FT BIG READ. GLOBAL ECONOMY

Stern warnings to reduce deficits after the financial crisis led to a decade of budget cuts as governments struggled to balance their books. But now they are being urged to spend their way out of the pandemic. *By Chris Giles*

The week that austerity was officially buried

This was the week we witnessed the funeral of austerity. Those who used to worship at its altar now urge countries to throw caution to the wind. Fiscal orthodoxy, practised over decades since the debt crises and inflation of the 1970s and 1980s, has been replaced with fiscal activism.

As the IMF and World Bank annual meetings wrap up in virtual form in Washington this weekend, many of the most senior figures at the top — and in the research departments — of these institutions have been singing a new tune on fiscal policy this week.

Carmen Reinhart, the eminent economic historian who is now chief economist at the World Bank, recommended countries should borrow heavily during the pandemic. "While the disease is raging, what else are you going to do?" she asks. "First you worry about fighting the war, then you figure out how to pay for it."

Ms Reinhart was a leading advocate of austerity a decade ago after publishing a research paper which concluded that at a similar stage in the 2008-09 financial crisis — to where we are now in the pandemic — high levels of public debt undermined economic performance. It concluded that, "traditional debt management issues should be at the forefront of public policy concerns".

The IMF itself warned after the global financial crisis that "many countries face large retrenchment needs going forward", but now it tells all countries that have access to financial markets to issue debt and to spend without the prospect of austerity later.

As she reached for inspiration from the Russian novelist Fyodor Dostoyevsky, Kristalina Georgieva, head of the IMF, said, "Only one thing matters — to be able to dare".

Both advanced economies and many emerging ones have keenly taken the advice to heart as they have battled coronavirus. The IMF estimates that countries have increased spending or cut taxes by $11.7tn so far — 12 per cent of global gross domestic product in 2020. To put this in perspective, just over a decade ago and after months of bickering, the G20 nations finally agreed a stimulus worth 2 per cent of global GDP for two years after the financial crisis.

In terms of fiscal policy, this time really is different. The fiscal consensus that prevailed until the past few years was built on the lessons learnt internationally after the boom decades of the 1950s and 1960s. The experience was that raising or lowering taxes and changing public expenditure was too slow in most political systems to be effective in taming the economic cycle and, instead, tended to amplify it. Monetary policy — set ideally by independent policymakers in central banks — took on that role.

The second part of this fiscal consensus accepted that the best policy would target longer-term stability in public finances, ensuring debt and deficits met broad rules of thumb that would almost always ensure that compliant countries would face no difficulties in financing themselves — allowing them to concentrate on improving the efficiency of their tax systems and public spending.

That consensus was still dominant at the time of the 2008-09 crisis, culminating in the Toronto G20 summit declaration in 2010 that highlighted "the importance of sustainable public finances" and warned that "countries with serious fiscal challenges need to accelerate the pace of consolidation". Greece, for example, had already lost the confidence of its lenders.

'Much will depend on whether the fiscal legacy of the virus is simply a step increase in the debt-to-GDP ratio. Or whether we end up [with] a big rise in the budget deficit as well'

Fiscal over monetary policy

The question now is why has the thinking changed so radically. Answers cover three distinct categories: bitter experience of the past decade, changed circumstances and raw politics.

There is little doubt that the 2010s was a difficult decade for almost all economies around the world, with underlying growth considerably lower than hoped at the time of the Toronto summit. Most of this had more to do with a global fall in underlying productivity performance than with tax and public spending strategies, but even with the potential for growth lowered, economic performance disappointed, largely because monetary policy did not have the ammunition to stimulate economies sufficiently.

The world's big economic blocs never achieved the conditions that would have induced rapidly rising wages and inflation, so interest rates could rise towards more normal levels, despite the drama of officials such as Mario Draghi at the European Central Bank doing "whatever it takes". Monetary policy could not have provided the $11.7tn boost that fiscal policy managed this year.

After the past decade, instead of jealously guarding their independence, leading central bankers now talk of the need for fiscal policy to help keep inflation from falling. In recent weeks, Jay Powell, the Federal Reserve chairman, said "the recovery will go faster if we have both tools [fiscal and monetary] working together", while Andrew Bailey, Bank of England governor, called for "a very close and sensible co-ordination" of the two economic policies.

Long gone is the notion, supported by former UK chancellor George Osborne, that it was imperative to have a credible plan to reduce deficits in the public finances because that would give households the confidence to spend rather than save.

There are also economic circumstances that did not apply until recently. The main change, most notably highlighted by Olivier Blanchard, former IMF chief economist, is that with government borrowing costs in advanced economies below or close to zero — at almost all durations — and likely to remain so, countries could afford to service considerably higher levels of debt without posing a greater long-term burden on their finances because economies were likely to grow faster than the interest on debt.

"The issuance of debt without a later increase in taxes may well be feasible," Prof Blanchard said in January 2019.

The example he gave was for a one-off increase in debt, which at the time was seen as an otherworldly scenario because few countries ever borrow a huge chunk of money for a strictly limited period in peacetime. But in 2020, the pandemic has arguably provided just this situation and the one-off nature of deficits has been used by the IMF as the justification for supporting the borrowing that countries are undertaking.

Finally, there is no longer any desire for austerity after the difficult 2010s, so the political and public mood fits with the new economics. Arguably, austerity sowed the seeds of its own destruction by raising support for populist politicians in Donald Trump and Boris Johnson who had no truck with difficult budgetary issues and rarely saw any problem with public spending largesse.

After the financial crisis, President Barack Obama and Democratic politicians joined forces with Republican fiscal hawks in the difficult process of reducing the US deficit only to watch Donald Trump gain popularity with enormous tax cuts in 2017. There is no mood around Joe Biden, the Democratic presidential nominee, to play that game again if he wins on November 3.

Carmen Reinhart, above left, was an advocate of austerity in 2010 but the World Bank's chief economist now backs more spending. Kristalina Georgieva, right, head of the IMF, has also encouraged countries to borrow — FT montage: World Economic Forum; Ciaran McCrickard; AP; Getty Images

Prominent economists and former Democratic party officials, Jason Furman and Larry Summers, have provided the intellectual underpinning of the shift in the party's stance. They argued last year that there were still costs and benefits of lowering government borrowing, but "the benefits of a reduced probability of a fiscal crisis do not outweigh the costs of deficit reduction".

In the UK, Boris Johnson's Conservative government has ruled out austerity as the way to resolve the nation's public finance difficulties and, even in Germany, the bastion of fiscal probity, politicians such as economy minister Peter Altmaier now boast about introducing "the biggest stimulus programme of all time" in response to coronavirus.

Tensions remain

It would be wrong, however, to say that everyone has signed up to the new consensus that deficits and public debt do not matter any more. Even within the IMF, there are tensions. While its managing director urges countries to dare to do new things, officials still insist on austerity for countries that are forced to borrow from the fund.

$11.7tn	2%
Value of countries' higher spending or tax cuts in 2020 so far — 12% of GDP	Percentage of global GDP the G20's 2009 stimulus was equivalent to

Oxfam, the anti-poverty charity, complains that the IMF has pushed austerity measures on 80 per cent of countries forced into its lending programmes during the coronavirus pandemic. "This austerity drive will hurt the countries it claims to help and flies in the face of the fund's own research findings, showing it worsens poverty and inequality," says Ana Arendar, Oxfam's head of inequality policy.

But it is not just lenders who worry that countries might in time need a more conservative approach to fiscal policy. "Much will depend on whether the fiscal legacy of the virus is simply a step increase in the debt-to-GDP ratio — because of a huge but temporary burst of additional borrowing," says Robert Chote, who has just stepped down as the head of the UK's Office for Budget Responsibility. "Or whether we find ourselves confronting a big increase in the structural budget deficit as well.

"A rise in the structural deficit would strengthen the case for consolidation [austerity] measures," he adds, "but you still wouldn't want to go at it too quickly."

In the UK, the Institute for Fiscal Studies warns that the crisis is likely to require higher health and social care spending in future, far in excess of any benefit from lower borrowing costs. It said this week the UK would ultimately need to find tax rises of probably around 2 per cent of GDP to limit a likely persistent rise in public debt.

With ageing populations across advanced economies, this is likely to become an ever more pressing issue in the decade ahead. Austerity might have been buried for now, but if governments' luck does not hold on borrowing costs and when ageing hits, there is no guarantee it will not be resurrected.

See Editorial Comment

Obituary

Creator of Mafalda, a Hispanic cultural icon

Quino
Cartoonist
1932-2020

The day after the 1966 military coup in Argentina, a single picture of a forlorn girl with bushy black hair appeared in the newspaper *El Mundo*. The sparse comic strip was accompanied by the words: "So, what they taught me at school . . . "

Fortunately, that famously unfinished sentence — attentive readers understood its veiled criticism — went unnoticed by the generals. So did other irreverent observations by that *enfant terrible* Mafalda, a cartoon character who is an icon of Hispanic culture, as adored today as half a century ago.

Her creator, Joaquín Salvador Lavado Tejón, better known as Quino, who has died at the age of 88, captured the spirit of a generation roiled by regional political and economic turmoil. Today, the deliciously naughty six-year-old, who hated soup but loved The Beatles, remains as famous as Argentina's other beloved heroine, Evita Peron.

Promoted by intellectual giants such as Umberto Eco, Julio Cortázar and Eric Hobsbawm, Latin America's best-selling and most widely-translated comic strip is "a phenomenon that exceeds anything to do with graphic humour," Quino's editor, Daniel Divinsky, said.

Influenced by Charles Schulz's North American comic strip *Peanuts*, Mafalda's precocious character combined childish innocence with adult themes in a way that transcended class, politics and age. She was ahead of her time as a feminist and an ecologist, and was an acerbic critic of consumerism, organised religion — and, especially, politics.

One of her friends, Libertad, or Freedom, was drawn especially short "because freedom always seems small", as Quino once said. As for her famous dislike of soup: "It was really an allegory about . . . the governments one had to swallow daily, especially in the dictatorship era in Latin America." Mafalda's pet tortoise was meanwhile called Bureaucracy. When asked why, she replied that she needed more time to answer, but could not say how much.

"What makes him so great is his enormous critical capacity and his sharp observation on one hand, and his tenderness on the other. In Quino you have a wise old man and a 10-year-old child all in one," said Argentine cartoonist Juan Martín "Tute" Loiseau, describing him as "the father of modern graphic humour in Latin America".

Enigmatic and in later years a recluse, Quino was born in 1932 to Andalucían Republican immigrants in Guaymallén, a small town in the Andean winemaking province of Mendoza. His working-class parents died while he was a teenager, and he moved to Buenos Aires in 1950, dreaming of becoming a cartoonist — his uncle was an illustrator.

In 1960 he married Alicia Colombo, a chemist who became his agent, and Mafalda was conceived three years later for a domestic appliance advert that was never published. Her rebellious character was born as a comic strip in 1964. When the next military junta seized power in 1976, Quino fled to Milan, only returning when the dictatorship ended in 1983. "Had I kept drawing her, they would have shot me," Quino once recalled.

Mafalda allowed Quino to make uniquely Argentine jokes about economics that remain alarmingly relevant today. In one strip, Argentina's historical penchant for printing money is lampooned by a friend of Mafalda who expresses surprise at how "nicely ironed" the banknotes are. In another strip, when Mafalda hears about price controls, she quips: "And how much does good sense cost?"

Quino at the launch of a book of his cartoons in Mexico in 2008

'[Quino] said with humour what nobody dared to at the time, and in such a way that it could not be censored'

"[Quino] said with humour what nobody dared to at the time, and in such a way that it could not be censored," said Cristina Fernández de Kirchner in 2014 — although Quino once said Mafalda "would not have liked" the former leftist Argentine president, who also printed money and imposed price controls while in power, because of her arrogance and pride.

Sadly, Mafalda's great hope for world peace — she dreamt of becoming a UN translator — was never realised. Indeed, when Mr Divinsky last saw Quino in January, the illustrator told him he "was really worried because he thought that his worst fears were becoming reality".

Quino, whose wife died in 2017, divided his time between Buenos Aires, Madrid, Milan, Paris and Mendoza, and is survived by five nephews, one niece and, of course, his cartoons.

Translated into 26 languages, including different dialects of Chinese, English was the last major language to hold out against Mafalda's charms. According to Mr Divinsky, that was because a US book agent complained she was "too sophisticated for North American children".

Benedict Mander