Repeat after me: deficits are OK

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The FT has some hysteria in its pages this morning, reporting that (and I quote extensively for good reason):I added the emphasis, and for good reason.

Scotland would need to make "substantial" tax rises or spending cuts if it won full control over taxation and spending, a respected think-tank has warned, undermining claims by the Scottish National party it would be able to bring austerity to an end.

The Institute for Fiscal Studies has estimated that a Scottish government could face a hole of up to £10bn **if it were given responsibility to balance its books** over the course of the next parliament. This is equivalent to nearly 5 per cent of Scottish gross domestic product.

"It would remain the case that full fiscal responsibility would likely entail substantial spending cuts or tax rises in Scotland," said David Phillips, the author of the IFS study.

As far as I know Scotland has not asked for responsibility to balance its books. Nor is there anything, anywhere, that says that a country must balance its books. Indeed, as people will now be well aware, **I argue that this is just an absurd idea: governments cannot balance their books almost by definition since they are the lender of last resort and whether or not their books balance depends entirely on whether consumers save or borrow, business invest or not, and on the balance of overseas trade. This is why governments also need their own currencies, but with or without that currency raising power the issue remains that this is a target beyond the control of any politician.**

So why are the IFS making up this nonsense? Why are they assuming that Scotland wants independent fiscal responsibility to become a nation of paranoid book-keepers? And why are they assuming that Nicola Sturgeon, or whoever else might lead a Scottish government, would not want to run a deficit for the fiscal stimulus that such a deficit can provide, which is a wholly and completely valid economic policy to pursue? I stress, that is what they are assuming.

It's unbecoming for the IFS to be so naive, and shows them to be beholden to the austerity / deficit reduction paranoia of neoliberal politics. Or rather, it's either unbecoming or it shows that the IFS is not the independent and objective think tank it claims to be but is in fact part of the neoliberal establishment that seeks to deny choice to government whilst seeking to impose austerity by denying the options that democracy should make available.

You take the pick of the pick of the interpretations, but what is undoubtedly and emphatically true is that if they wished to reveal themselves to be of real independent mind they would say that the option of running a deficit is, of course, available to a Scottish government and that this is a perfectly reasonable economic choice to make, within reason. But they didn't. And so it's my point to make clear that they are wrong and that running a deficit is not only a valid economic choice, but can, quite emphatically be the right one.