

The Audacity of Failure: The 4-year presidency of Barack Hoover Obama

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Barack Obama is on his way to becoming a one-term president. According to Politico:

“President Barack Obama plans to announce in next year’s State of the Union address that he wants to focus extensively on cutting the federal deficit in 2010 – and will downplay other new domestic spending beyond jobs programs, according to top aides involved in the planning.

The president’s plan, which the officials said was under discussion before this month’s Democratic election setbacks, represents both a practical and a political calculation by this White House.” (www.politico.com)

Er, now who exactly is telling Obama that raising taxes or cutting spending in the middle of a severe economic contraction is a good idea?

This clip from Politico tells us more about the people surrounding Obama, than it tells us about Obama himself. Clearly, his chief lieutenants are just as committed to savaging Medicare, Medicaid and Social Security as their GOP counterparts. This is obvious by the way they’ve handled the fiscal stimulus. Where are the jobs programs, the boost to Green Technology, the massive infrastructure rebuild?

Nowhere. Because the industry-reps and bank lobbyists who fill out the Obama roster adhere to the same pro-business credo as the members of Team Bush, that is, that all public assets and resources should be strip-mined from their rightful owners and transferred to the robber barons at the top of the economic food-chain. There’s no way that Geithner, Summers and the rest of the Wall Street insiders would ever dream of rebuilding the public safety net they’ve been trying to destroy for the last decade or more. That’s not in their interests at all.

The administration’s announcement is tantamount to a stealth-attack on Social Security in the name of “fiscal responsibility”. It’s another public relations ploy intended to enrich the parasite class by stealing crusts of bread from penniless retirees. Surely, there must have been a quid pro quo between the two-year Illinois senator and his political backers about how they planned to deal with “entitlements problem”. In other words, Obama must have given the green light to the party bosses who wanted to purloin the last few farthings in the Social Security trust fund.

So, how will Obama’s attack on Social Security etc. effect the so-called “jobless recovery”?

For one thing, it makes a double-dip recession unavoidable. After all, (according to Goldman Sachs) last quarter's surge in GDP to 3.5% was entirely a result of government stimulus. Take away the stimulus, and the economy slips right back into recession. Is that what Obama wants, another stretch of negative growth, plunging economic activity, lower demand and higher unemployment? Why? To satisfy the GOP "deficit hawks"?

All the handwringing over deficits is just more gibberish from the same people who brought us the Iraq War. The deficits are about as big a problem as the fictional WMD, maybe less. Here's a clip from an article by Marshall Auerback which sheds a bit of light on the deficit fiasco:

"Large deficits are not the problem....Let's all take a deep breath here: Whilst the dollar index has fallen some 15% from the high sustained earlier this year, it is still above the lows sustained at the height of the credit crisis reached about a year ago. Secondly, there seems to be a fear that the current fall in the dollar could well engender inflation, and create a panicked response from policy makers where the Fed actually does raise rates and the Treasury begins to reduce government spending. Given high prevailing debt levels and the weak state of the consumer's personal balance sheet, this would be an unmitigated disaster.

It is true that excessive government deficit spending can be inflationary, and could therefore cause some impact on exchange value of dollar. But this can't be viewed in some sort of vacuum. The size of the deficit is irrelevant in itself. There is no meaning in the terms 'large deficit' or 'small deficit.' You have to relate them to the extent of labor and capital underutilization, which is a human measure of the aggregate demand deficiency. The fact that labor underutilization is now in excess of 16 per cent in the US (combined unemployment, underemployment and hidden unemployment) and capacity utilization is in the 60-65 per cent range rather than 90 per cent range sends one very clear message - the deficit is not large enough.

So the correct policy response is to spend until we get to full employment. That is the only consequence of excessive deficits — insolvency is not possible. Your social security check will never bounce in a country issuing debt in its own freely floating non-convertible currency." ("The US Dollar - Don't just do something, stand there!" Marshall Auerback, newdeal 2.0)

The best way to restore economic well-being is to increase the fiscal stimulus, expand the deficits and put the country back to work. There's no chance of inflation until unemployment drops to roughly 5%, which could be a decade away. And don't believe the doomsayers about the dollar either. It's a bunch of malarkey. Check this out:

"As I have shown in two recent papers, even very large currency depreciations in developed economies have no effect on inflation unless they are caused by policies that attempt to hold an economy's unemployment rate below its equilibrium level. With US unemployment currently at 10 percent, there is no chance that inflation will rise in the near term. Whether inflation rises in the longer run will depend on whether US monetary and fiscal policy stimulus is withdrawn appropriately as the economy recovers (and tighter macroeconomic policies would tend to support the dollar)." ("Who's Afraid of a Falling Dollar", Joseph Gagnon, Baseline Scenario)

The dollar is dropping because the Fed is doing everything in its power to push it

downwards. "It's the policy, stupid." A falling dollar increases exports and speeds up recovery. But once the Fed stops printing money via quantitative easing, (which is set for the end of 1st Q 2010) watch out. The dollar will rebound. Here's an excerpt from an article in the Economist:

"This dollar declinism is overblown. It exaggerates the scale of the slide and misunderstands its cause. Much of the recent weakness simply reverses the earlier safe-haven flight to dollars, a sign of investors' optimism about riskier assets rather than their fears about America's currency. On a trade-weighted basis the dollar today is close to where it was before Lehman failed. Yields on Treasuries have not risen and spreads on riskier dollar assets continue to shrink. If investors were growing leazier of dollars, the opposite should have occurred." ("The Diminishing Dollar", The Economist)

When the financial crisis broke out two years ago, investors around the world flocked to the dollar for safety. Now that the crisis has (somewhat) abated, those same investors are less risk-adverse, which means they are putting that money in other assets (stocks, bonds, commodities) Naturally, that is weakening the dollar, but it is not a sign of impending collapse. And while it is true that the greenback faces stiff headwinds in the long-term-due to the US's deteriorating fiscal situation-the dollar is in no immediate danger of losing its position as the world's reserve currency. That will take a decade or more.

The growing fear about the dollar and the deficits is understandable given the amount of money that is being hurled at the financial system. But that shouldn't dissuade reasonable people from doing what needs to be done. The dollar and the deficits are NOT the issue. The issue is jobs, jobs, jobs. Here's an excerpt from an article by Henry Liu which sums it up perfectly:

"An economy that has collapsed under the burden of excessive debt cannot recover until such debt has been extinguished. And debt can only be extinguished by wealth creation, not by creating more debt with easy credit. And wealth can only be created by employment and not by financial manipulation." (Federal Reserve Power Unsupported by Credibility; part 1 "No Exit" Henry Liu)

Bingo. The Fed is bailing out unproductive speculators, while tossing the "creators of the nation's wealth", the workers, a few table scraps. That's why we need a different policy which focuses on jobs programs, fiscal stimulus, and more deficit spending so households can rebuild their tattered balance sheets and the "engine of global growth" (the US middle class) can be re-energized. We don't need more belt-tightening, as Obama seems to think. That is precisely the wrong approach.

Henry Liu again:

"Thus we have financial profit inflation with price deflation in a shrinking economy. What we will have going forward is not Weimar Republic type price hyperinflation, but a financial profit inflation in which zombie financial institutions turning nominally profitable in a collapsing economy."

Right again. The soaring stocks and commodities prices prove that central bank policies can

create asset bubbles even during periods of severe deflation. (like now) Fed chair Ben Bernanke's policies have had no material effect on households, consumers or workers. This is why credit contraction is in its 8th straight month and jobless claims continue to mushroom.

Bernanke—a disciple of Milton Friedman—has taken the monetarist “trickle down” approach throughout, which is why stocks are surging even though the broader economy is still flat on its back. The Fed chief is doing what he's always done, stimulate demand by creating more bubbles. Only this time it's not working because liquidity is unable to flow through the clogged credit system. The administration needs to bypass the credit system altogether and provide direct relief via state aid, tax cuts and jobs programs to jump-start the economy and reduce the widening output gap. What's needed is more stimulus and an aggressive reform agenda aimed at putting the country back to work. Here's Paul Krugman:

“It's truly amazing, and depressing, how completely deficit-phobia has swept the field in Washington. The economy remains in deeply dire straits....Yet the respectable thing, all of a sudden, is to claim that we can't possibly afford to spend any more money on job creation.

History says differently...Other advanced countries have been substantially deeper in debt without either defaulting or having runaway inflation....

I'd be a little more forgiving of the nonsense if all the people screaming about the deficit were sincere. And some are. But many, if not most, are perfectly happy to incur huge unfunded liabilities for the wars they want to fight, and/or to eliminate inheritance taxes for the heirs of multimillionaires. It's only deficits incurred to help working Americans that get them all moralistic.

The point is that the economy desperately needs more help — and yes, we can afford to provide it.” (“Fiscal Perspective” The conscience of a liberal, Paul Krugman, New York Times)

Yes, we can afford it. We just need to shrug off the deficit hawks and the dollar demagogues and provide the necessary resources to get the job done. It's that simple.

Here's more from Marshall Auerback:

“The Administration ... must free themselves from the discredited dogmas of neo-liberalism and channel the spirit of FDR's bold experimentation. We need less deficit terrorism. Fiscal policy must be much more oriented to personal balance sheets, not bank balance sheets. We need to turn around the private sector and begin to produce more tax revenue, so that the large deficits would be short-lived.

If we continue down the current path, we slow recovery and court large budget deficits for many years to come. Far better to spend now to create jobs and get the private sector growing again.(“New Agenda for America: How to Start Anew”, Marshall Auerback, newdeal 2.0)

Economists know what it will take to put the country back to work; debt relief, loan modifications, wage growth and full employment. But it will require a fundamental shift in ideology; a rejection of neoliberalism and a strong commitment to rebuild the middle class. Obama can either help in that process or follow the beggarly path to early retirement. So

far, there's no reason to be hopeful.

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