

Austerity Trumped

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Everyone asks: Why did Trump win? For my part, it is simple: the near global response of the political order to the Great Recession of 2008 and its heir, the ongoing Long Recession: Austerity!

No matter what the deficit hawks and confidence fairies believed at the time, and still believe, when Government cowers before the siren call of Deficits & Debt aggregate demand falls, business opportunities diminish and uncertainty reigns, especially in a recession. Consider the trillions in retained earnings currently held by major firms or being used to buy back their equity inflating its stock price and giving the false impression of profitable investment in the future. They are uncertain about the future because instead of the appropriate response to the Great Recession – fiscal stimulus – Government chose to cut back while the central banks explored the unknown country of negative interest rates and quantitative easing. More uncertainty.

And the myth that a Sovereign Government is like a household or a firm and must, at all cost, balance its budget simply does not reflect reality. What household or firm can print money? Quantitative easing anyone? What household or firm can determine the conditions and rate at which unexploited natural resources can be developed? The Canadian Shield anyone? What household or firm exercises a monopoly of coercive power? Policing and taxing power anyone?

It is fiscal austerity practiced by almost all Western governments over the eight years since the financial collapse that salted the earth preparing the way first for Brexit then for Trump and perhaps next for Le Pen in France. The first responsibility of Government is the security of its people. Security in the modern age goes far beyond warplanes and ships.

If Government and Business want the public to accept necessary change such as free trade and adaptation to climate change then the public needs to be insured against the negative consequences. I call it Social Change Insurance. This was supposed to happen with free trade; it did not happen. Instead, Austerity was the siren call and the public suffered. It is a case of penny wise and pound poor.

Government must look beyond the present to the future. Balancing the current budget while bridges and roads collapse and health care and education deteriorate eroding the prospects of the current and next generation and under-employment soars is truly a false economy.

Politically, we must now pay the piper. His name is Trump.