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The Source of the Economic Paralysis in Washington

Americans are fed up with the failure of the federal government to act effectively to reduce the economic suffering and waste associated with what appears to be the endless aftermath of the financial collapse and the resulting Great Recession. While real unemployment rates continue in the double digits, with some estimates showing that one in five of us is either unemployed or underemployed, the federal government cannot agree on any actions except a loud, repetitive, incomprehensible cacophony of shouted conflicting bumper sticker slogans.

In fact, the federal government appears to be on the fast track to a train wreck: If agreement between the two political parties cannot be reached soon, broad across-the-board cuts will be made in all federal spending. These cuts in spending will lead to still more layoffs both in federal, state, and local governments and in all the businesses that supply those governments. We will ride another cycle of layoffs downward, making a terrible economic situation worse.

This destructive paralysis is tied to what is basically a right-wing ideological position masquerading as hard-nosed economics. The basic right-wing position is that the government can do little or nothing that is productive and that the less government spending and activity, the better. The pseudo-economics currently being used to support shutting down government spending across the board is that the liberal, do-gooder, nanny-state federal government has run up huge debts that are unsustainable.

Those debts, we are told, threaten us as a nation with bankruptcy and threaten our children and grandchildren with penury.

In fact, the “deficit” crisis that has paralyzed our political system is almost entirely phony, manufactured for ideological reasons. That should be clear given that much of the deficit was created by Republican administrations, including those of Regan and the two Bushes. At the time the Republicans assured us that those federal deficits they were creating did not really matter.

Now Republicans have shifted from “deficits do not matter” to “deficits are all that matter” and, therefore, government programs have to be slashed across the board. This is clearly an opportunistic exploitation of both hard economic times and the understandable fear that accompanies them. The long term goal is to undo Social Security, Medicare, Medicaid, and every other significant federal government program that has successfully provided economic security for senior citizens and children living in poverty as well as providing the basic public infrastructure that made our economy productive and a middle class possible.

We need to reject the ideological myths being used to paralyze the federal government just when we need aggressive steps to stop the downward cycle of job losses and plummeting household and business spending:

1. Federal deficits are not undermining the solvency of the federal government and pushing it towards bankruptcy. That is clear from the investors around the world who have chosen US government securities as the safest place to park their money. Compared to the alternatives around the world, US government securities appear safer than any other investment around.

2. The federal government is not like any business or household that has to balance its budget or go bankrupt. There is a fundamental difference. The federal government does not *have to* borrow money in order to spend it. It has the power to create money that has to be accepted for payment for goods and services. In addition when the US government does borrow money, it promises to pay the lender back with dollars that the US government can create. Households and businesses as well as state and local government and, similarly, member states of the Eurozone, cannot do that. The US government can always pay its debts *unless* a political decision is made not to do so, something that Republicans almost forced on the American government earlier this year.

3. This is not to say that the federal government *should* print and spend or borrow money in a profligate manner. That could have serious consequences, one of which is the depreciation of the value of the dollar, otherwise known as inflation. But inflation at the present moment is not a threat. Instead we face the opposite threat, that of deflation, as consumer demand falters, businesses sit on savings hesitant to invest, and state and local governments slash their payrolls and purchases. Our problem right now is that we have massive amounts of productive capacity including skilled workers, factories, and investment capital that are sitting idle. Stimulating the economy to put those productive but idle resources to work will boost production, employment, and personal income, not generate inflation.

4. It is not profligate government spending that has expanded the deficit since the Great Recession struck. It is the Great Recession itself that has expanded the deficit. As workers were laid off and consumer confidence and spending shrank and factories

and businesses shut down, tax revenues plummeted. The solution to deficits during a serious recession is getting workers, capital, factories, and businesses back to work. Boosting demand for goods and services is crucial to that. Businesses will not rehire and invest in new productive capacity if no one, households, other businesses, or governments, are purchasing. The federal government has a crucial role to play in putting a floor under collapsing demand for goods and services. It can do this while investing in the productive infrastructure that our economy badly needs and providing some protection for those hardest hit by the Great Recession.

The constant anti-government babble and the intransigence of a right-wing intent on dismantling the federal government threatens the recovery of the American economy and the reinvigoration of a vital middle class. Wildly slashing the social safety net, public institutions, and basic economic infrastructure on which we all ultimately rely will leave our economy weaker, our middle class eroding even faster, while a tiny fraction of the population profits from our collective economic misery. That is the economic dead-end into which a mindless anti-government ideology is pushing us. We need to push back.