

to the page in a way that felt compelling. “So much of climate change is a failure of narrative,” she says. “When you talk to scientists, they say, ‘We haven’t found a narrative that connects with people enough.’ That’s what a writer is trying to do as well.” But as with other eternal questions concerning mortality and how to cope with it, theater is the right vehicle, she says. “Because plays themselves are so temporary. And the moment we have with them is so fleeting, and it never comes back. That’s what’s so exciting and precious about them to me. There’s something very resonant about looking at how temporary and fragile everything is in the context of this made thing that is here and then gone.”

# Uses—and Abuses —of Austerity

*Economists revisit an unsettled economic policy.*

by IDREES KAHLOON

**P**RECIOUS FEW WORDS in economics evoke emotional responses of any kind. But austerity, the reduction of government deficits through tax increases or pared-down spending, is an exception. Discussions of austerity quickly devolve into moralizing—between supporters, who see austerity as a kind of virtuous self-denial, and opponents, who portray it

as self-defeating, self-flagellating nonsense. Ten years after the Great Recession pushed many European countries with precarious finances to embrace austerity measures, the debate continues.

And worse, it remains deeply unsettled. Now Ropes professor of political economy Alberto Alesina seeks to rectify that with his matter-of-factly titled *Austerity: When It Works*

**An Inclusive Academy: Achieving Diversity and Excellence**, by Abigail J. Stewart, Ph.D. '75, and Virginia Valian (MIT, \$29.95). Senior professors at the University of Michigan and Hunter College, respectively, comprehensively review the research, and draw on their own experiences, to direct academic institutions toward realizing their aspirations for broadening their faculties.

**A Few Thousand Dollars: Sparking Prosperity for Everyone**, by Robert E. Friedman '71 (The New Press, \$26.99). The founder of Prosperity Now (formerly the Corporation for Enterprise Development) prescribes universal savings interventions that would enable the most economically marginalized members of society to begin to get a purchase on the levers that lead to an income—and everything that follows in its wake—in a society where the wealth gaps have become impossibly large.

**The Promise of Elsewhere**, by Brad Leithauser '75, J.D. '79 (Knopf, \$26.95). The quietly prolific novelist and poet's seventeenth book: a comic novel about a stuck middle-aged professor at a Midwestern college whose tour of world architectural sites (his field) is deflected by a doomed romance. A journey about yearnings.

**The Hell of Good Intentions: America's Foreign Policy Elite and the Decline of U.S. Primacy**, by Stephen M. Walt, Belfer professor of international af-

fairs (Farrar, Straus and Giroux, \$28). A critic of both “liberal hegemony” and the present moment of trashing international agreements and organizations willy-nilly, Walt argues for foreign policy guided less by ambition and military prowess and more by the pursuit of peace, exemplary restraint, and the building of alliances.

**Words & Works: Scenes from a Life in Architecture, 1948-2018**, by Henry N. Cobb '47, M.Arch. '49 (The Monacelli Press, \$45). The acclaimed architect in his own words. On the Center for Governmental and International Studies, straddling Cambridge Street (represented in handsome photographs here), he gracefully notes of the protracted back-and-forth with Cambridge neighbors and officials, “the extended negotiations and consequent reconsiderations created opportunities that led to improvements in design.”

**Peaches Goes It Alone**, by Frederick Seidel '57 (Farrar, Straus and Giroux, \$24). New poems by a poet whose work

**Architect and client: Henry Cobb presenting an early scheme for Place Ville Marie to William Zeckendorf Sr. in 1956—aboard the latter's DC-3**

can provoke discomfort (see Adam Kirsch's “Again, A Dangerous Art,” a review of *Poems 1959-2009*, November-December 2009, page 19); the publisher categorizes the latest work as adding “new music and menace to Seidel's masterful body of work.” In the same form, but from a different perspective, Michael H. Levin, J.D. '69, a lawyer and solar-energy developer, publishes **Man Overboard: New and Selected Poems** (Finishing Line Press, \$14.99); their gentler language often encompasses bracing, current realities, too.



and *When It Doesn't*, co-written with Carlo Favero and Francesco Giavazzi of Bocconi University. Their book focuses painstakingly on proving a single proposition: austerity achieved through tax increases tends to trigger recessions and worsen a country's debt load, whereas austerity accomplished through government spending cuts has only a limited impact on economic output.

becomes income for individuals, who spend a portion of it, generating economic activity, which generates further activity, and so on.

George Box, the great British statistician, once quipped that "all models are wrong but some are useful." Keynes's basic model was certainly wrong—it did not consider the supply side of the economy or the importance of incentives. Later economists have

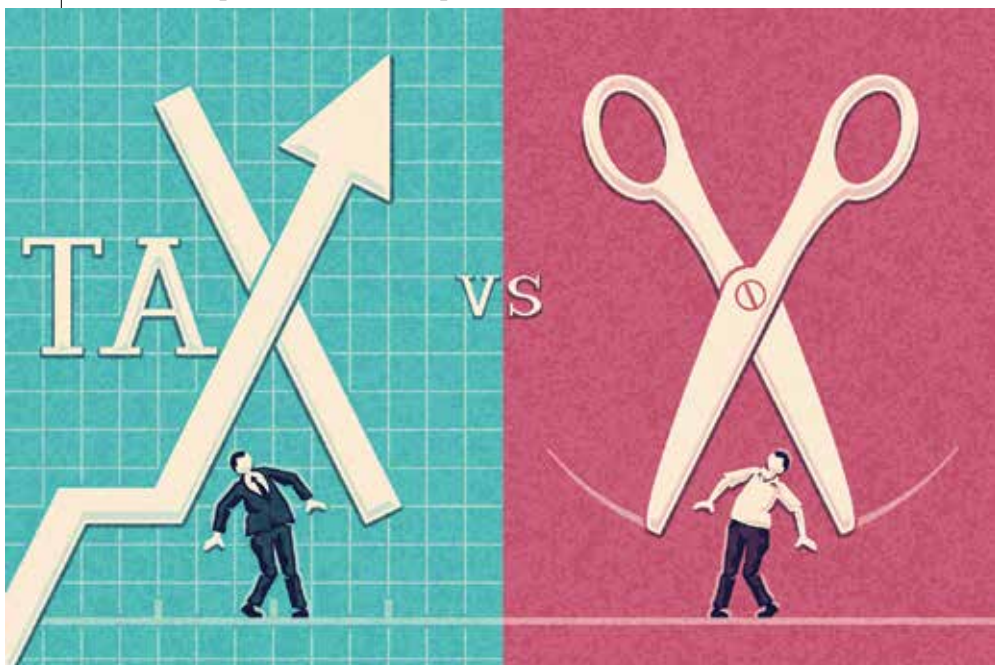
The underlying reason, Alesina and his coauthors explain, is investor confidence. Immediate tax increases

reduce the incentive for investment, while spending cuts—especially to government programs with ever-inflating budgets—signal the possibility of eventual tax cuts. Relative to tax-based austerity, *spending-based* austerity spurs private investment and mitigates the recessionary result predicted by Keynesians. The theory is controversial. Paul Krugman, a prominent and vitriolic critic of austerity programs, has pooh-poohed this explanation as belief in the "confidence fairy."

There are also more technical critiques of Alesina's results. The relative outperformance of spending-based austerity programs could be explained by other factors. This is a central barrier to knowing anything with confidence in macroeconomics: experimental evidence is nonexistent. If monetary policy kicks in at the same time to stimulate the economy through reduced interest rates or expansion of the money supply, then spending-based austerity might look better than it does. The International Monetary Fund made this point in a biting critique of Alesina's work published in 2012. A weaker currency, which promotes exports and thus GDP growth, and labor-market reforms that often accompany austerity packages (such as deregulating hiring and layoffs), could also be influential factors. Alesina thinks that none of these defeat his theory, but they provide enough ammunition for skeptics who do not wish to be convinced.

ALL THIS theoretical back-and-forth does not change the fact that austerity is an un-

*Austerity: When It Works and When It Doesn't*, by Alberto Alesina, Carlo Favero, and Francesco Giavazzi (Princeton, \$35)



If this doesn't seem like a page-turner, that's because it isn't. Among the general public, only macroeconomic fiends will pick it up—and even they might not. Alesina has advocated the central thesis for nearly a decade; his influential study on the topic (with then Harvard economist Silvia Ardagna), published in October 2009 at the height of the financial crisis, made much the same point. The analysis in the new book is more rigorous—it rests on details of 200 austerity plans in 16 rich countries before and after the financial crisis—but the ultimate finding is the same: belt-tightening through tax increases is ultimately much more painful than slashing spending.

That remains a provocative assertion because it flies in the face of basic Keynesian logic. That influential macroeconomic model focuses on movements in aggregate demand—the total of public spending, consumption, investment, and net exports. Although higher taxes will reduce consumption a bit, the theory predicts that reduced government spending has an outsize effect on the economy. Cash spent by public programs

updated the model to account for these deficiencies, but their conclusions remain the same: government spending should have a larger impact on output (i.e., be a larger "fiscal multiplier") than taxes.

The entire game in settling the debate lies in figuring out the magnitude of these fiscal multipliers. Yet the repeated estimates put forth by economists on this fundamental number vary widely enough to allow individuals to continue believing what they wish. In Alesina's analysis, a reduction in spending

**In the fiscal-policy kit, austerity ought to be a rare tool. Instead, it promises to become recurrent.**

on the order of 1 percent of gross domestic product (GDP, the broadest measure of national output) is associated with a loss in GDP of less than 0.5 percent; a *tax increase* of similar magnitude tends to decrease GDP by 3 percent—and the ensuing recession tends to last for several years. The differences matter at times of economic stress or when policymakers try to rein in profligacy (in an attempt to stave off still worse depressions to come.)

popular and dirty word. After the Great Recession, Britain began a years-long austerity program—slashing day-to-day departmental spending by 16 percent per person—that it is only now reversing. As Alesina and his colleagues recommend, David Cameron, the prime minister, and his chancellor of the exchequer, George Osborne, went the cut-spending route rather than the tax-raising one. Indeed, the British experience