

## [In which I agree with Keynes and Krugman](#) [1]

Written by [Tim Worstall](#) [2] | Monday 4 June 2012

I'm as surprised as you are at my agreeing with them both but there is a great truth in [this statement](#) [3]:

?The boom, not the slump, is the right time for austerity.? So declared John Maynard Keynes 75 years ago, and he was right...

Let us, just for a moment, adopt the Keynesian mindset, agree that the Great Man's works are indeed how the economy should be managed.....even accept that the economy should be managed at all. With that assumed then yes, of course this is true. Blow out the deficit in the slump so as to increase aggregate demand.

Excellent.

But then look at the other side of it: in the boom we should be running not just primary budget surpluses but actual full budget surpluses. No, not just to pay for past or future borrowing, but absolutely to manage, in fact to reduce, that aggregate demand that is excessive in that boom.

This has been managed how often since the immediate post war years? Under Lawson for a couple of years at the end of the 80s boom and under G. Brown for that brief period of time when he was following previous Tory budgets. But Keynes, and Keynesianism, would have had us running budget surpluses all the way from 2000, 2001, to the crash in 2008/9. Again, not so much to reduce the national debt, or to save up room for borrowing in the slump. But to take the top off, the froth off, that boom.

Didn't happen, did it? Even at the top, even the tail end, of the longest boom in modern economic history we were still running budget deficits.

At which point we can point out one of two things: Keyensianism doesn't work given the political system we've got which just won't allow such surpluses to be run: or Keynesianism just won't work with the politicians we've got because they cannot resist spending the cash to buy votes.

Either way, it doesn't work, not because spending in a slump is a terrible idea but because no one will, for any length of time, perform the other half of the necessary equation. Leaving us with the current situation of actually needing the austerity in a slump simply because we don't have the money to do anything else.

Thanks Gordon.

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