International Debt Crises - III

Debt Crisis in the North/West: the United States

--reading: Peter G. Peterson, "The Morning After"
--reading: Jeff Faux, "The Austerity Trap and the Growth Alternative" (no longer in packet)

Debt & Austerity in the United States

--on the one hand the US govt like all other govt almost always has outstanding debt
--the rapid buildup in US govt debt in the 1980s occurred because on increased borrowing:
--the Reagan tax cuts coupled with the Reagan depression reduced the growth of government taxes
--Reagan's dramatic defense buildup, coupled with a failure to make equally dramatic cuts in social expenditures due to fierce resistance from the grassroots, was financed with borrowed money
--parallel growth in consumer debt (normal since the advent of credit cards and consumer credit) despite Volcker attacks was in part due to efforts to defend standard of living in face of falling wages and rising unemployment

Argument for Austerity in the United States

--Peterson: "Our national preference for consumption over investment --the root malady"
--Peterson: "the wage binge of the 1970s" [real wages were stagnant]
--Peterson: "consumption bacchanalia", "blind and self-indulgent gusto"
--Peterson's argument, despite beginning with a broadside at the failures of Reagan era "supply-side" economics is actually *an extended "supply-side" rant*, except that whereas the Reaganauts tended to attack only the "excess consumption" of welfare cheats and government fatcats Peterson broadens the attack to everyone with his central focus on "entitlements" for the middle-class (which were also attacked by Martin Feldstein under Reagan who retreated under heavy attack by retired persons)
--Peterson's Analysis of the Problem boils down to two ideas at both domestic and international levels:
--too much consumption (whether from personal income or government programs)
--too little savings and investment (thus the productivity crisis)
--Peterson's Solution involves, therefore, shifting income from consumption to savings and investment, more precisely:
--1. "tame" the federal budget deficit, mainly by cutting growth of entitlements
--2. cut growth of medial care by leaving it to market forces
--3. increase fed. govt revenue via consumption-based taxes such as a VAT
--4. encourage investment by reducing taxes on savings and investment
--see also: Peter G. Peterson, *Facing Up: How to Rescue the Economy* , N.Y.: Simon & Schuster, 1993

Arguments Against Austerity and for Growth

--the arguments here echo those in the Third World where many economists have argued that the way out of
the debt trap is not to jump into an austerity trap but to raise output, consumption and investment simultaneously
--Faux's article is an extended response to Peterson's extended rant on the necessity of austerity
--Faux: "root malady is not excessive consumption, but insufficient production" [!]
--Faux: rise in C as % of GNP due not to acceleration in C but to slow down in increase of GNP
--Faux: Peterson ignores tight money and financial deregulation in explaining high interest rates that undercut investment brought about by Carter/Reagan/Volcker policies
--Faux: Peterson ignores runaway shops, "production flight"; ignores casino economy (diversion of money from real investment into financial speculation)
--Faux: Peterson ignores that entitlements actually fell as % of govt expenditures 45.2% to 44.1%
--Faux's Alternative Strategy: **Growth instead of Austerity**
--*managed* growth ("public-sector led investment strategy"), use govt policy to shift resources from wasteful speculation to real investment; expand Govt I in social infrastructure, ed for growth; new trade policy to deal with access to markets; new social contract btwn labor & capital
--"global Keynesianism": growth for the world to induce investment