Austerity Is Bad Economics

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When Covid-19 led to sharp declines in spending, resulting in a massive increase in unemployment in Vermont and elsewhere, governments responded by providing funding and loans to families and businesses to soften the blow of lost income. This type of support will be needed for some in order to ward off bankruptcies, mass deprivation, and hardship. High marks go to those governments with the most vigorous responses.

But backsliding is already on the horizon, with talk of cuts to the Vermont state budget due to the projected decline in revenues. This is the wrong strategy. There are evidence-based alternatives to budget cuts, grounded in lessons economists have learned from past economic crises. In the 1930s, for example, state governments' efforts to balance their budgets nullified the expansionary policy of the federal government, prolonging the recovery from the Great Depression. Further, the Great Recession of 2008 demonstrated that if austerity measures (cuts to government spending) are adopted too soon, the recovery will be delayed for years, contributing to deterioration of our human capital, resiliency, and small business viability, which will result in long-term damage to our economy and our social fabric. This evidence has influenced even conservative institutions like the International Monetary Fund to proclaim that cutting spending during a crisis is bad economics. In fact, the evidence indicates that deficit spending is the best way to fight the pandemic and economic destruction it has thus far caused.