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U.S. Budget: Super Committee Deadlock – Heads They Win, Tails We Lose

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It is no great surprise that with only days to go, the congressional “super committee,” given the herculean task of carving an additional $1.2 trillion out of the federal budget, has failed to reach agreement. Why should six Republicans and six Democrats with diametrically opposed views agree in a few weeks, when Congress couldn’t shake hands on it after months of wrangling, despite the guillotine blade of a federal default hanging over their heads?

Whether the super committee reaches agreement or not, however, the deficit hawks win. If they agree, either $1.2 trillion gets cut from the budget or taxes go up by that amount; and the committee co-chair has categorically stated taxes are not going up, so that means the budget will be cut. If agreement is not reached, $1.2 trillion in cuts automatically kick in, split evenly between domestic and military spending. Either way, the economy will wind up with $1.2 trillion less in the way purchasing power. The result will be to reduce demand, kill jobs, and put more people on the streets.

For the deficit hawks, however, it all seems to be going according to plan. The super committee is characterized as an emergency measure that was rushed through to avoid an arbitrarily imposed August deadline for freezing the debt ceiling, but it has actually been in the works for years. In 2009, it was called the “Bipartisan Task Force for Responsible Fiscal Action”. That plan died when its Senate sponsors, Judd Gregg and Kent Conrad, failed to secure 60 votes for passage in the Senate. The Gregg-Conrad bill was criticized as railroading through legislation that would unconstitutionally slash domestic services without congressional debate, but its task force would actually have been LESS autocratic than the super committee, which has sweeping powers and needs only a simple majority among its 12 members to prevail.

What has been forced out of the debate is whether cutting the budget is a good idea at all. The Peter Peterson Foundation, which has been pushing “austerity” for years, has finally gotten its way. Hedge fund magnate Peter G. Peterson was Chairman of the Council on Foreign Relations until 2007 and head of the New York Federal Reserve between 2000 and 2004. He made his fortune with the controversial Blackstone Group, which he co-founded and chaired for many years. The Peter Peterson Foundation was established in 2008 with a $1 billion endowment to raise public awareness about U.S. fiscal-sustainability issues related to federal deficits, entitlement programs, and tax policies. The money was used to spearhead a massive campaign to reduce the runaway federal debt. Hysteria over the debt then prompted Tea Party newbies in Congress to hold a gun to Congress’ head by arbitrarily capping the debt.

In the campaign to educate us to the debt's perils, we were repeatedly warned that when foreign lenders decided to pull the plug, the U.S. would have to declare bankruptcy; that we were mortgaging our grandchildren's futures and selling them into debt-slavery; and that all this was the fault of the citizenry for borrowing and spending too much. The American people, who are already suffering massive unemployment and cutbacks in government services, would have to sacrifice more and pay the piper more, just as in those debt-strapped countries forced into austerity measures by the IMF.

The fear-mongering, however, is a red herring. A sovereign nation can always find the money to pay debts owed in its own currency. The Federal Reserve can buy the debt itself – just as it has been doing. That alternative would effectively eliminate the problem of interest, since the Fed returns its profits to the government after deducting its costs.

Alternatively, Congress could reclaim the power to issue money from the banks and fund its budget directly. The U.S. could pay its bills using debt-free U.S. Notes or Greenbacks, just as President Lincoln did to avoid a crippling debt during the Civil War. Congress could do this without changing any laws. Congress is empowered to "coin money," and the Constitution sets no limit on the face amount of the coins. It could issue a few one-trillion dollar coins, deposit them in an account, and start writing checks.

Neither option need inflate prices. As long as the money is used to purchase goods and services, the result will simply be to increase demand, increasing production. Prices will not increase until the economy reaches full employment, and at that point any excess in the money supply can be taxed back to the government, keeping prices stable.

The key to all this is that our debt is owed in our own currency – U.S. dollars. Our government has the power to fix its solvency problems itself, by simply issuing the money it needs to pay off or refinance its debt. The U.S. federal debt has been carried on the books since 1835. It has NEVER been paid off during that time but just continues to grow. This has not hurt the economy, which for most of that period has been among the most vibrant in the world. The federal debt IS the money supply. All of our money except coins is created as bank debt. Historically, when the deficit has been reduced, the money supply has been reduced along with it, throwing the economy into recession.

The real problem with a growing federal debt is the interest on it, which WILL become an insurmountable burden if allowed to grow exponentially. Interest paid on the federal debt in 2010 was $414 billion, or about one-half of personal income tax receipts. That's about as high as we dare let it go. But this problem can be eliminated either by funding the debt through the nation's own central bank, effectively interest-free; or by the Treasury issuing the money outright, interest-free.

The burgeoning debt has been blamed on reckless government and consumer spending; but the debt crisis was created, not by a social safety net bought and paid for by the taxpayers, but by a banking system taken over by Wall Street gamblers. The banking debacle of 2008 caused credit to collapse, businesses to go bankrupt, and unemployment to soar, drastically reducing the federal tax base. If anyone should be held to account, it is Wall Street; but the bankers were bailed rather than jailed, and the taxpayers got billed for the crime.

We have been deluded into thinking that "fiscal responsibility" is something for our benefit, something we actually need in order to save the country from bankruptcy. In fact, it has simply been an excuse to impose radical austerity measures on the people, measures that benefit the 1% while locking the 99% in a dungeon of debt peonage.

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