



**Centre of Full Employment and Equity**



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## Austerity or stimulus

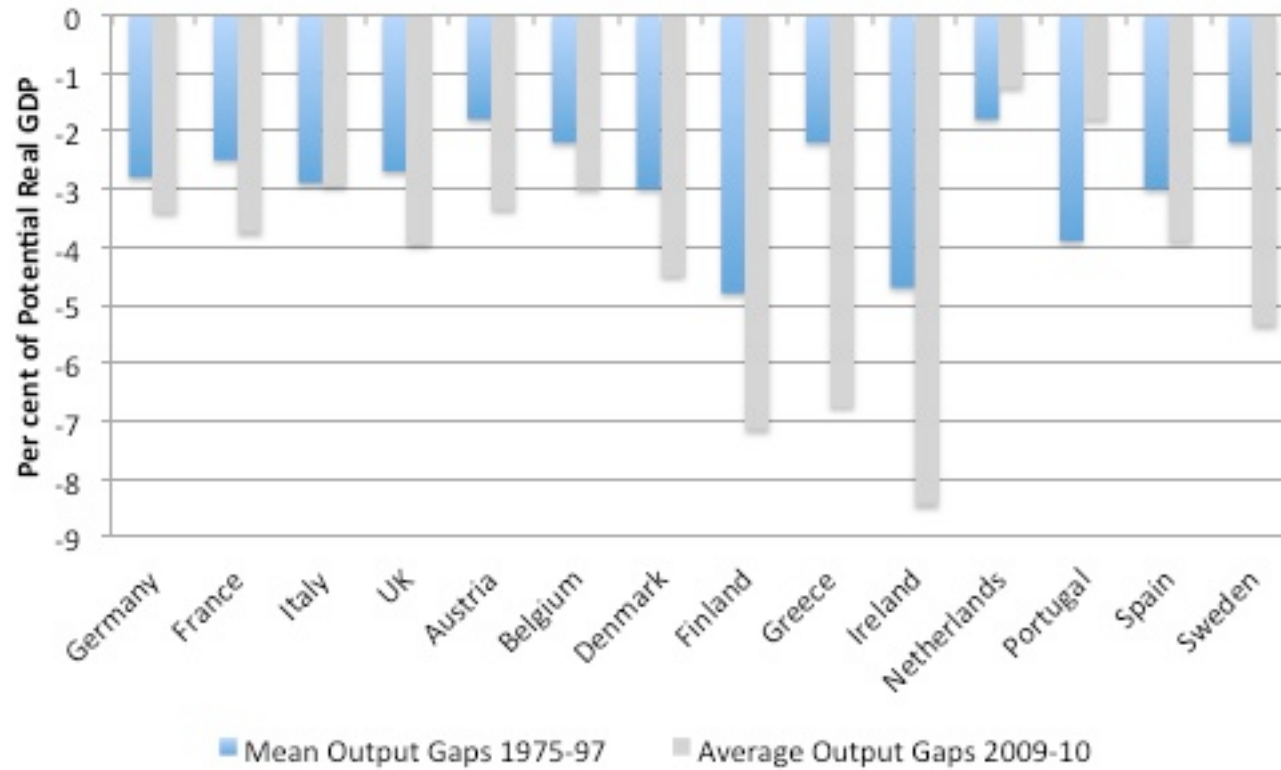
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# Macroeconomic facts



- Spending equals income equals output which creates employment.
- There are only three macro sectors that spend:
  - (a) Private domestic
  - (b) External
  - (c) Government
- A fiscal contraction expansion is a myth.
- It is a fallacy of composition to believe every nation can export their way out of recession.
- Government deficits are “normal”.

# Scale of European recession



- Austerity – **pro-cyclical** fiscal policies – myth of a “fiscal contraction expansion”.
- European Financial Stabilisation Fund (EFSF) – basically contributions from governments who also face default risk.
- Fiscal union – tightening SGP

# Why the SGP = neither stability or growth



Estimated EU Budget Components, % of GDP

	Estimated Cyclical Deficit 2010	Estimated Structural Deficit 2010	Actual Budget Balance 2010	OECD Output Gap 2010
Germany	-2.0	-2.4	-4.3	-2.3
France	-1.6	-5.5	-7.1	-3.6
Italy	-1.9	-2.7	-4.5	-2.2
UK	-2.1	-8.3	-10.4	-3.5
Austria	-2.8	-1.6	-4.4	-3
Belgium	-1.8	-2.4	-4.2	-2.4
Denmark	-3.0	0.2	-2.8	-4
Finland	-4.7	1.9	-2.8	-6.1
Greece	-3.5	-7.3	-10.8	-8.9
Ireland	-4.3	-27.0	-31.3	-8.8
Netherlands	-3.3	-1.7	-5	-0.9
Portugal	-1.0	-8.9	-9.8	-1.3
Spain	-3.5	-5.8	-9.3	-4.4
Sweden	-4.0	3.9	-0.1	-3.9

# Problem



- Bond markets matter in Eurozone while the ECB allows them to matter.
- Bond markets don't matter elsewhere.
- Austerity begets austerity no matter which monetary system but pushes EMU nations closer to insolvency.
- Only ECB intervention is saving mass insolvency and collapse of monetary system – BUT!
- Two options:
  - Full federal system
  - Return currency sovereignty

# Modern Monetary Theory (MMT) information

**Bill Mitchell – billy blog**

*Modern Monetary Theory ... alternative economic thinking*



<http://bilbo.economicoutlook.net/blog>

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**Thank you**