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Virtually all policy analysts agree that the path to renewed prosperity in Europe and the US depends on a credible plan to re-establish sound public finances. Without such a plan, the travails which have hit [Greece](#) and which are threatening Portugal and Spain will soon enough threaten the UK, US, and other deficit-ridden countries. In the recent duel of macro-economists, one camp has called for early budget consolidation, followed by further measures over five years. We agree. Others want more fiscal stimulus, delaying deficit reduction. We believe delaying the start of deficit reduction would put long-term recovery at risk. Such an approach misjudges politics, financial markets, and underlying economic realities.

Blaming our predicament on financial markets, as some in the second camp do, ignores the awkward truth that governments have enabled, if not enthusiastically promoted, recklessness, through chronic deficits and lax financial regulation. Our predicament, in this sense, is a political crisis at least as much as a financial one. We can't expect "credibility" by succumbing to temptation just one more time. What politicians like to present as saving the world economy from financial markets is in many cases simply responding to past errors while continuing to operate on a time horizon no longer than the next election.

The financial models underpinning the two camps differ. Self-described Keynesians, including Paul Krugman, and Lords Layard and Skidelsky, see the financial markets as benignly ready to finance budget deficits, pointing to low market interest rates. By contrast, we believe financial markets are perfectly capable of getting spooked about the prospects of debt financing in the medium term. The dire mar-

ket reactions to Greece may have a touch of panic to them, but are nonetheless having severe effects on the Greek economy.

The general notion that delay is beneficial in the short term because it provokes more spending today – irrespective of future debt burdens – is also wrong, in theory and in practice. If the starting position is a large structural deficit, [further fiscal "stimulus"](#) can darken consumer and business confidence by creating fears about future debt burdens. These fears may be translated directly into higher borrowing costs today for government and the private economy. There are many well-studied examples of "negative fiscal multipliers", in which credible fiscal retrenchments in fact stimulated the economy, via greater consumer and investor outlays, by reducing borrowing costs and spurring confidence.

Furthermore, we are sceptical that a sustainable economic [recovery](#) can be based on either reinflating the sectors that have declined or believing future job creation can come simply from the public sector payroll. Sustainable recovery is a medium- and long-term project: investing in the next generation of technologies, workers, and families. Those who are hurt between the collapse of the recent bubble and the start of a new growth era must of course be protected. But it is naive to believe that governments can create high-quality, high-productivity jobs that last by inflating bubbles or digging ditches.

Government and the private sector will be complementary forces in a real, sustained, [job-creating recovery](#). The new jobs must be largely in the private sector. But the public sector has a critical role in ensuring that the conditions for sustainable growth are in place. These include the regulation of

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and finance for modern infrastructure, high-quality education, pre-commercial innovation, and a world-class science and technology base.

Our macroeconomic view, in short, can be stated as follows. We must escape from economic management by quarterly indicators and the demands of the political cycle. Our problems, at the core, result from short-termism, in which governments have led and bankers chasing high bonuses have been only too keen to follow.

Our priority should be a medium-term fiscal framework, with the first steps starting this year. That must be matched by improvements in the delivery of health, education, skills, and technology; social protection for those in need; and a decent regard for the long-term investments needed to rebuild an economy crushed by the bubbles of wishful thinking.

Mr Sachs is director of the Earth Institute at Columbia University. Mr Osborne is Britain's shadow chancellor

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