

## Debt and austerity

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Government is not just another household. Government has powers and duties that no private household has (or should have), to direct real resources to socially valuable purposes.

It is not engaged in a zero-sum contest against other households or firms over a fixed supply of goods and services. Less government activity does not automatically mean more private sector activity – rather the contrary. Nicola Willis is mistaken in believing that fiscal austerity will expand the economy.

Government debt is part of the economy's total debt, derived from the balance of payments, not the government budget balance. Cutting government debt without strengthening the balance of payments increases private debt.

Adam Smith listed three “duties of the sovereign”: defending the realm, protecting the weak against the strong, and providing the unprofitable but socially useful things that the private market won't.

Done properly, government is a contributor, not a predator. Taxes provide the required fiscal space. Tax cuts that squeeze that space just drive austerity.

**Geoff Bertram, Karori**

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