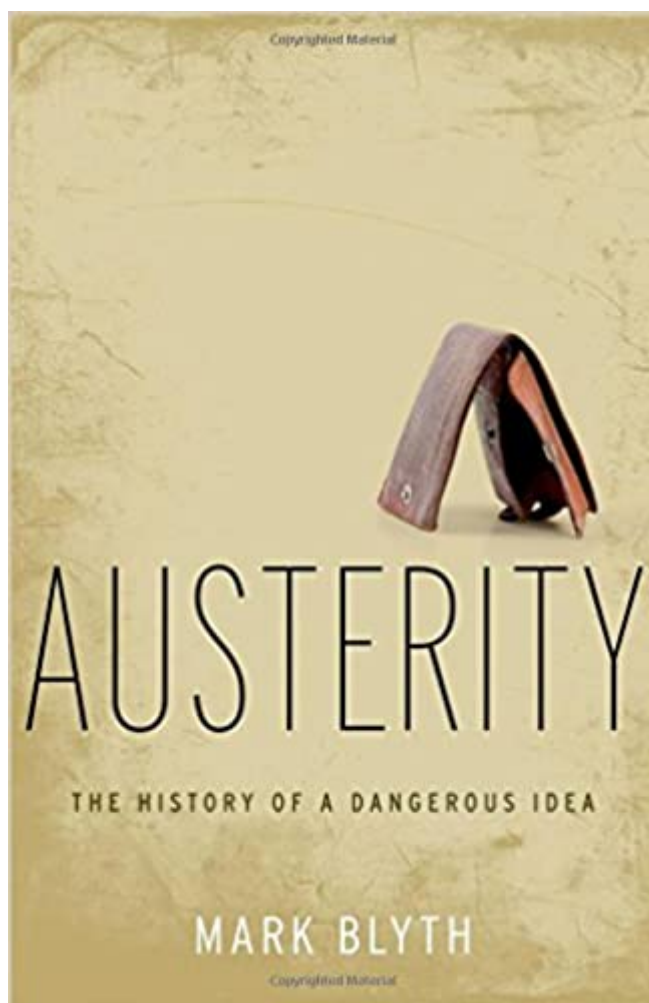


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# Austerity: The History Of A Dangerous Idea



## Synopsis

Selected as a Financial Times Best Book of 2013 Governments 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

"One of the especially good things in Mark Blyth's *Austerity: The History of a Dangerous Idea* is the way he traces the rise and fall of the idea of 'expansionary austerity', the proposition that cutting spending would actually lead to higher output. As Blyth documents, this idea 'spread like wildfire.'"

--Paul Krugman, *The New York Review of Books* "An important polemic... valid and

compelling."--Lawrence Summers, *Financial Times* "Essential reading... The economy is much too important to leave to economists. We need to understand how ideas shape it, and Blyth's new book provides an excellent starting point."--Washington Monthly "Splendid new book." --Martin Wolf,

*Financial Times* "Austerity is an economic policy strategy, but is also an ideology and an approach to economic management freighted with politics. In this book Mark Blyth uncovers these successive strata. In doing so he wields his spade in a way that shows no patience for fools and foolishness."

--Barry Eichengreen, George C. Pardee and Helen N. Pardee Professor of Economics and Political Science University of California, Berkeley "Of all the zombie ideas that have been reanimated in the wake of the global financial crisis, austerity is the most dangerous. Mark Blyth shows how austerity created the disasters of the 1930s, and contributed to the descent of the world into global war. He shows how European austerity policies have prevented any recovery from the crisis of 2009, while rescuing and protecting the banks and financial institutions that created the crisis. An essential guide for anyone who wants to understand the current depression." --John Quiggin, author of

*Zombie Economics* "Most fascinating is the author's discussion of the historical underpinnings of austerity, first formulated by Enlightenment thinkers Locke, Hume and Adam Smith, around the (good) idea of parsimony and the (bad) idea of debt. Ultimately, writes Blyth, austerity is a 'zombie economic idea because it has been disproven time and again, but it just keeps coming.' A clear explanation of a complicated, and severely flawed, idea." --Kirkus Reviews "Informed, passionate."

--Dissent Magazine "Mark Blyth's fascinating analysis guides the reader through 'the historical ideology which has classified debt as problematic.' In doing so he outlines the relevance of century-old debates between the advocates and opponents of *laissez faire*, and explains why, after a brief reemergence in 2008-09, and despite the lack of evidence supporting austerity, the world turned its back on Keynesian policies." --Robert Skidelsky, author of *Keynes: The Return of the Master* "Among all the calamities spawned by the global financial crisis, none was as easily

avoidable as the idea that austerity policies were the only way out. In this feisty book, noted political scientist Mark Blyth covers new territory by recounting the intellectual history of this failed idea and how it came to exert a hold on the imagination of economists and politicians. It is an indication of the sorry state of macroeconomics that it takes a political scientist to expose so thoroughly one of the economics profession's most dangerous delusions." --Dani Rodrik, Rafiq Hariri Professor of International Political Economy, The John F. Kennedy School of Government, Harvard University

"Blyth makes a compelling case that governments should give pause before embarking on a course of austerity. He approaches the subject with a seriousness that is to be welcomed and applauded." --Benjamin Grob-Fitzgibbon, University of Arkansas, International Social Science Review

Mark Blyth is Professor of International Political Economy at Brown University. He is the author of *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century*.

Interesting thesis. The author did a good job at presenting their argument. There was definitely some items that can be argued, but it makes a good addition to the subject for people interested in Austerity and its real impact.

This book clearly puts the nail in the austerity coffin needed to contain such zombie ideas, i.e. ideas that support the banks and bond holders at the expense of the rest of us.

Mark Blyth must ruffle a lot of feathers by his detailed analysis of the failed, and sometimes successful actions taken by institutions and governments in response to economic crises around the world. He does a great job of explaining actions and effects in language that laymen (such as I) can understand, albeit occasionally with some thinking required.

Austerity - The history of a dangerous idea, is exactly what its title states. The book is split into 3 sections the first one being on how we got here in terms of our recent economic history pre-financial crisis for the US and the subsequent European debt crisis for Europe, the second being on the economic history and theories on political economy and the final on a summary and policy ideas. This is an excellent economic history book and its analysis of the financial crisis is very readable and illuminating, the policy ideas are interesting but there is no detail and they are high level but not analysed in anywhere near the rigour of the second part of the book. The three parts of the book are not really equal in importance. The first is a quick introduction to the recent financial history we

just lived through, it starts with the US and how the bailing out of the financial industry evolved. It goes through some of the politics and discusses the loss arising from the crisis and estimates on the opportunity cost we have endured as a result. Europe is also discussed but it is noted that the structure of the monetary union without a fiscal union has created a much larger problem in which the member states don't have the resources to individually recapitalize their banks (given the asset base of European banks is much larger share of each member's GDP than a US bank is of US GDP). The inability for the financial system to recapitalize given the lack of fiscal transfers has led to the embracing of austerity as a solution which the author goes on to discuss as failing. The second part is the heart of the book and the strongest part for me. It discusses economic history through the ages starting with Locke, Hume and Smith. It is rare to read economics with as much focus on political economy these days, but it is refreshing to remind ourselves of the origin of the philosophies we sometimes take for granted. Empowering the individual and merchant classes in these early philosophies is detailed and one gets reminded of classical economic theory detailing that savings are the source of funds for investment which is at the heart of believing in austerity as necessary if government spending is crowding out investment. The book then discusses the 19th century and Ricardo and Mill and then the case studies of the Great Depression are detailed. The accounts are well written and give a sense of the history of the economic policies that were at the heart of the depression and the subsequent outcomes (which did not generate growth). Keynes and Austrian school philosophies are discussed and so is the growth model of Germany that it embraced after the second world war which the author calls ordoliberalism. Through this chapter the stage is set for modern day politics and why the discussions in Europe are framed as they are. The idea that reflation can happen through austerity via the expectations channel of business (believing in future reduced taxes) is debunked and the case examples of contractionary fiscal policy being expansionary are exemplified case by case and shown to have been the product of different reasons. The conclusion tries to wrap things up. It does argue convincingly that austerity does not create growth and the economic system we have been living in and the product of has increased wealth inequality and the build up in debt is a function of the financial crisis not profligacy. The policies are mentioned casually and not really worked through in detail but provide food for thought. All in all the book is a worthy read and gives a good historical account of why the paradox of thrift is true and the fallacy of composition is important to remember. I think it is important to note that austerity is not always about cutting expenditure as a means to create growth it is that certain forms of expenditure might be unsustainable and therefore government spending needs to be cut where unproductive. This idea doesn't lead to specific deficit or surplus targets but if all government

expenditure was spent on paying somebody to dig a hole and another to fill it, clearly that is something that should be cut. The author focusing on the expansionary contractionary policy is important to debunk (ie that government expenditure always crowds out private investment and therefore reducing government spending spurs investment) but that is the tip of a much more important discussion. European economies diverged as the nontradeable side in Spain and Ireland (for example) ballooned as money flowed between economies without risk aversion. To reallocate labour from construction to the tradeable side is difficult and requires fiscal expenditure to average out but that's not about austerity or not austerity, it's about structural reform and institutional arrangement. The world has its problems and the solutions are complicated and don't boil down to austerity or not austerity - most people don't believe that is the only issue that is up for debate. The history is excellent but the trivialization of facilitation of the real economic reforms needed and how best for fiscal authority to smooth that cycle are glossed over and as a result this should be read for its history, not its policy.

I commend Prof. Blyth for taking on this issue, underscoring it with the motivation and achievements of his personal example. I am always amazed with how arguments on the right are accepted for avoiding needed investments in the social safety net and our national infrastructure, how these arguments seemed to have their own "Bizzaro" facts and history, and how they manage to get away with carrying water for the upper crust. I like the straightforward and energetic way Blyth has responded. Maybe more of us will get our heads out of the sand and read it.

Incredibly important concepts, backed up by theory and empirical data. Key concepts could have been conveyed in an essay, but the data and history are valuable as well.

This book fills a space that is not often covered by other titles, because it opposes the conventional "wisdom". It is a fairly heavy read, entertainingly ameliorated by a wicked sense of humour.

I admire people like Mark Blyth, the depth of their knowledge, their illuminating perspectives, and their refined sense of sarcasm and humor. Krugman, Stiglitz, and others write about the same themes, and I enjoy reading them, but none explain it with Blyth's clarity. Examples abound with explanations about the cause of the 2008 crash and factors that led to a successful US recovery, as well as the austerity policies continuing in Eurozone countries which block their recovery. I never realized the depth behind theories about economic austerity that Germany and the Eurozone are

pursuing. Their philosophy starts on good footing with the Enlightenment, Locke, Hume, etc. Then they they veer off on morality based ideas leading to the suffocating embrace of austerity. They step away from Keynes in favor of Von Mises, Hayek, Ayan Rand, and Milton Friedman. While Blyth provides a respectfully balanced summary of their thinking, they seem possessed by unshakable beliefs which blind them to objective reality. Blyth presents evidence after evidence where austerity didn't work. As he describes, there is no evidence where austerity ever worked. He's brilliant and polite as he trashes austerity policies describing one disastrous example after another of its failed application. He describes Japan after the First World War insisting on economic austerity, followed by economic collapse, assassinations, a military takeover and war. Or Germany's post-war austerity that led to a Nazi takeover, and its highly successful economic expansion validating Keynesian theory while creating a monstrous German war machine. I never knew about Herbert Hoover's critical mistake of embracing fiscal austerity as the solution to the Depression, which only deepened it. Or that Franklin Roosevelt initially proposed a balance budget, but quickly reversed himself with New Deal stimulus which was never sufficient to reach full employment until WWII unleashed government spending. I like to believe the financial elite possess an enlightened intelligence. But for the most part, they repeat the same mistakes one generation after the next. Blyth explains the problem of a European-wide euro, its lack of a fiscal policy mechanism, and the Eurozone's foolishness in forcing austerity on troubled economies. With eight years of austerity that led to rising unemployment and deflation, unless Europe dramatically changes course they may be headed into much more trouble than the headline grabbing problems with tiny Greece. In 2008 when faced with the greatest economic collapse in world history, the US fully rejected austerity in pursuit of wide-open-throttle monetary & fiscal stimulus to avert a depression. Thanks to people like Paulson, Bernanke, Geithner, and Summers, they ultimately saved business and banks, fostered economic recovery and employment with low inflation, and placed federal deficits on a trajectory toward balance budgets. Hopefully Europe will wake up and follow the American example.

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