I really don't believe in macroeconomics you know [1]

Written by **Tim Worstall** [2] | Wednesday 10 July 2013

I've long been making the point that in the long run it's all microeconomics. How the world will look, the wealth of the people, the consumption opportunities, the technologies used, by our grandchildren will have almost nothing at all to do with whatever macroeconomics is practised right now. They will all, however, be hugely dependent upon the microeconomics we practise now. The incentives in the economy to innovate primarily. If we look at the economy over a couple of centuries, for example from Adam Smith's day to our own, seemingly vast macroeconomic events like the Great Depression are little squiggles away from the long term fundamentals.

However, I also am not sure that I believe in much of macroeconomics simply because we so often find people cooking the books. As seems to be happening in Italy [3]:

> Beppe Grillo, leader of the opposition 5-Star Movement, has long hammered on this point. In April, during the post-election interregnum, he?d clamored for ?the immediate payment of about €120 billion? that the government and public entities owed the private sector. The government?s refusal to pay its suppliers violates EU rules. But the EU has soft-pedaled the issue, for two very big reasons: payment of arrears would force Italy to sell a truckload of bonds when there might not be any demand; and it would push the deficit way beyond the 3% line in the sand. Thanks to cash accounting, only actual disbursements make it into the deficit figure. Italy has achieved its ?austerity? goals by not paying its suppliers. Once again, abracadabra.

Isn't that simply ridiculous? The targets set are because there's a thought that excessive debt (and 130% of GDP can be thought of as that) can lead to a debt spiral: ever more must be borrowed to pay off the old borrowings. This borrowing, above certain limits, must be discouraged, even an insistence on bringing the outstanding stock down.

But having done this everyone then carries on and allows said debtor to continue to borrow. €120 billion is a substantial sum, even when talking about government money, and is somewhere in the 5-10% range of Italy's GDP. That they're running it up in unpaid bills rather than Treasuries makes it no less a set of debts that the Italian taxpayer is going to have to cough up for sooner or later.

Either more debt is a very bad idea and thus all this austerity is a good one, in which case the Italian state cannot be allowed to stiff its creditors. That's just running up the same debt by other means. Or, alternatively, more debt doesn't matter so issue the Treasuries and stop stiffing the trade creditors. But you can only have what the EU is allowing to happen, debt's a very serious matter but keep on running it up all the same if one is being entirely inconsistent.

Which is, as I say, why I'm not sure that I believe very much macroeconomics. They seem to be making it all up as they go along far too much of the time.

Links:
[1] http://www.adamsmith.org/blog/economics/i-really-dont-believe-in-macroeconomics-you-know
[2] http://www.adamsmith.org/taxonomy/term/5778
[3] http://www.businessinsider.com/broke-italy-would-love-to-but-cant-pay-its-bills-this-year-2013-7?utm_source=Pulse&utm_medium=App&utm_campaign=partner&utm_medium=referral&utm_source=pulsenews
[4] http://disqus.com/?ref_noscript
[5] http://disqus.com