AUSTERITY: THE HISTORY OF A DANGEROUS IDEA, by Mark Blyth. New York, NY: Oxford University Press, 2013. ISBN: 978-0-19-982830-2; 288 pages.

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"It's time to say it: Austerity is dead," claims Richard Eskow. Yet the Eurozone continues to endure draconian budget cuts, and in the U.S., the Obama administration presides over austerity measures through "sequestration" spending cuts and ending payroll-tax cuts. Indeed, Rick Ungar has documented the Obama administration implementing the slowest increase in spending since the days of Eisenhower.

Austerity is alive-- too much so.

Nonetheless, austerity is a dopy idea and a dangerous policy, so argues Brown University Professor Mark Blyth in his new book *Austerity: The History of a Dangerous Idea* (Oxford University Press, 2013, pp. 288). When there is a financial bust there are essentially four ways to address the crisis: "inflate, deflate, devalue, or default" (p. 147). According to many politicians (p. 230), along with Austrian (pp. 143ff) and public choice theory (pp. 155 – 6) economists, deflation, in the form of wage and price cuts, is the right action. Governments resist deflation because it causes economic hardship, social unrest, and lost elections in democratic societies.

The "default" option is extremely destabilizing for the macroeconomy and potentially hurts everyone. The "inflate" option hurts creditors and has negative effects for capital accumulation. Devaluation is not always a viable policy option, but when it is, it hurts both creditors and workers in the long run (p. 240). This leaves one option: austerity. Austerity is simply deflation through 'the backdoor.' Austerity is achieved by cutting the state's budget, debts and deficits (p. 3). Eventually the economy adjusts to these cuts with decreases in employment, wages, and prices. The cuts in public spending aim to cut the deficit and inspire business confidence and restore competitiveness (p. 3).

There is one problem. "Austerity doesn't work. Period" (p. 229).

When capital flight hit Germany in the late 1920s, austerity was applied to keep the country on gold, "which had the effect of throwing the economy off the proverbial cliff" (p. 204), and gave rise to the anti-austere Nazi party (pp. 193ff). The Nazis proposed an anti-austere economic policy of jobs and fiscal spending, democratically winning the German election of 1933. The Nazis ended austerity measures, abandoned the gold standard, and grew the German economy.

Blyth demonstrates that not only did austerity fail to successfully adjust the 1920s Germany economy, but it has also failed everywhere. One of the great strengths of Blyth's book is his historical analysis and analytical demonstration that the actual implementation of austerity as a set of policies, what Blyth calls its "natural history," is a spectacular failure.

As a policy, austerity is a spectacular failure if it causes economic stagnation and increased debt-to-GDP ratios. What austerity does do 'successfully' is it redistributes wealth to creditors (i.e. to banks and financiers) and forces the state and its taxpayers to pay for financial follies of private banks.

Blyth reviews dozens of historical episodes of austerity: from interwar economies of Germany and Japan, to the post-Soviet economies of REBLL; from the global practice of austerity by the IMF, to the post-2008 crisis of PIIGS; from the "Treasury View" of the 1930s to the more recent Washington Consensus. In each and every case austerity imposes stagnation, an increase in debt-to-GDP ratio, and great economic hardship. Blyth maintains austerity, as an economic policy position, is indefensible. His presentation of its "natural history" is an impressive condemnation of austerity as body of economic policy.

If the economics of austerity exhausted its allures, we could declare: "austerity is dead." It is another great strength of Blyth's book that the allure of austerity is hardly exhausted by its economics. Its "intellectual history" has both a political/ideological dimension and moral/philosophical dimension that are each at least as important as the economic dimension.

The political dimension is rooted in the writings of John Locke and is committed to a "deep suspicion" and abhorrence of government (p. 106). Locke represents a revolutionary liberalism against the "willy-nilly" powers of seventeenth-century English Crown. Locke sets up revolutionary liberalism to limit the English Crown above all other politics (p. 114). It is this Lockean minimalist foundation for what the state can and should do that remains the basis of neo-ordo-liberalism today (p. 106). David Hume provides primarily the economic reasoning of liberalism. "Hume pulls no punches on the issue of government debt. It's a bad [economic] thing. Period" (p. 107). His political solution is to provide no real positive function of the state "since merchants are the productive class whom the money should flow" (p. 114). Hume's chief worry is the "crowding-out" of state economic activity upon private economic initiative. Adam Smith finds that the state is necessary for commercial (i.e. capitalist) society. Smith argues the state fulfills important, but limited, functions (pp. 110 – 1). Thus, after discovering the necessity of the state, Smith argues for the "moral" grounds for limiting the amount of debt that the state should incur. In short, Smith realizes the need to pay for the state, but wants to limit the amount of taxes on citizens. Smith is further concerned with the redistributional consequences of taxes and public debt. Fiduciary frugality, i.e. "parsimony," becomes the principal financial order of the (Smithian) state (p. 113).

This liberal triad of thinkers is still today the foundational basis of contemporary austerity. First, the government is not to be trusted and always minimized. Second, public production is less productive *and* crowds out more productive private merchant activity. Third, if the state is necessary, unnecessary debt is both dangerous and unfair. In short, Locke provides the definition of "property" to limit debt, Hume the economic reasoning, and Adam Smith the moral reasoning (p. 114). "The relevance of these three early liberals for austerity thinking is a disposition they share" that Blyth terms "the *can't live with it, can't live without it, don't want to pay for it* problem of the state" (p. 100).

Austerity thinking certainly develops well beyond these early liberals. Blyth generously outlines the intellectual legacy of modern (1942 – 2012) austerity thinking between its direct advocates (pp. 132 – 52) and its indirect "enablers" and political implementers (pp. 152 – 77). The importance of studying the early liberal thinkers is to see that the basic framing and structure of the argument has changed very little.

In a nutshell, the reasons for austerity are threefold in economics, political theory, and philosophical and moral reasoning. Economically, austerity limits the ability of the state to incur debt and "crowd out" private production. Politically, austerity limits both the size and power of (rogue-potential) states. Morally, austerity insists that debts should always be paid and that it is fair and just that those who financially overextend themselves are held accountable. Thus, even if austerity fails as an economic policy it has virtues in politics, moral philosophy, and a sense of justice.

Thus, any critique of austerity must not only demonstrate and critique its "natural history" and economic failures, but also argue against its politics and moral philosophy. This is exactly the agenda Blyth sets himself in his analysis of austerity following the financial crisis of 2008.

Blyth accepts that pro-austerity traditions have theoretical and practical merit. Ordoliberals are correct to underscore the importance of social "order" and their promotion of legal frameworks and "order-based policy" applicable to both private firms and the state (p. 136). Likewise, Austrian economists have insights concerning theories of credit-crises and the dangers of excessive debt (p. 151).

However, the theoretical and practical merits of austerity thinking are overwhelmed by its severe failings. Blyth's critique of austerity addresses its failings as, (1) economic policy, (2) political doctrine of state minimalism, and (3) as moral reasoning for fairness and justice.

Austerity as an economic policy aims to reestablish growth, reduce deficits, and restore business confidence. Blyth demonstrates that the reasoning here is flawed based on "a fallacy of composition." In short, not all countries can practice austerity simultaneously. "All that does is shrink the economy for everyone" (p. 9). It curtails spending, which decreases GDP, but it tends to increase the debt-to-GDP ratio. In other words, deficits get worse, not better (p. 4). Also, there is simply little evidence that cutting spending necessarily returns business confidence. This is analogous to a belief in "the confidence fairy" (p. 207), but not much else.

Austerity does not fair much better on political grounds. The intent is a commitment to public minimalism. The first thing to understand about debt is that it tends to be highly cyclical (p. 12), especially in modern capitalist societies with 'built-in automatic stabilizers' such as unemployment insurance, anti-poverty programs, and progressive income taxes. When an economy goes into recession, spending goes up, while taxes receipts go down, hence deficits increase. To intervene and begin cutting built-in automatic stabilizing spending is an increase in public intervention, not a decrease. Moreover, to shrink government may resonate to some in theory; however, it detonates in practice (p. 151). Hence, it does not merely minimize the state, but destabilizes government, rule, and order. It tends to usher in class politics, riots, and political instability rather than bringing about less debt, assassinations, and war (p. 239). In short, it is politically self-defeating.

But surely austerity can be defended on moral grounds. Those who take on debt and risk should pay the consequences, yes. However, in practice, austerity is a type of "bait and switch" (p. 5). Often the crisis is presented as a "sovereign debt crisis," supposedly brought on by states "spending too much." But this misrepresents the facts. Instead, when governments bailed out financial institutions, a financial collapse occurred in 2007-8. "Bailing led to debt. Debt led to crisis. Crisis led to austerity" (p. 231). This means that taxpayers are paying for the follies of financial institutions. Thus, there is a moral argument that those incurring debt and risk should pay the consequences. However, those who took on debt, leverage, and risk were financial institutions. They were bailed out. Taxpayers got austerity. Simple "bait and switch" politics was present, which should, indeed, be abhorred morally, politically, and economically.

The "bait and switch" moral politics takes us to a crucial point Blyth is anxious to underscore. The financial crisis of 2007-8 was quintessentially a private banking crisis (p. 26 and p. 234). Global finance made so much money "not through efficient markets but by riding up and down three interlinked giant global asset bubbles using huge amounts of leverage" (p. 232). Thus, through the illicit practice of austerity "we may have impoverished a few million people to save an industry of dubious social utility that is now on its last legs" (p. 234).

But isn't austerity a "there is no alternative" compromise? Blyth says no. We have four options. First, the case of Iceland suggests that in some cases letting the banks go bust is a viable option (p. 235 – 40). Second, traditional Keynesian policy can work as long as the policy generates economic growth greater than the increase in debt (p. 11). Third, tax the rich. There is evidence that taxing the top income earners at 80 percent would raise, not lower, revenue (p. 243). Fourth, and perhaps the best option, is *financial repression*, whereby banks, pension funds, and other long-term debt holders are “encouraged” through specific government policies to hold large amount of government bonds. The government pays a low interest rate on the bond to create an effective negative real interest rate to shrink the debt over time. The bad news is all these options are slow in reducing debt. The good news, and the point of the entire exercise, is austerity lies shattered and need not, nor should not, be implemented.