Reinhart and Rogoff Are Wrong About Austerity

April 18, 2013 by Robert Pollin and Michael Ash

In 2010, two Harvard economists published an academic paper that spoke to the world’s biggest policy question: should we cut public spending to control the deficit or use the state to rekindle economic growth? Growth in a Time of Debt by Carmen Reinhart and Kenneth Rogoff has served as an important intellectual bulwark in support of austerity policies in the US and Europe. It has been cited by politicians ranging from Paul Ryan, the US congressman, to George Osborne, the UK chancellor. But we have shown that several critical findings advanced in this paper are wrong. So do we need to rethink austerity economics more broadly?

Their research is best known for its result that, across a broad range of countries and periods, economic growth declines dramatically when a country’s level of public debt exceeds 90 per cent of gross domestic product. In their work with a sample of 20 advanced economies in the post-war period, they report that average annual GDP growth ranges between about 3 per cent and 4 per cent when the ratio of public debt to GDP is below 90 per cent. But it collapses to -0.1 per cent when the ratio rises above a 90 per cent threshold.

In a new working paper, co-authored with Thomas Hert- don, we found that these results were based on data errors and unsupportable statistical techniques. For example, because of miscalculation and unconventional methods of averaging data, a one-year experience in New Zealand in 1951, during which economic growth was -7.6 per cent and the public debt level was high, ends up exerting a big influence on their overall findings.

When we performed accurate recalculations, we found that, when countries’ debt-to-GDP ratio exceeds 90 per cent, average growth is 2.2 per cent, not -0.1 per cent. We also found that the relationship between growth and public debt varies widely over time and between countries.

Valuing Care Work

Adapted from “Placing a Value on Care Work,” Communities and Banking, Winter 2010, by Randy Albelda, Mignon Duffy, Nancy Folbre, Clare Hammonds and Suh Jooyeon

Throughout the world, children need to be taken care of and educated, people have physical and mental health needs that require attention, and individuals need assistance with the daily tasks of life because of illness, age, or disability. The labor of meeting these needs – which we call care work -- is a complex activity that has profound implications for personal, social and economic wellbeing. Care work is not just a cornerstone of our economy – it is a rock-bottom foundation. Care work provides the basis for our “human” infrastructure, and we need it to navigate through life as surely as we need our roads and bridges.

The Case for a Care Sector

We include in the care sector the labor and resources devoted to the daily care of everyone, especially children, the elderly and those who are disabled; the provision of K-12 education; and the administration of health care to both the well and the sick, regardless of age.

The care sector encompasses both paid employment and family labor, and cuts across several care areas that usually operate in separate spheres and sometimes compete for the same state dollars. But we can and should think about human infrastructure as a whole that comprises a vital part of the economy. At least two things unite the care sector.

First, the combined successful outcomes of health, education, and other types of care work define our overall well-being and allow us to function effectively as
CPE Happenings

November 7: Tan Cerca Tan Lejos, radio interview with Leopoldo Gomez Ramirez—a general discussion of CPE’s work.

December 12: Upfront Radio with Daria Fisk—an interview about CPE’s Wellspring Collaborative project to create a network of worker owned businesses in low income neighborhoods in Springfield, MA.

January 21-25: Financial Permaculture Summit, Miami—Emily Kawano presented on the solidarity economy and served as a resource person in a collective process to develop plans for a permaculture farm, a commercial kitchen, a café and a food hub.

April 19: New Economy Conference, Clark University, Worcester, MA: New Economy 101 a workshop that provided an introduction to the solidarity economy.

March 27: WMass JwJ: Housing Crisis and Community Land Trusts, Springfield, MA—CPE continued our workshop series. This one focused on strategies to create permanently affordable homes using the CLT model.

May 26: Practical Visionaries Workshop, Tufts University, Medford, MA—this workshop brings together community activists and graduate students. Emily Kawano gave a presentation on the Wellspring Cooperative Collaboration.

May 6-8: UN Research Institute on Social Development, Geneva, Switzerland—Emily Kawano will be a speaker at this international conference on the social solidarity economy.

Table of contents

Reinhart and Rogoff Are Wrong About Austerity ..................................................page 1
Valuing Care Work ..............................................................................................page 1
CPE Happenings .................................................................................................page 2
CPE Summer Institute ...........................................................................................page 3
Reinventing Home Care: Making America's Fastest Growing Jobs Good Jobs......page 4
CPE’s Journey Along the Solidarity Economy Road ..............................................page 6
But the Funny Thing Is .........................................................................................page 7
Participatory budgeting in NYC and citizen engagement in Somerville, MA ......page 8
CPE’s 2013 Summer Institute

The Care Economy: Building a Just Economy with a Heart

August 4-10
Hampshire College, Amherst, MA

Special focus on the care economy—why a healthy and thriving society and economy needs to invest in paid and unpaid care work: childcare, eldercare, healthcare, education. We couldn’t survive without it.

A week-long training about how the economy works (and how it doesn’t) and what to do about it.

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Co-sponsors: Civil Liberties & Public Policy, Caring Across Generations, and the Center for Women’s Global Leadership
They labor in the shadows, caring for our grandparents, our disabled veterans, and others who require help with daily activities. Now, as the need for home care soars, a national campaign is working to reshape the industry to create millions of good jobs, reverse longstanding inequities for workers, and deliver high-quality services.

Personal care and home health aides are among the nation's most marginalized, underpaid occupations — and the fastest growing. In that tension, Caring Across Generations sees a golden moment to organize and advocate for equity-focused changes in a sector vital to job creation and economic growth, especially in low-income communities and communities of color.

"It is a huge opportunity for us to address inequality, if we make sure we create quality jobs," said Ai-jen Poo, the campaign's co-director.

The campaign is bringing together people across divides of race, age, class, and disability to push for reforms that benefit everyone: the rapidly aging, largely white population driving up demand for care; the workforce made up largely of women of color; and the nation as a whole, struggling to grow the economy.

The high road to high growth

Two million people work as personal attendants and home health aides for seniors and people with disabilities. The jobs are exempt from the federal minimum wage and overtime rules (though covered by labor standards in some states).

In one survey, average starting wages ranged from $9 to $12 an hour, considerably lower than the $16 average for all U.S. workers. And that does not include innumerable workers hired directly by consumers and families — often for even lower pay. About 45 percent of care workers live in households with incomes below 200 percent of the federal poverty line.

At first glance, home care may not seem like a high-potential industry, the way, for instance, biotechnology does. But it should. The ranks of care workers are projected to swell by 70 percent this decade, mostly due to the graying of America. Every day another 10,000 people turn 65 years old. Many aging Americans want to live at home even when they no longer can bathe, dress, eat, or get around on their own. The support of personal care attendants and home health aides make independent living possible.

Caring Across Generations, a coalition of 70 labor, women's, philanthropic, faith, and health care organizations, is working to build public and political will around four broad policy principles: create good jobs, develop training and career ladders, build a path to citizenship, and maintain safety net supports for seniors and people with disabilities.

The campaign is creating a movement for policy change by building on the interdependence that often characterizes the relationships between care workers and patients. This notion of reciprocity resonates with Marlene Champion, a care worker from Barbados, especially when she thinks about one of her dearest clients, an elderly, frail pediatrician, Morris Steiner. She worked to get him, first, out of bed, then out of his apartment, and finally to family and social events. He influenced her to resume her studies, and she earned a G.E.D. at age 53.

"He felt like a part of my family after a while," she said. "And the same thing went for him."

Launched by Poo, director of the National Domestic Workers Alliance, and Sarita Gupta, executive director of Jobs with Justice, Caring Across Generations taps into dedication like Champion's and into the capacity and networks of partner organizations.

The campaign held Care Congresses throughout the country last year, gathering as many as 500 participants at a time to share perspectives on the care crisis and ideas for solving it.

The campaign now is developing online tools to continue the groundbreaking conversation that spurred care workers, consumers, and families to find common cause, revalue this crucial work, and envision a robust, compassionate infrastructure of care that strengthens our communities, our economy, and our humanity. ❖
a society. In order to work, be an active part of communities, and participate in the political process, people have to be fed, nurtured, educated, and have all of their daily needs met. The labor of care accomplishes some of the most fundamental tasks of a society.

The second unique, but closely related, characteristic of care work is that it has benefits that extend beyond the individual directly receiving the care. Care, whether done with paid or unpaid labor, is a “public good” and public policy and government fiscal support play a critical role in maintaining the well-being of this sector.

The need for care is substantial. To take the example of a single state, the 6.5 million individuals who live in Massachusetts all rely on care work for their physical and mental health and to meet their daily needs. State domestic product, the Census Bureau measure of goods and services produced and paid for in a state, measures health care, K-12 education and “social services” as 13 percent of the total state product. However, because so much of care work is not paid for, this measure makes the majority of care invisible.

The Paid Care Labor Force in Massachusetts

Paid workers in health care, K-12 education, child care, and other social services are a critical part of the human infrastructure of the Commonwealth. In 2007, almost 800,000 Massachusetts residents worked in these care sector industries. These workers – fully 22 percent of the state labor force -- are meeting the most essential needs of state residents.

Care work, whether paid or unpaid, is performed largely by women. In Massachusetts, 75 percent of the workers in paid care industries in 2007 were women. By contrast, women made up only 41 percent of workers in other industries. There are also significant concentrations of racial-ethnic minorities and immigrants in certain parts of the care sector. For example, while immigrants make up 18 percent of the state labor force, foreign-born workers are almost 40 percent of nursing, psychiatric and home health aides, 31 percent of personal and home care aides, and 23 percent of child care workers. Black and Hispanic workers are also overrepresented in these groups.

Unpaid caring labor

Unpaid care helps people develop and maintain their everyday and future capabilities; strengthens our relationships with one another; improves our health; and helps us negotiate the complexities of obtaining paid care services such as getting to a doctor, finding a good child care center, or learning about elder care services.

Assigning a dollar value to unpaid care work equal to that of typical care workers, we estimate that unpaid care work is worth $151.6 billion a year. If unpaid care were counted as part of Massachusetts gross domestic product in 2007, it would account for 30.1 percent of the state’s output.

The Total Care Package

The care sector in Massachusetts is substantial. It employs one out of every five workers, every year Massachusetts residents collectively provide 25 million unpaid hours of care, and close to two-thirds of state and local government dollars goes to financing care work. The total care sector comprises 39 percent of state GDP when we include the value of unpaid work in state output.

The labor of care work is critical to both our present well-being and our future growth and development. The substantial role of public support in the care sector, however, makes it particularly vulnerable to budget cuts at both the state and federal level. Recent severe cuts place extraordinary challenges on paid and unpaid care workers and those for whom they care and may in fact impede the ability of the care sector as a whole. The Commonwealth’s human capabilities may well depend on us finding a way for governments to continue to co-invest in care.
CPE’s Journey Along the Solidarity Economy Road
By Emily Kawano, CPE Executive Director and SEN coordinator

Half a dozen years ago, solidarity economy (SE) was practically an unknown term in the U.S., though in other parts of the world, particularly in Latin America, the solidarity economy movement was already strongly rooted and growing fast. Now, more often than not, people in the progressive community in the U.S. at least recognize the term, even if they aren’t completely sure what it means. The Center for Popular Economics has been at the forefront of efforts to raise the visibility of the SE and build greater connections and engagement among practitioners, proponents, researchers and grassroots groups.

In 2007, CPE initiated a process that brought together groups engaged in solidarity economy work at the U.S. Social Forum in Atlanta. The U.S. Solidarity Economy Network (SEN) emerged out of these meetings and CPE agreed to take on the role of coordinating the network. As part of SEN, we have supported a range of initiatives, including local SE organizing and networking, SE mapping and economic integration, a national conference in 2009, publication of two volumes of SE essays, SE briefs, ensuring the presence of the SE in the 2010 US Social Forum, and lots of educational work including workshops and online courses.

CPE has integrated the SE into our curriculum and workshops and participants have been very happy with this approach. Over the years, CPE has struggled with how to engage participants in thinking about “what’s the alternative.” We tried bottom up visioning which usually ended up being too utopian and unconnected to the real world. We tried a more abstract “here are some models” approach, covering different forms of socialism, communism, anarchism, and social democracy, but often participants found these to be too distant from their own realities. With SE, we are able to present real concrete practices that people can relate to, in the context of the SE systemic framework, which embraces many of these alternative economic models. CPE’s involvement with SE also led to our engagement in the Wellspring Cooperative Collaboration which is working to build a network of worker cooperatives in low income neighborhoods of Springfield, MA.

Solidarity economy continues to gain recognition throughout the world. Mali, Brazil, France and Luxembourg now have government ministers for the SE. The International Labour Organization (ILO) recognizes the SE as an important strategy of economic development and has organized a Social Solidarity Economy Academy for trade unionists and other activists, the third of which was held this past April in Morocco. The United Nations (UN) is beginning to look at the SE as an alternative model of development and the UN Research Institute on Social Development has organized a conference on the Social and Solidarity Economy: Potential and Limits Geneva, May 6-8, 2013.

There are too many things going on in the SE world to mention, but one last event in 2013 is worth highlighting. The 5th International Meeting of the Social Solidarity Economy will take place in Manila, Philippines, October 15-18 and promises to be another touch point for strengthening the global solidarity economy movement.

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Thanks!

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So what does this mean? Consider a situation in which a country is approaching the threshold of a 90 per cent public debt to GDP ratio. It is not accurate to assume that these countries are reaching a danger point where growth is likely to decline precipitously.

Rather, our evidence shows that a country’s growth may be somewhat slower once it moves past the 90 per cent level. But we cannot count on this being true under all, or even most, circumstances. Are we considering the US demobilisation after the second world war or New Zealand during a severe one-year recession? One needs to ask these and similar questions, including whether slow growth was the cause or consequence of higher public debt.

What of our present circumstances? Using the Reinhart/Rogoff data, we found that the average GDP growth rate for countries carrying public debt levels greater than 90 per cent of GDP was either comparable to or higher than those for countries whose debt ratios ranged between 30 per cent and 90 per cent.

Of course, one could say that these were special circumstances due to the 2007-2009 financial collapse and Great Recession. Yet that is exactly the point. When the US and Europe were hit by the financial crisis, and subsequent collapse of private wealth and spending, deficit-financed government spending was the most effective tool for injecting demand back into the economy. The increases in deficits and debt were indeed large in these years. But this was a consequence of the crisis and a policy tool for moving economies out of the recession. The debt was not the cause of the growth collapse.

The case for austerity has never relied entirely on Prof Reinhart and Prof Rogoff. But the other major claims made recently by austerity hawks have also not held up well. Austerity supporters circa 2009-2010 consistently argued, frequently in this newspaper, that the large US deficits would lead to dangerously high inflation and interest rates. Neither prediction came true. In fact, both inflation and interest rates on treasuries were at historic lows in the four years, 2009-2012, during which deficits were at their peak.

It is also untrue to say that the large deficits have created an unsustainable burden on the US public finances. In fact, since 2009, the US government’s interest payments on debt have been at historically low levels, not historic highs, despite the government’s rising level of indebtedness. This is precisely because the US Treasury has been able to borrow at low rates throughout these high deficit years.

We are not suggesting that governments should borrow and spend profligately. But judicious deficit spending remains the single most effective tool we have to fight against mass unemployment caused by severe recessions. Recent research by Prof Reinhart and Prof Rogoff, along with all related arguments by austerity proponents, does nothing to contradict this fundamental point.

This comment was published as an op ed in the Financial Times on April 17, 2013. Please visit the PERI website to access the full article: http://www.peri.umass.edu

But the Funny Thing Is...

A 28-YEAR OLD GRAD STUDENT EXPLAINS HOW HE DEBUNKED INFLUENTIAL AUSTRIETY STUDY

Ok, so now that you’ve read the serious analysis, let’s get to the really hilarious part of this story. The Reinhart and Rogoff article that buttressed budget-cutting austerity measures is now in shreds. The original shredder was Thomas Herndon, an economics graduate student (and a CPE member) who discovered the flaw in the Reinhart and Rogoff paper while working on an econometrics class assignment to replicate the results of a high profile paper. The professors teaching the course, Robert Pollin and Michael Ash, almost didn’t approve the Reinhart and Rogoff article for the assignment because the technique used to estimate a country’s average growth rate is so simple that it didn’t seem challenging enough. Eventually, Thomas got the green light and discovered an error in the excel spreadsheet that Prof. Reinhart had shared. He explained, "I clicked on cell L51, and saw that they had only averaged rows 30 through 44, instead of rows 30 through 49.” After the paper was published, it went viral across the globe and Thomas even appeared on that pinnacle of real news, the Colbert Report. Whoever said that economics is not fun?

Reinhart & Rogoff Wrong About Austerity (cont’d from page 1)
Somerville’s Mayor Curtatone and New York City Councilmember Brad Lander spoke at the Harvard Kennedy School in early April at an Ash Center event entitled “Reinventing Urban Democracy in New York and Somerville.” Councilmember Lander explained how himself and three other New York City Councilmembers decided to use a million dollars each of discretionary capital funds for participatory budgeting, a process by which residents make suggestions for projects at assemblies, work with city agencies to turn these suggestions into feasible capital projects, and finally vote on which projects will be funded.

Lander suggested that giving communities actual decision-making power rather than mere advisory opportunities brought new people into the process, including those that may be more cynical about government. “When you put real money on the table, people pay attention in a different way,” Lander explained. Since the process was run by the City Council offices, together with non-profit organizations, they were able to determine the rules on eligibility, and decided to allow immigrants who hadn’t yet received citizenship, people with previous convictions, and youth starting at age 16, to vote. “The vote share by the Bengali community in my district was double what it is for regular elections,” Lander commented.

Mayor Curtatone also emphasized the value of citizen engagement for policy-making. He explained the ways that Somerville tracks 311 calls (constituency hotline) and social media feedback. He also talked about “Resistat”, a program in which himself and agency heads attend community meetings in each district to both share data on city operations and hear from residents regarding current policy and planning efforts. “We encourage residents to ask us for data on particular issues,” Curtatone stated, talking about how the use of data for city management and citizen feedback don’t have to be divorced from each other. Curtatone emphasized the importance of communicating with residents through as many different mediums as possible. “You can’t over-communicate,” he reminded the crowd.