



## Spending to Grow the Economy

### Making the Case for Counter-Cyclical Spending

*Americans, who take pride in living on a budget, recognize we can't go on spending money we don't have, and that our economy is stuck in large part because it is stuck with debt.*

House Speaker John A. Boehner (R-Ohio), May 15, 2012

Four years ago, the banking system and financial markets were on the verge of collapse, starting a precipitous decline that would result in millions of lost jobs and \$1.3 trillion in vanished wealth. The Obama administration got to work and achieved remarkable progress in a very short period - saving the auto industry from collapse, passing significant stimulus legislation, reforming financial markets and the health insurance system, and so on. And yet, conservatives have been able to turn many of these successes against the administration with accusations of out-of-control spending.

Leading up to Election Day, conservatives will seek to refocus attention on the federal deficit and blame our limping economy on government overspending. In fact, House Speaker Boehner has already signaled this intent.

To get the upper hand, progressives need to do more than simply talk about jobs and hope that Americans' concern about employment will trump concern about the deficit. We need to fill a gap in the conversation that helps Americans understand *why deficit spending is necessary to job creation and economic growth.*

### A Fundamental Disconnect

Most Americans think of government budgets as being like a household budget. When times are tough, we scale back, cut unnecessary spending, and avoid taking on more debt. It would be irresponsible to increase spending and max out the

credit cards. Is it any wonder that the Live Within Our Means perspective advanced by House Speaker Boehner and conservatives resonates with the public?

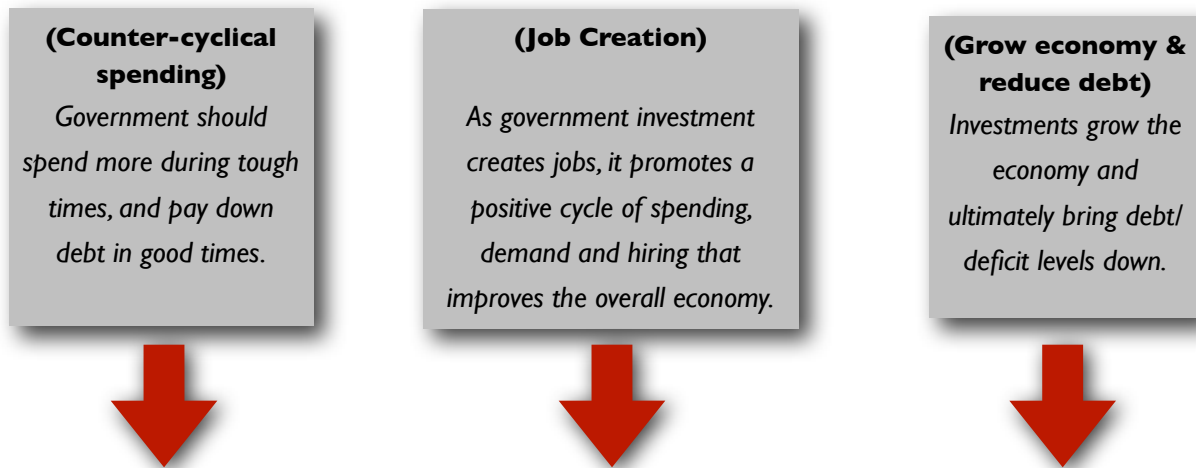
If people believe government spending contributes to our economic woes, it becomes impossible to advocate for new spending to get out of the recession or to blunt the effects of the recession on the most vulnerable. Further, if Americans worry about leaving their children and grandchildren with a mountain of debt, it becomes logical and responsible for them to consider spending cuts in all programs, particularly programs that make up large parts of the budget—Social Security and Medicare at the federal level, and education, public employee pensions, etc. at the state and local levels.



Though experts are currently pointing to Europe and warning that austerity isn't the answer, the only way to compete with a common sense idea like "Live Within Our Means", is to create a new cultural common sense.

## A New Cultural Common Sense

Progressive should talk about jobs, not deficits. But when the conversation inevitably turns to deficits and government overspending, progressives need to be able to bring the conversation back to jobs by making the case that government spending is essential to recovery, and we can grow our way out of debt. Specifically, our research finds that the following construction is powerfully effective in helping average Americans understand an idea that seems obvious to economists and policy experts:



This core set of points can be expressed and combined in a variety of different ways, for example:

*According to economists, government budgets and household budgets work the opposite in one simple way: Governments can and should spend more when times are tough. Government spending makes up for lack of spending by families and businesses, and it helps end a recession by getting people back to work, keeping businesses open and so forth. Households spend more once times are good again, but that's when government focuses on balancing its books, because once the slowdown has ended, people are back at work and tax revenues are back up. For instance, after World War II debt was significantly higher as a proportion of the economy than it is today. But as the economy improved, debt came back down to OK levels.*

This approach has an important role to play in progressive discourse, because it offers a common sense, user-friendly way to understand the relationship between deficits, spending and future prosperity – and helps people see that there are other responsible, common sense stances besides “live within our means.” It offers hope about positive steps that can help and empowers listeners because they understand the situation more clearly.

Several other tested messages proved less effective – including explanations of how the recession was created, how recession causes deficits, how further cuts would be harmful, descriptions of states' dire situation, and so forth. While all of these points have a role in the discussion, they are less helpful as lead ideas because they easily trigger a “Live Within Our Means” response or a general condemnation of politicians and government.

While the debate on deficits and government spending is hazardous, as the 2011 debt ceiling battle dramatically demonstrated, communicators have an opportunity to make an effective case by using common sense explanations that engage people, offer hope, and establish new understandings of the situation.

## Examples From the Field

Progressive economists have been trying to get some elements of this approach into public discourse. With the simple interpretation offered above, non-experts can join in getting this approach into public discourse; it will take many, many voices to create a new cultural common sense to compete with the Live Within Our Means mindset. Note that while all of the following quotes from economists are strong examples of the core recommended idea, our research suggests that communicators will head off more objections by also starting with the “unlike household budgets” assertion and always including a point about “paying it off when the economy grows”.

*If we were to spend more money at the government level, and actually, at this point, largely, just rehire the schoolteachers, firefighters, police officers who have been laid off in the last several years because of cutbacks at the state and local level, we would be a long way back towards full employment...there just is not enough spending, and we need the government, which can do it, to step in and provide the demand we need...I'll be all for worrying about the budget deficit once the—once the economy is off the bottom. But it is not off the bottom. We are in a depression. This is the time to spend...Borrow it, and then repay it later in better times...that's exactly what we've done in the past.*

Paul Krugman, on Democracy Now, May 17, 2012

*Which of the major economies in the advanced world grew fastest in the first quarter of 2012? The surprise answer is Japan. Why is that happening? It's because Japan is now spending a lot of money reconstructing after the tsunami. And that spending is driving rapid growth in Japan right now. We could all be doing that.*

Paul Krugman, on Democracy Now, May 17, 2012

*When a country is experiencing economic weakness, deficit spending is one policy tool that can help boost the economy by spurring demand and saving or creating jobs...Simply put, deficits aren't a problem in a downturn. On the contrary, deficits are a key part of jump-starting a recovery. Calls to reduce deficits by cutting spending and further reducing government revenue during difficult economic times will actually impede recovery.*

Austerity, the Path to Prosperity? Written by Alan Barber, CEPR Blog, Wednesday, 25 April 2012.

*In short, the economy continues to suffer from a lack of demand. The federal government can help with this. We know that government spending can help restart an economy. Over the past two years, increased investments in infrastructure have saved or created 1.1 million jobs in the construction industry and 400,000 jobs in manufacturing by March 2011...A sweeping consensus of economists and forecasters across the political divide now calls for the government to forcefully intervene in precisely this way, to create demand for goods and services, which will in turn boost hiring and business growth.*

Government Spending is Just What Our Economy Needs, by Heather Boushey, US News & World Report, Nov. 4, 2011



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