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Attacking the Treasury View, Again

Dean Baker

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Center for Economic and Policy Research
1611 Connecticut Avenue, NW, Suite 400
Washington, D.C. 20009
202-293-5380
www.cepr.net

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About the Authors

Dean Baker is an economist and Co-director of the Center for Economic and Policy Research in Washington, D.C.

Introduction

When I first read *The General Theory* more than three decades ago, I was curious about Keynes' repeated references to the "Treasury View" – the idea that even in a recession, government spending crowds out private spending or investment and thus has no effect on economic activity or unemployment. As an undergraduate getting his first exposure to economics, I could not help but wonder, "who were these silly people who put forward the 'Treasury View'?" It's hard not to ask the same question today.

It has been more than 75 years since Keynes wrote *The General Theory*. This period has provided ample opportunity to experiment with Keynesian economics. While there are certainly qualifications that we might want to add to Keynes' analysis as a result of our experiences and the research done over this period, there is nothing that should lead us to question his basic insight. In a severe downturn, the economy's self-correcting powers are very limited.

Left to itself, the economy can remain mired in a slump, operating well below its potential level of output for long periods of time. This is an enormous waste of resources. Goods and services that could improve people's lives are not being produced because of bad economic management. More importantly, millions of workers who face prolonged periods of unemployment are seeing their lives ruined.

The unnecessary suffering caused by the Great Depression motivated Keynes in his writings and his public involvement. The unnecessary suffering caused by the current downturn should have the same effect today.

My comments will cover three areas. First I will discuss the evidence for expansionary fiscal contraction – the idea that somehow cutting budget deficits will lead to an increase in growth, even in the middle of a downturn. Second I will talk more directly about the logic of expansionary contraction. If the government is providing less demand, who exactly is providing more demand?

The last area is the positive path that I see for getting us out of this downturn. We should be thinking of a path that doesn't just get back to where we were in 2007, an economy that was being driven by speculative bubbles. Rather we should be looking to get the economy on a more sustainable path, both economically and environmentally, that is not designed to generate inequality in the same way as the pre-crisis economy was.

Evidence on Contraction and Austerity

In the immediate aftermath of the 2008 financial crisis, there was widespread agreement on the need for stimulus, with the G-20 endorsing a coordinated fiscal stimulus in November of 2008 and again in April of 2009. However, the enthusiasm for stimulus barely lasted the year. By the end of 2009 and the beginning of 2010, we were hearing a growing drumbeat coming from the opposite direction: the time had come to address growing deficits. This started the euro zone crisis, as financial markets were told as clearly as possible that countries like Greece could not count on having their debt backed up by other euro zone members of the European Central Bank (ECB).

The intellectual support for austerity in a context where all the OECD countries had large amounts of idle capacity and huge numbers of unemployed workers came largely from a series of papers authored by Harvard economist Alberto Alesina. Alesina had done a number of studies that purported to show that countries that had sharply reduced their budget deficits were rewarded with more rapid growth.[1] Instead of being contractionary, deficit reduction was actually an expansionary policy.

The best results came when countries reduced their deficits primarily on the spending side; Alesina found that deficit reduction that came about primarily through higher taxes did not lead to greater growth. His work, and other work in the same vein, found that growth was best when the spending cuts were in social support programs, such as public pensions and health care, rather than public spending on investments, such as infrastructure and education.

This work was a green light for austerity. All governments had to do was cut back on their spending, especially social spending, and then just sit back and watch their economies boom. This was precisely the pre-Keynesian view of the world. There was no need for the government to support the macroeconomy. The best thing the government could do was get out of the way.

This view was embraced enthusiastically across much of the world. This was the sort of line the ECB felt most comfortable with. The central bank's job was to keep the inflation rate stable; it saw no need to play an active role in sustaining full employment. In the United States, Republicans and many conservative Democrats were happy to have the intellectual support to bolster their complaints about deficits. And in the United Kingdom, this sort of thinking became the mantra of David Cameron and the Conservatives.

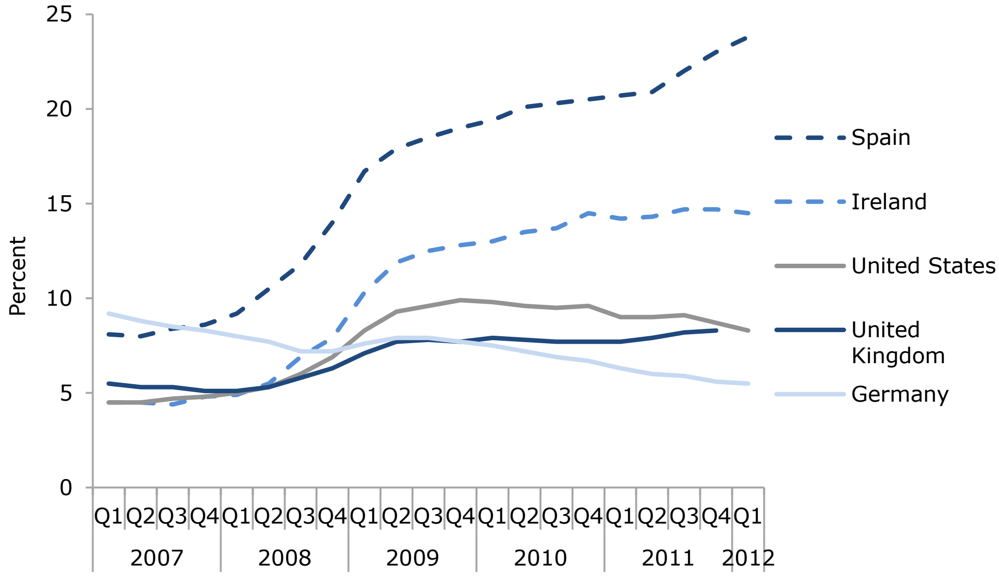
The stimulus packages of 2009 were replaced by austerity packages in most wealthy countries. In the United States, the austerity came mostly at the state and local levels where governments were forced to make cutbacks in the face of falling revenue and balanced budget requirements, although the fading out of the stimulus in the second half of 2010 meant that the federal budget had turned contractionary as well. In the euro zone, the crisis countries were handed austerity maps by the troika of the IMF, the ECB, and the EU as a condition of getting financial support. And in the UK the Conservatives came to power in the spring of 2010.

In the limited period of time that we have been able to observe countries following this austerity path, there is not much evidence of its alleged expansionary effect. The countries adopting austerity have consistently underperformed their growth projections, with unemployment rates rising to levels unseen since the Great Depression (see **Figure 1**). In Ireland, which was originally touted as a success story following a modest growth spurt in 2010, the unemployment rate continued to rise through 2010 and 2011, peaking just short of 15 percent at the end of last year. Greece saw a continual rise in its unemployment rate, as the economists at the IMF and ECB were forced to work overtime revising their projections downward. The latest data show its unemployment rate crossing 20 percent. Spain, which, like Ireland, had been running budget surpluses before the crisis, saw its

1 For example see Alesina, A., and R. Perotti. 1995. "Fiscal Expansions and Adjustments in OECD Countries," *Economic Policy*, Vol. 21, pp. 207-247; and Alesina, A., R. Perotti, and J. Tavares. 1998. "The Political Economy of Fiscal Adjustments." *Brookings Papers on Economic Activity*, Spring. A more recent paper along these lines is Broadbent, B., and K. Daly. 2010. "Limiting the Fall-out from Fiscal Adjustment." Goldman Sachs, Global Economics Paper 195, April.

unemployment rate quickly surge into the double digits. It is now in excess of 24 percent, the highest in the OECD.

FIGURE 1
OECD Harmonized Unemployment Rate, 2007-2012



Source: OECD

Latvia, which is often touted as a success story by the deficit hawks, has double-digit unemployment and is still below its pre-recession level of output. Even this feat was only accomplished by exporting 10 percent of its workforce to Sweden, the United Kingdom, and other relatively wealthy EU countries.[2]

Of course austerity in the UK also had the effect predicted by Keynes. The economy has flirted with recession ever since the Conservative program took effect. The unemployment rate has drifted up from 7.8 percent in the second quarter of 2010 to 8.3 percent at present. If austerity is somehow a major elixir for growth, you would never know it from the data.

Fortunately, the IMF did a further analysis of the evidence on expansionary contractions that provided greater insight into Alesina's findings.[3] The IMF found that whether a fiscal contraction would be expansionary depended on the point in the business cycle where it was undertaken. A fiscal contraction that was undertaken in the upswing of a cycle did prove to be expansionary. The idea was that private sector spending replaced public sector spending, exactly the sort of crowding out story that conservative (and mainstream) economists like to tell. However, when the contraction took place in a downturn, like the current set, it ended up being contractionary.

2 Weisbrot, Mark and Rebecca Ray. 2011. "Latvia's Internal Devaluation: A Success Story?" Washington, DC: Center for Economic and Policy Research, available at http://www.cepr.net/index.php/publications/reports/latvias-internal-devaluation-a-success-story.

3 International Monetary Fund. 2010. "Will It Hurt? Macroeconomic Effects of Fiscal Consolidation." Economic Outlook, Chapter 3: 93-123.

Furthermore, there was no greater benefit to spending cuts compared with tax increases. The difference found by Alesina and others was due to the response of central banks; they were more willing to reward spending cuts with lower interest rates than tax increases. Once the analysis controlled for the response of central banks, the effect of spending cuts and tax increases was the same.

The IMF had become an unexpected opponent of fiscal austerity. Its research demolished the intellectual basis for the claim that fiscal contractions could be expansionary. It also showed that, at least in the short term, there was no basis for preferring spending cuts to tax increases to reach whatever deficit goal was set as a target.

The Logic of Expansionary Contraction

At this point it seems pretty clear that fiscal austerity has failed as an expansionary policy everywhere. The successes turned out to be short-lived. In most cases austerity has failed to even achieve its deficit targets as lower-than-expected growth reduced tax collections. In addition, weak economic performances in the euro zone countries raised more doubts about the ability of governments to pay their debts, leading to higher interest rates. This threatens an absurd downward spiral where deficit reduction leads to weaker growth, which in turn leads to higher deficits, creating the need for more deficit reduction to reach budget targets. Keynes' ghost would be laughing, if this story did not imply so much suffering.

While the professional research and a casual examination of recent history both suggest that austerity really is contractionary, it is worth asking what the opposite case would look like. In other words, what did the austerity crew think would happen?

There are a few different stories that can be told, but they all end up in the same place. Cutbacks in government spending are supposed to spur some other component of demand: private consumption, investment, or net exports. This is an especially hard story to tell in the cases of both the United States and the United Kingdom. The reason is that interest rates, the main mechanism in the standard austerity story for boosting these components of demand, are already very low in both countries. It is hard to tell a story whereby a reduction in budget deficits would lead to a further reduction in interest rates that would have much consequence for the other components of demand.

The effect of interest rates on investment is one of the most heavily researched issues in economics, and the finding of the bulk of this research is that the effect of interest rates on investment is quite limited.[4] It turns out that the growth of demand is a far more important determinant of investment. This means that the reduction in demand associated with austerity can quite possibly have a negative effect on investment that more than offsets any positive effects associated with a decline in interest rates.

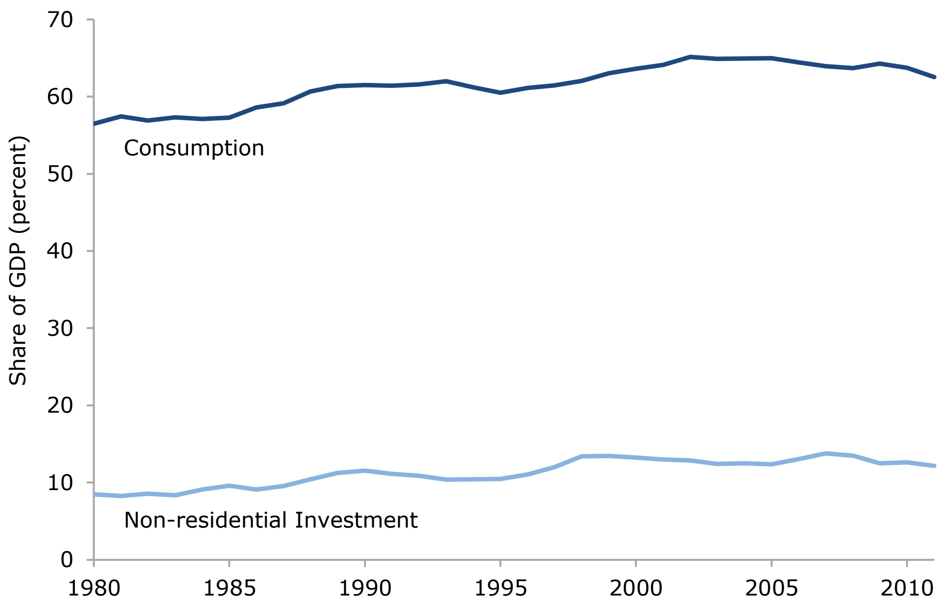
4 Chirinko, R. S. 1993. "Business Fixed Investment Spending: A Critical Survey of Modeling Strategies, Empirical Results, and Policy Implications." *Journal of Economic Literature,* December, pp. 1875–1911.

It is also worth remembering that non-residential investment in the UK is only around 12 percent of GDP. If, for example, we want to offset a reduction in the budget deficit of 6 percentage points of GDP with increased investment, we would have to see investment increase by 50 percent. Investment would then be a far larger share of GDP than at any point in the last 70 years. While that is not literally impossible, it doesn't seem wise to bet the future of the economy on this possibility.

This brings us to consumption. There are two problems with looking to consumption as a source of demand to substitute for the government. First, if we are thinking about the future productivity of the economy, replacing government consumption with private consumption adds nothing. If the private consumption comes at the expense of government investment, then we are going in the wrong direction. This sort of diversion will make the economy less productive in the future, not more productive.

The other problem is that consumption is already unusually high as a share of GDP (see **Figure 2**). Private consumption in the UK averaged just 55 percent of GDP in the1970s, rising to an average of 58 percent in the1980s. Driven by the stock bubble in the1990s, consumption rose to 63.6 percent of GDP by 2000. The equity created by the housing bubble caused consumption to rise to over 65 percent of GDP at its peak in the last decade. Of course, since the housing bubble in the UK still has not deflated, private consumption remains high at 62.5 percent of GDP in 2011.

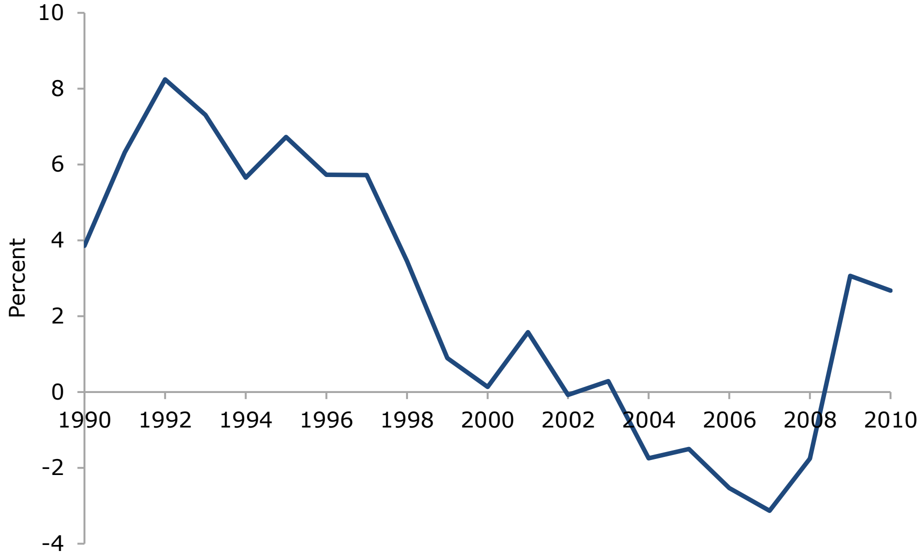
FIGURE 2
Consumption and Non-residential Investment as Share of GDP in the UK, 1980 to 2011



Source: OECD

This high level of private consumption is associated with a negative savings rate. On average, households were consuming more than their income at several points in the last decade, presumably counting on the wealth in their homes to help sustain them in their old age. (The saving rates shown in **Figure 3** are calculated by the OECD. This uses the same methodology as the United States. I am not sure what the UK does wrong to show a positive household saving rate in its official data.)

FIGURE 3
OECD Savings Rate for the UK, 1990-2010



Source: OECD

The questions that anyone who hopes to replace a falloff in government demand with increased consumption must answer are, "how?" and "why?" On the "how" part, we know that the rising wealth created by the housing bubble has led to a consumption surge in the UK, just as it did in the United States. What is the process through which households in the UK will be spurred to consume even more? Is the expectation that lower government spending will lead to lower interest rates, further inflating the housing bubble in the UK, and that this will thereby lead to more consumption?

That seems a rather perverse strategy at best. The average house price in the UK is now nearly twice the average house price in the United States on a straight currency conversion basis. In the mid-1990s, before the growth of the bubbles in both countries, the average house price in the UK was around 80 percent of the average house price in the United States. Does the British government think it's wise to boost house prices even further as a way to spur consumption?

This brings up the "why" part of the story. If government policy manages to inflate house prices still further and thereby boost consumption, it means that British families will be saving even less for retirement. It is likely to be the case that many workers will have nothing other than their housing wealth (assuming that the bubble has not burst) to support them in retirement. This implies a future in which retirees will have very few private resources, meaning that they will be living in near poverty or will be making demands on the government for increased public support. If the latter turns out to be the case and retirees are able to force increases in benefits in the future, then the current efforts at deficit reduction in order to reduce future obligations would seem rather wrong-headed.

Finally, there is the idea that deficit reduction could be offset by the growth of net exports. This was in fact the story in several of the examples of successful expansionary contractions. Ireland in the 1980s and Sweden in the 1990s both saw a big boost in net exports following a major fiscal contraction. However there are some necessary pre-requisites for this story.

First, it must be possible for the currency to decline relative to the currencies of major trading partners. Will lower interest rates in the UK bring about a substantial decline in the pound against the euro and the dollar? That doesn't seem likely, at least not in the current economic environment. The other necessary pre-requisite is that the target markets are open to substantial increases in imports. This proposition also seems questionable in the current economic situation. It doesn't seem likely that the UK's major trading partners will stand by as the UK seizes domestic market share with its exports.

Over a longer term, the imbalances created by the UK's housing bubble should be corrected through increased net exports. Wealthy countries should be running trade surpluses, not deficits. However, the surpluses should be with the developing world. This transition can happen, but it will not be overnight, and it will not be brought about through a policy of austerity in the UK.

In sum, it is not possible to tell a plausible story in the current economic situation where the reduction in demand from fiscal austerity will be offset by an increase in the other components of demand. In a weak economy, any increase in investment associated with lower interest rates will be minimal. Consumption is already bloated from the impact of the housing bubble, and it is not clear that it can be pushed much further, nor is it obvious that this would be desirable. Finally, net exports are unlikely to see a substantial boost, primarily because the UK's major trading partners are mostly in similar situations and are unlikely to allow the UK to seize substantial market share at their expense.

Without a serious mechanism for offsetting the contractionary impact of austerity, its proponents must depend on mysterious forces like the "confidence fairy."[5] Somehow, for reasons that we don't understand and have no evidence to believe exist, investment will suddenly surge forward to unprecedented levels. Sure, that could happen, just like we could be invaded by Martians next week. But that is not the sort of thing that you would want to bet the future of the economy on.

A Progressive Path Forward

By now, many of the progressive remedies for our current situation are old news. The obvious one is increased spending on public investment. The capital markets are willing to lend both the U.S. and UK government money at low cost – why not take advantage of this fact? This could easily additional government funds for modernizing our transportation and communications systems, improving our schools, retrofitting our buildings to make them more energy efficient, and advancing research in a wide variety of areas. This strategy will both put people to work in the short-run and make the economy more productive in the long-run.

The best argument against this path has been that it is not possible to start major investment projects quickly. There are two responses to this complaint. First, some of the projects are not major. For example, the retrofitting of buildings to increase energy efficiency is done one building at a time. Long lead times are not needed.

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5 See Krugman, Paul. 2010. "Myths of Austerity." *The New York Times*, July 1. http://www.nytimes.com/2010/07/02/opinion/02krugman.html

The other response is that we seem to have the time. It would have been great if we had begun major infrastructure projects back in the fall of 2008 when the financial freeze up sent economies across the world plummeting; however, even now we are still looking at many more years of below-full-employment levels of output. There seems to be very little risk that if we undertake major projects now, the economy will overheat 3-4 years out.

Of course even if we think big, we may still come up short of the spending needed to get the economy back to full employment. There is a simple alternative: we can all work less. The logic is very simple. If everyone works 5 percent fewer hours over the course of a year, then we need 5 percent more workers. While the economics will never work out quite as neatly as the arithmetic, in a period of high unemployment, it comes pretty close.

The great success of Germany in bringing down its unemployment rate by almost two full percentage points over the course of the crisis was not due to the extraordinary growth of its economy. In fact, its growth over this period has not differed markedly from growth in the United States, where the unemployment rate has risen by nearly 4.0 percentage points.

The main difference is that Germany has pursued policies that encourage employers to keep workers on their payroll. Rather than responding to lower demand with layoffs, employers typically look to reduce work hours. This is partly accomplished through a government work-sharing program that compensates workers for pay lost as a result of reduced hours, but also through union-management negotiations and a system of work-time banks that is common in mid- and large-sized German companies.

This seems a far more humane and efficient way of dealing with lower demand in the economy. After all, the basic story here is one of overabundance. We can produce more than what we need. Why should that be a cause of people suffering? The work-sharing route provides a great way around this problem. Also, by keeping workers employed and continually upgrading their skills, we don't get into a situation where there are a large number of long-term unemployed workers who have severed their ties to the work force and will only return to employment with great difficulty. When demand picks up, firms just need to increase hours. There is no need to find and train new workers.

While work sharing is a great short-term mechanism for avoiding unemployment, there is also a longer-term take-away from going this route. It is arguably good policy for governments to encourage workers to take more of the benefits of productivity growth in leisure time than in higher income. This is perhaps more a lesson for the United States than the UK, but the basic point is the same. Less time at work means that workers have more time to spend with their families and to pursue leisure interests. The United States stands out in having no guaranteed paid time off – no paid vacation, paid sick days or paid family leave – but there is no reason governments should not be looking to expand leisure time as productivity gains allow. In the United States, the structure of benefits, most importantly employer-provided health care insurance, pushes in the opposite direction.

There are also obvious environmental benefits from taking the gains in productivity growth in leisure rather than income. There is a very strong correlation between per capita income and greenhouse gas emissions. This is not just because people who have more money can afford to pollute more. Some of this can likely be explained by a greater concern for time. If a worker commutes to work four days a week rather than five, a longer commute by taking public transportation is less of an issue. There are many other cases where workers with more leisure time may be inclined to pursue more environmentally friendly forms of consumption.

Of course, before we can talk about workers taking some of the gains of productivity growth in leisure rather income, they must first be in a situation where they are seeing gains from productivity growth. This has not often been the case in the United States over the last three decades, and the story in the UK has not been very much better. Most of the gains from growth have gone either to capital or the most highly-paid workers.

There are many factors behind this upward redistribution, but there are two obvious ways to counter it.[6] The first is a strong union movement. The labor movement is far stronger in the UK than in the United States, but in both countries labor is far weaker than it was three decades ago. There is no simple or easy path to revitalize the labor movement, and I won't try to suggest one here, but it is clear that strong unions can ensure that ordinary workers share in the benefits of productivity growth.

The other factor is low unemployment. In the United States there is a very clear relationship between the unemployment rate and the extent to which workers at the middle and the bottom of the pay scale are able to share in the gains of growth.[7] The boom of the late1990s, when the unemployment rate fell below 5 percent and eventually 4 percent, was the only time since the early1970s when ordinary workers in the United States saw consistent gains in real wages. In periods of high unemployment, it is not doctors and lawyers who lose their jobs. It is manufacturing workers and retail clerks. When the unemployment rate gets low, these workers will be in more demand and will be in a position to boost their wages.

Of course getting to full employment is the key question, but in principle if we get back to full employment we can hope to be able to restore the virtuous circle of the decades immediately following World War II, in which gains in productivity translated into gains in wages. This, in turn, led to increased consumption, spurring more investment, and, therefore, more productivity growth. It is important that the public understand that whether macroeconomic policy focuses on full employment or inflation-fighting, it is very much a class issue. Those placing the priority on inflation-fighting have decided to impose higher unemployment and lower wages on ordinary workers as the price of achieving their stated goal.

There are a few other items that should be on every progressive's agenda that I will just mention in passing. First, we should take corporate governance issues seriously. The UK is certainly far ahead of the United States in this area, but there is a real risk of corporations being run for the benefit of their management rather than shareholders. While we can envision a world where corporations serve a broader group of stakeholders, we should at least want them to serve more than just top management.

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6 This is the topic of my book, *The End of Loser Liberalism: Making Markets Progressive* (free download available at http://www.cepr.net/index.php/publications/books/the-end-of-loser-liberalism).

7 See Bernstein, Jared and Dean Baker. 2003. *The Benefits of Full Employment*. Washington, DC: Economic Policy Institute.

The United States presents the model of how bad things can get in this area. CEO pay in the tens of millions is standard and compensation packages that reach into the hundreds of millions are not rare. Incredibly, it is not only the great successes who pull in these sorts of paychecks.[8] There are plenty of examples of CEOs who have depressed profits and pushed companies to the edge of bankruptcy who still walk away with tens of millions of dollars.

The excessive pay of CEOs is not just a question of top executives enriching themselves at the expense of shareholders. Their huge pay packages corrupt pay scales throughout the economy. In the United States, it is now common for heads of universities or even charities to get compensation packages that exceed $1 million a year. The argument for these pay packages is that they would be getting several times as much if they were running a private company of comparable size. For this reason, those who care about inequality should be concerned about excessive CEO pay, even if they have little direct interest in whether the shareholders or the CEOs get the money.

A second area where progressives need to pay more attention is patents and copyrights. These are forms of government-granted monopolies that can lead to both large economic distortions and often substantial upward redistribution of income. In the United States, patent monopolies raise the cost of prescription drugs by close to $270 billion a year, approximately 1.8 percent of GDP. This leads to enormous corruption in the sector, exactly as economic theory predicts. Pharmaceutical companies routinely lie about the safety and effectiveness of their drugs. Progressives should look to more efficient mechanisms than patents and copyrights, ideally ones that also tend to lead to more equality.[9]

Finally, progressives must recognize the bloated financial sector for the enemy it is. Finance is an intermediate good, like trucking. It provides no direct benefit; its usefulness is in serving the productive economy. Like the United States, the UK suffers from a horribly bloated financial sector. The basic principle here is a simple one: an efficient financial sector is a small financial sector.

Over the last three decades, the narrow securities and commodities sector has increased fivefold as a share of the United States economy. If we saw a comparable expansion of the trucking sector, anyone in their right mind would be asking why we have such an inefficient trucking industry. We should be asking the same question about the financial sector.

There are some simple and obvious remedies to correct the bloat. The first is a financial transactions tax. A modest tax can go a long way in bringing the industry down to size. The UK is a leader here with its 0.5 percent stamp tax on stock trades. It just needs to apply comparable taxes to other types of transactions. While this position might have been seen as radical a few years back, the fact that

8 See Bebchuk, Lucian and Jesse Fried. 2004. *Pay Without Performance: The Unfilled Promise of Executive Compensation*. Cambridge, MA: Harvard University Press.

9 On alternatives to patents for prescription drugs see Stiglitz, Joseph. 2012. "Shift from patents regime to prize-based system will revolutionise research and healthcare." *The Economic Times*, May 21, 2012, available at http://articles.economictimes.indiatimes.com/2012-05-21/news/31801096_1_drug-prices-drug-companies-life-saving-medicines and Baker, Dean. 2004. "Financing Drug Research: What Are the Issues?" Washington, DC: Center for Economic and Policy Research, available at http://www.cepr.net/index.php?option=com_content&view=article&id=149.

the financial sector is under-taxed and bloated in most wealthy countries is even recognized now by the International Monetary Fund.[10]

The other mechanism for downsizing the sector is to break-up banks that have "too big to fail" (TBTF) status which effectively allows them to enjoy a government subsidy. There is now considerable research showing that very large banks can borrow at a lower cost than comparably risky smaller banks because lenders assume that the government will honor the banks' commitments if it were to face insolvency. There is no market rationale for this sort of subsidy.

The existence of TBTF banks is a loser on three counts from the standpoint of progressives. First, the bloat created by this subsidy is pulling resources away from sectors where they could be more productively employed. We don't want workers, especially highly educated workers, spending their careers shuffling paper for no purpose. This is, in effect, what we see when top students go to work for banks where they design complex collateralized debt obligations and other instruments.

The second reason that TBTF banks are bad policy is that they encourage excessive risk taking of the sort that led to the recent bubble and nearly collapsed the financial system. Since the TBTF banks get the upside from risky bets, but need not fear the downside, they will inevitably take greater risks than if they actually faced normal market discipline.

The final reason that progressives should want to see the financial sector downsized is that it is the generator of many of the highest incomes in the economy. In the United States, top hedge fund managers can take in more than $1 billion a year. This is generally not because they are clever stock pickers. It is likely that the imposition of modest taxes on financial speculation and breaking up TBTF banks will help to bring these paychecks down to earth. (In the United States, pension funds are often milked by the financial industry, paying excessive fees to benefit from non-existent market acumen.)

The indictment of the financial industry could be extended at considerable length. For example, the industry tends to be the biggest proponent of macroeconomic policy that tolerates high unemployment in order to minimize the risk of inflation. However, the point should be clear: the current status of the financial sector is an enormous obstacle to just about anything progressives would like to see in the United States or UK To borrow a metaphor from Grover Norquist, the great anti-tax prophet of the conservative movement in the United States, we should strive to have a financial sector that is small enough to drown in a bathtub.

Conclusion: There is Much to be Done

There is no doubt that the current economic and political situation looks bleak. However, we can take encouragement from the fact that we do know what needs to be done. The immediate issue is restoring the economy to full employment. Keynes taught us how to do this 75 years ago. Nothing that has happened in the interim provides grounds for questioning his basic insight. If the

10 Cottarelli, Carlo. 2010. "Fair and Substantial: Taxing the Financial Sector." Washington, DC: International Monetary Fund, available at http://blog-imfdirect.imf.org/2010/04/25/fair-and-substantial%E2%80%94taxing-the-financial-sector/.

government spends more money, ideally on productive investments, it will lead to more jobs and growth.

We also can learn much from following the example of Germany, the one success story in the current crisis. If we can get employers to reduce work hours rather than lay off workers, it will hugely reduce the suffering associated with this downturn.

And, we must rein in a bloated and parasitic financial sector. While the conservatives argue that reducing the size of government is the best gift that we can pass on to future generations, a much better goal is reducing the size of the financial sector. If we can hand future generations a downsized financial sector that is focused on serving the needs of the productive economy, then we will have given them a great gift.