

Tea Party has middle ground in austerity vs stimulus debate
From Mr Daniel J. Aronoff.

Sir, It is common knowledge that today's debate over austerity versus fiscal and monetary expansion is a replay of the 1930s clash between Hayek and Keynes. It is less well known how divergent were their formative experiences in the postwar 1920s. From a starting position of high unemployment and large public debt, Hayek lived through the monetisation of exploding budget deficits that generated hyperinflation and the breakdown of society in central Europe; Keynes experienced the austerity, deflation and persistently high unemployment that brought growth to a standstill in Britain. It is little wonder that what Hayek feared above all else - large increases in public debt - is precisely what Keynes recommended.

Martin Wolf advocates for Keynes with some considerable persuasive force ("Lessons of history on public debt", October 10). Still, expansion was not tried in Britain in the 1930s, and if it had been it is possible that Hayek's dire prediction might have materialised. So a modicum of caution is in order.

I think a middle ground is possible and desirable. Mr Wolf wants government to run a large deficit for as long as the private and foreign sectors are in financial surplus. Budget deficits - even large ones - need not be monetised (and therefore need not risk inflation) as long as investors believe the debt can be repaid in real terms. The latter can be achieved if government spending is declining relative to the economy. Crudely put, if government shrinks while tax collections shrink even more, the government deficit will increase but so will its capacity to repay its debt.

This, alas, is the policy advocated by the US Tea Party, so maligned by Mr Wolf and others of the intelligentsia. Mr Wolf's hostility, at least, is understandable since it is well known that Brits have for many years disliked tea parties held in the US.

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