Spend more to Earn more

France in Consequently, we better understand why austerity measures and other cuts in public spending are instantly doomed to fail in times when the economy is in desperate need of oxygen. Economic activity is thus condemned to fall back and public deficits to worsen with it, in the absence of sufficient loans granted by the financial system to economic actors, and in a situation when the government reduces it spending or increases tax rates. It is also in this way that 25 billion Euros worth of French taxes in 2012, with 33 billion Euros to be added to them in 2013, just like the latest Spanish austerity plan (to only mention this country) consisting in new efforts of 65 billion Euros, will inevitably and logically translate into an economic recession, becoming totally counterproductive. In particular, who has undertaken to “find” 100 billion Euros in order to balance out its budget in 2017, must quickly choose its side. It is undeniably half-way between the inner core and periphery of Europe, which likes to flaunt a “Norwegian” tax system, risks finding itself in the short term in an unsupportable position in which it competitiveness decreases even more due to an overvalued currency. In fact, by wanting to be a part at all costs of the inner European core, (on the same level as Germany), France shall be cruelly left (by rejection) on the periphery. In fact, isn’t France Europe’s runner up in terms of taxation of capital? Does she not try to discourage investment from the top of her implicit tax rates (capital) which is (according to 2010 statistics) 37.2%, just behind Denmark’s current rate of 39%? In 2013, the taxation of the return on corporate capital, the increase in tax on profits, the tax surcharge on households should, for once, put France at the top of this classification. Knowing that it occupies already second place in Europe – and therefore the world! – regarding the taxation of property, just behind Britain. Indeed, it is in the countries encouraging property ownership – or rather real estate speculation – with the extremely lax rules in the excise duty of mortgages that the real estate market met its greatest slump. Gripped by a vice between their European commitments and market demands, our European nations thus get us into a terrifying circle in which withdrawals – worsened by the goal of trying to respect their commitments in terms of limiting deficits – slows economic activity down even more. Not only does it ask us to suffer the costs of this slowing down of activity but our want to consume and
invest is definitively disturbed by the reduction in our revenues. So then, because of the decline suffered by the Euro Zone in 2012, these are quite the opposite of the public support measures that would need to be implemented in a general context, in which the global investment, consumption and commerce engines are broken down. The austerity imposed on weakened nations in the midst of an economic downturn is turning out to be harmful. This is in addition to the knowledge that this same austerity becomes totally useless insofar as the financial sector gets better and starts to take on its role as a lender again. Consequently, public deficits and their ratios (reducing the GDP) are a necessary and unavoidable evil until the financial sector restores itself. In reality, these public deficits are the only engine that economic activity can avail of... the only lifeline for growth. They will naturally be inclined to take a step backwards, or indeed be completely diminished, as soon as the private sector takes the helm of the action and public funds. But let us not skimp past social spending in times of crisis because it is not these economies that will reduce our deficits but rather it is these economies that will weaken and worsen the citizen. Cuts in public spending, decreases in unemployment budgets and minimum salaries such as the reduction in the State’s lifestyle will have little long-term effect on our public accounts while they kill of the economy in the short term. We can see an increase of these deficits because of the additional decrease in the State’s tax revenues. But let us get one thing clear – these are not debts that damage growth. Rather, this causal link should be inverted: deficits are mechanically created by the step-back in growth. This is fortunate because we can but congratulate the state for being there to inject its cash that will prevent the paralysis of our economy. It is imperative that we consider this inversed causality and accept that economic crises are not induced by public deficits so as to no longer adopt bad measures that will only worsen the situation. This is why the appropriate responses within the framework of a recession initially caused by a drastic weakening of banks and the financial circuit – supposed to clean up the economy – consisting in more public spending, combined with tax reductions in order to revive activity. The revival, which will inevitably be the meeting point, will bring back the growth that will in turn allow the decrease, or indeed disappearance, of public deficits. It is thus, to paraphrase Keynes, in times of luxury that are the ideal times to use austerity and not times of economic crisis. With the spending of one being income for the other, these are the revenues of all of the consumers, stakeholders and business owners that are also condemned to drop if they reduce their spending at the same time in order to repay their debts. That being said, the problem with debt only worsens because, as Fisher put it “the more the debtors pay the more they owe)” in describing this calamity that is the “debt deflation”. It is precisely in this kind of set-up
– when the private sector is only worried with repaying its debts – that
the public sector must do exactly the opposite, i.e. spend!

The improvement of my personal financial situation is necessarily
dependent on the increase of my income or the decrease of my spending. Nonetheless, the problems that I am personally faced with are not
similar to those that society must manage. If I reduce my spending in
order to improve my own financial situation, it the global income of
society that will decrease due to an individual’s decision to spend less!
In the same way, if I wish to increase my spending without resorting to
loans, I must inevitably call on my savings. The logic is thus unappeas-
able: if society’s consumption has to increase without worsening the
loan situation, it’s savings that must be called for. One this is for sure,
the post-crisis economy will necessarily have to be restructured based
on healthy values such as savings. Today, these saving however hinder
the resolution of our immediate problem by slowing down the increase
of aggregate demand at the heart of our economies. Keynes had very
cleverly identified this paradox of frugality: to promote saving in pre-
sent conditions will only increase the recession. The challenges for
society are thus not equivalent to my own challenges, just like the long-
term measure to clean up and consolidate our economy are not similar to
the actions that are undertaken today so that this recession does not turn
into a depression. In fact, certain decisions liable to improve our condi-
tions in the long term do nothing else but worsen it today! Consequently,
all of our efforts must go towards increasing the aggregate demand
and, in this perspective, the States must strongly contribute to increase
their debts in order to promote demand and consumption. These growth
engines shall be subsequently replaced by exports and by the investment
of businesses, which will allow States to reduce their debts, due to a
reduction in their spending, together with tax revenue stimulated by the
recovery.

On paper, the discipline consisting in limiting public debts in relation
to the GDP works well because it provides reassurance by placing a
guardrail up against the spending madness of politicians. The very fact
of reassuring the markets allows borrowing at reasonable interest rates
according to a supposed undeniable logic in which state spending is
proportional to taxes. And this is why this concept of deficits reducing
the GDP shows its limits insofar as the country concerned is hit by a
recession needing larges additional expenditure by the state in order to
try to sustain the demand. This is why – in theory and in a perfect world
– the prolonged prosperous periods of growth must be built on in order
to balance out the public accounts, or indeed to gather up excesses.
Meanwhile, it is understandable that deficits accumulate when public
funds are used with the goal of reviving the economy. They are the
result of a recession but allow us to fight the spiral threatening the economy’s lifelines. To put it another way, the deficits are acceptable as long as they allow us to block this slippage in which companies considerably decrease, or indeed totally stop, new employment (when they are not simply fired), because they forecast a decrease in their production and services. At the same time, the consumer is led to become withdrawn because of fear of unemployment and uncertainty. It is there that the state must intervene in assuming its duty to regain confidence by injecting stimuli. It is thus in such an economic situation that hollowing of public deficits in no way constitutes a catastrophe because it allows the economy to be kept on a drip. The deficit in this ways transforms into positive energy which benefits all economic actors.

Moreover, deficits form whenever consumption goes beyond production capacity of the country in question. This is when we become dependent on foreign capital to finance a more or less substantial part of our lifestyle. We immediately think on Chinese capital which inundates the United States in the hope that in return, it buys Chinese products. We should also think about the French and German capital that has been poured into countries such as Greece and Spain since the launch of the Euro, who in turn bought French and German products. This massive influx of capital towards the European periphery is reversed as soon as financiers and investors have been gradually convinced of these countries’ weak repayment capacity. Likewise, China would be forced to withdraw from the United States if it one day lost confidence in them. This type of deficits similarly leads to a negative dynamic which can only be fixed by re-establishing the production capacities of the country in question, with an inevitably positive impact on employment. Whatever their nature and origin may be, public deficits must be turned against the recession that hit the country and they must be considered as a weapon to revive aggregate demand. Only voluntary policies to intensify public spending and advisedly reduce taxes will allow this vicious cycle, fed by half-mast consumption and production and by the escalade in unemployment, the effect of which in turn is to damage demand, can be broken. Only state intervention can clean up, revive and regulate economic activity. The austerity advocated by orthodox believers turns out to be contrary to nature because the state proves to be essential and unique in this breath that it breathes into its national economy. The state mustn’t therefore come across resistance in its path or any limitation to its stimulation of the economy – its only limit and horizon being the restoration of employment. After all, it is possible to decree growth!