



All together now: There Is No Deficit/Debt Problem!

Submitted by letsgetitdone on Mon, 12/27/2010 - 1:32am

Departments:

[Department of Bust Out Profit Models and Vampiric Capitalism](#) [1]

Thread:

[Class Warfare](#) [2]

Tags:

[congress](#) [3]

[deficit](#) [4]

[national debt](#) [5]

[President Obama](#) [6]

[bond markets](#) [7]

[solvency](#) [8]

[MMT](#) [9]

[Modern Monetary Theory](#) [10]

[debt-to-GDP ratio](#) [11]

[austerity](#) [12]

[Government Budget Constraint](#) [13]

[mandate to issue debt. 14th Amendment](#) [14]

[neo-liberal paradigm](#) [15]

[GBC](#) [16]

In a little more than a month, the President will give his State of the Union speech. There's every reason to believe that, in it, he will state that, in all sincerity, he believes that the United States Government has a deficit problem and a national debt problem that must be brought under control.

He will tell us that the Government is running out of money. He will also tell us that we need to raise money by either taxing or borrowing to get more, or that we need to make do with no more money by cutting government spending, and he may also tell us that we cannot borrow too much more without the bond markets raising our interest rates, imposing even more of a deficit/debt burden on us that our grandchildren will have to repay.

Or even worse, if we continue to issue more debt, our main creditors: the Chinese, the Japanese, and our oil suppliers, may cease to buy our debt making it impossible for us to raise money through borrowing which, in turn, would force us into radical austerity, or perhaps even into insolvency, which would then be followed by radical austerity and repudiation of our national

obligations.

If we want to avoid all this, then, the President will say, we must decide upon, and implement a middle and long term deficit reduction plan that will stabilize our public debt-to-GDP ratio at a moderate (but unspecified) level that will not breach the confidence of the bond markets. Since we now have two party rule of Congress, we must do this through a bipartisan agreement with the Republicans he will say, and then he will talk about negotiating another deal with them formulating a deficit reduction plan with a schedule for implementing it that will not impede the recovery from the Crash of 2008.

He may also point out that he needs both Republican and Democratic support to get an omnibus spending bill passed, and to extend the debt limit by March 2011, so that he can avoid a Government shutdown, and that his deal with them must therefore include an agreement on extending that debt limit.

President Obama's perceived need for Republican support will then condition his approach to negotiating a bipartisan deal. The Republicans, of course, will be very much opposed to any deficit reduction plan that provides for increased revenue by letting tax cuts for the wealthy expire. They will also be opposed to raising the salary cap on FICA higher than it is now. Instead, they will want to save money through entitlement cuts focused on Social Security and Medicare, and also in discretionary spending of all kinds, but will resist cuts in military spending for defense.

Obama will reply by urging everyone in Congress and among the public to be an adult in their approach to the universally recognized deficit problem, and to realize that all sides will need to give something they want up and he will urge sacrifice and shared pain, on all, while supporting a compromise that involves little pain for the wealthiest 2% of the population and the bankers and the big multinational corporations, but much pain for the remainder of the population in the coming years through substantial cuts in the social safety net, and in other Government spending on infrastructure, education, new energy foundations for the economy, environmental protections and other spending America sorely needs.

In the end, the President will tell us all that he had no choice but to compromise on an agreement that will shred the social safety net, but he will hail the deal he makes as a great accomplishment assuring the financial solvency of the United States and solving the middle- and long-term deficit problems. Then he will try to run on that compromise, and he will hope that increased Wall Street and business confidence in his fiscal leadership will persuade business to stop sitting on all their cash assets and start investing them in new American jobs that, at least, he perhaps thinks, will lower the unemployment below 8% by the time the presidential campaign is in full swing, in the Fall of 2012.

There is only one major problem with this scenario Obama and his supporters seem to be planning. And that is that the deficit/debt problem is a fiction and a fairy tale. Such a problem doesn't exist except in the minds of people, evidently, like the President, who believe that the Government is subject to the same kind of spending constraint, in this case called a Governmental Budget Constraint (GBC) that private economic units such as Households and Corporations are subject to.

There are some Governments that are subject to a GBC. They include Governments of the Eurozone, all of whom have given up their sovereign currency-issuing power to the European Central Bank (ECB). These Governments, from a currency issuing point of view are like American States. In addition, there are other Governments that have established a fixed exchange rate for their currency, very often relative to the dollar, and still others that owe debts in foreign currencies, frequently the dollar. All of these Governments have budgetary constraints because they have either given up their power to create currency or the value of the currency they create is determined by the value of another currency they do not control.

There are other nations however, including the United States, Australia, Canada, New Zealand, Japan, the UK, Argentina, Brazil, and many others that issue their own currencies, owe no debt in anyone else's currency, do not peg the value of their currency to any commodity such as gold or silver, and allow their currency's value to float freely in the International currency markets. Those nations are sovereign in their own currency, and they have no GBC because they have the constitutional authority to create the currency that is the basis for all financial resources in the non-Government Sectors of their economies.

The US, as one of these nations, has an unlimited constitutional authority to spend, and in the process of spending to create new financial resources. It does not matter if the US owes \$13 Trillion in previous debt, or \$26 Trillion in such debt. It does not matter if its debt-to-GDP ratio is 60% or 200%. As long as the US retains its currency sovereignty, it has no GBC that is not self-imposed by Congress. It therefore cannot be forced to become insolvent. It cannot run out of money, unless Congress forces it to do so.

The US doesn't have to tax, or borrow to fund its spending, as the President seems to think. Unlike Households or corporations that cannot create money, the US always has the constitutional authority to spend by simply marking up the USD in private sector accounts within the banking system. It also has other money making powers. But the main point here is that it raises money through taxing and borrowing not to "fund" spending, but only because Congress has chosen to forbid the Executive from using its constitutional power to spend beyond what it has raised in taxes or from borrowing.

The Congress prevents the Treasury from running a negative balance in its Federal Reserve accounts as a result of its spending. The Congress also mandates that the Treasury issue debt to prevent such negative balances. It also imposes a debt limit on the amount of debt that can be issued at any time.

So, the GBC President Obama will tell us about in February is a GBC which exists at the option of the Congress. There is no constitutional reason why the US Government should ever become insolvent. Continued solvency is always at the option of Congress, which can remove the mandate for the Treasury to issue debt, remove the requirement that the Treasury not run a negative balance at the Federal Reserve, or remove or increase the debt limit.

However, even though Congress may think that it is the sole authority that ought to determine whether the US continues to give up its solvency, what Congress can legally do is limited by the 14th Amendment to the constitution, which as [Tom Hickey points out](#) ^[17], says in part:

?Section 4. The validity of the public debt of the United States, authorized by law, including debts incurred for payment of pensions and bounties for services in suppressing insurrection or rebellion, shall not be questioned. . . . ?

So, it is not within the constitutional authority of the Congress to allow or cause the United States Government to become insolvent no matter the level of its deficits, debts, or debt-to-GDP ratio. Congress is mandated by the 14th Amendment to remove the mandate for the Treasury to issue debt, or to remove the requirement that the Treasury not run a negative balance at the Federal Reserve, or to remove or increase the debt limit. But it cannot do nothing and allow the validity of the public debt to be questioned, and still act constitutionally, just because it wants to force the President to accept its views on what public spending should be.

There is a constitutional way for Congress to impose its spending priorities on the President, of course, consistent with Congress's power of the purse. The Republican House can use the appropriation process to pass the spending and taxing bills it wants to, and then can see whether it can get these through the Senate and through Presidential vetoes. It can go on record, as passing further tax cuts for the rich, and cutting all social safety net expenditures, if it wants to, but it cannot hold the people hostage by allowing the Government to be shut down, because if it does so it will fall afoul of the constitutional prohibition against allowing the validity of the public debt to be questioned.

Currently, there is a news blackout in much of the blogosphere, including its ?progressive? wing, in the cable news networks, and in the MSM media on the question of whether or not there is a deficit problem. Most of the progressive blogs won't carry the view that the deficit problem is a fantasy, or the reasoning or argument that makes that conclusion inescapable. In that way, the current situation is like the one we saw at the beginning of the current Iraq War, or the situation during the health care debate where most of the Press blacked out discussion of Medicare for All in favor of the very nebulous public option.

There is consensus now in most of the media, on a false neo-liberal paradigm that gives rise to the view that we have a deficit problem. This paradigm ignores the sovereignty of Government in its own currency, and vests the international bond markets with legitimacy and power these markets do not deserve and only have because the United States refuses to bend them to our currency sovereignty and to the national interest of the United States.

This paradigm causes the United States to pay ?welfare? in the form of interest in the hundreds of billions of dollars annually to other nations and mostly wealthy investors, because Congress insists that we borrow US currency from others when our Government has an unlimited constitutional power to make whatever currency it needs to make in the very process of spending for goods and services. This paradigm is like the ?flat-earth? consensus. It is preventing us from discovering the real America of hope and a magnificent future for all Americans.

Acceptance of this paradigm is ruining our country, because it is causing us to voluntarily impose a GBC that does not exist in the Constitution, and that is preventing us from meeting most of the urgent problems we face. We must end this overweaning concern about the non-existent meta-problem of the deficit and the debt. This meta-problem is a distraction from reality we cannot

afford.

We must force a great debate over the next couple of months and beyond, about whether this self-imposed GBC is good policy or not. And we must make clear that the very belief that there is a real deficit problem that we need to do something about either by taxing more, or borrowing more, or cutting Government spending, is conditional on the belief that this self-imposed GBC limiting the constitutional powers of the Government is proper policy.

Once we make that clear we can then ask the question:

Is it best for the Congress to continue to impose this GBC, and as a consequence of that also impose austerity, high unemployment, and a shredded social safety net on the citizens of the United States, or is it best for Congress to restore the original state of the Constitution in which there is no GBC, no solvency risk, and therefore no monetary reason for not extending unemployment, creating a Federal Job Guarantee Program to end unemployment, having a revenue-sharing program to stop lay-offs of Government workers in our hard-pressed States, strengthening rather than weakening our social safety net programs, and doing all the other things we need to do to restore prosperity and social and economic justice to the United States?

And once we've succeeded in getting people to look at the coming decision about austerity this way, then let Congress and the President legislate austerity if they dare.

I'll end this post with a plea. Over the next months, I ask as many of us as possible who believe that there is no GBC except the one Congress has voluntarily imposed, to blog, comment, and take all legal political action possible, around the point that there is no deficit/debt crisis and therefore there is no need to plan deficit reduction or austerity programs. Instead, we should try to force Congress to remove its constraints on the Government, which create a GBC that isn't in the Constitution.

We need to criticize Congress on the grounds that any upcoming fiscal crisis is its fault ^[18] and is due to the combination of the three constraints it places upon the Treasury I outlined earlier. It is even relevant to point out that even though the amount of the national debt is of no concern for US solvency, the very existence of that debt is the fault of Congress and must not be used to claim that a false fiscal crisis justifying an austerity program actually exists, since all of the debt can be liquidated just by removing the debt issuance mandate and letting treasury spend without issuing debt.

If we can get enough bloggers, commenters, and activists to unite around this point of view and flood the left blogosphere, we may be able to begin cracking the MSM and left blogosphere consensus that there is a deficit problem, or failing that at least get people to engage in debate on the point that the problem is a fantasy. We've got to do all we can to get the best of us on cable shows to represent our point of view that there is no deficit/debt problem. We need videos that go viral! And we need our breakthrough to get at least some discussion in the MSM by the

time the President gives his State of the Union speech, which I'm sure will be a terrific sales job for austerity. We need to try to inoculate people against this sales job before it happens.

What we should not do is to directly defend specific social safety net programs such as Social Security [19] and Medicare against cuts in these programs. The effect of even a successful defense of these programs without first destroying the idea that deficit reduction is needed will be to cause even heavier cuts and burdens in other areas that we have not chosen to defend.

Whether or not Social Security gets cut, austerity will be a disaster for the economy. It will drive us into another recession and perhaps now a depression if we fall for it. Government austerity means a decline in private net financial assets [20]. Right now the private sector is trying its best to restore its savings and erase the effects of the great loss of wealth in the crash. Government austerity, will not make the Government anymore solvent. But it will decrease the solvency of the private sector. And that is the last thing we should be trying to do with a stagnating economy.

(Cross-posted at All Life Is Problem Solving [21] and Fiscal Sustainability [22]).



No votes yet

Source URL (modified on 12/28/2010 - 8:42am):

http://www.correntewire.com/all_together_now_there_no_deficitdebt_problem

Links

- [1] http://www.correntewire.com/category/departments/department_bust_out_profit_models
- [2] http://www.correntewire.com/thread/class_warfare
- [3] <http://www.correntewire.com/tags/congress>
- [4] <http://www.correntewire.com/tags/deficit>
- [5] http://www.correntewire.com/category/tags/national_debt
- [6] http://www.correntewire.com/category/tags/president_obama
- [7] http://www.correntewire.com/category/tags/bond_markets
- [8] <http://www.correntewire.com/category/tags/solvency>
- [9] <http://www.correntewire.com/category/tags/mmt>
- [10] http://www.correntewire.com/category/tags/modern_monetary_theory
- [11] http://www.correntewire.com/category/tags/debt_to_gdp_ratio
- [12] <http://www.correntewire.com/category/tags/austerity>
- [13] http://www.correntewire.com/category/tags/government_budget_constraint
- [14] http://www.correntewire.com/category/tags/mandate_issue_debt_14th_amendment
- [15] http://www.correntewire.com/category/tags/neo_liberal_paradigm
- [16] <http://www.correntewire.com/category/tags/gbc>
- [17] <http://www.newdeal20.org/2010/11/04/obama-faces-his-own-teachable-moment-25819/#comment-9753>
- [18] http://www.correntewire.com/national_debt_congress_fault_redux
- [19] http://action.ourfuture.org/p/dia/action/public/?action_KEY=131
- [20] <http://neweconomicperspectives.blogspot.com/2010/11/keep-deficit-ditch-doves.html>
- [21] <http://www.kmci.org/alllifeisproblemsolving/>
- [22] <http://www.fiscalsustainability.org>