The Social Justice Column

Attention: Deficit Disorder in the American Economy

By Fadhel Kaboub, Denison University

The U.S. economy is continuing to shed jobs, with 54,000 lost in August alone. Economists on the right blame the weakness of the U.S. economy on the huge federal government deficit. The mainstream media continues to propagate deficit phobia, and the general public is now in complete deficit disorder. While it is true that the current level of federal government deficit is at an historic high in real dollar terms, it is not unprecedented in terms of its level as a percentage of GDP (Graph 1). As a matter of fact, the gravity of the Great Recession continues to cripple the U.S. economy precisely because the level of the deficit is not high enough to offset the tremendous slack in private sector activity.

In the last edition of Street Speech, I argued in The Social Justice Column that social justice can only be achieved by means of a true full employment policy through which the government offers anyone who is ready, willing, and able to work a full-time job at a decent living wage with benefits. The number one concern in today's deficit disorder environment is the way in which such a program would be financed. Well, without going into the details, I estimate that a generous full employment program creating 30 million new jobs today would cost $727 billion (less than 5% of GDP). Compare this to the current situation with hundreds of billions of dollars spent on corporate bailouts and no jobs created. The government has spent more than $3 trillion on the recovery effort but it was in vain. The money went into bailing out financial institutions that still refuse to extend lending to small businesses and consumers. This is why there has been no recovery in the job market. A federally funded full employment program, however, will directly fund job creation in non-profit community organizations. This ensures that the money goes directly to the members of the community who need it the most, and enables the needs of the community to be met directly through the active participation of its members.

The U.S. federal government is financially sovereign, which means that it has the monopoly power of the creation of U.S. dollars. It collects taxes denominated in U.S. dollars, and it issues government bonds denominated only in U.S. dollars. Under those circumstances, a government can virtually finance any expenditure it deems important. Historically, policy-makers have had no problems understanding the way government finances operate when it comes to financing defense spending. It is only when spending is designated towards addressing real social justice issues that we hear the deficit hawks screaming, "Oh no, we're going broke, we can't afford all this spending."

In reality, however, there can be no financial burden on a financially sovereign government. When the government spends, it injects money into the system, and when it collects taxes or sells bonds, it withdraws money from the system. Deficit spending constitutes a net injection of money into the economy, which is necessary to finance productive activity in the private sector. Some of that activity may not be productive, or may even be socially undesirable, in which case the government can regulate it, tax it, or simply forbid it.

Today we are in a situation in which private sector spending is too low to create the levels of demand which would require additional labor power. In all honesty, we cannot blame consumers for not spending enough when they are knee-deep in debt, and when they face either unemployment or the immediate threat of losing their jobs. By the same token, we cannot blame private sector employers for not hiring new workers when they also have too much debt and when the demand for their goods and services has been steadily diminishing since 2007. Why would they hire more workers to produce more stuff that nobody is going to buy? The only entity in this economy that can spend and add to the total demand for goods and services today is the federal government.

Injecting $727 billion in useful productive activities that are desperately needed in disadvantaged communities would directly target resources toward the unemployed and their communities. The newly created income would increase private sector consumption, raise tax revenue for state and local governments (who cannot print their own money), and stimulate business investment to satisfy the additional demand for goods and services. This would set off a positive multiplier effect that will quickly stabilize the economy at zero unemployment with no inflation. If and only if there is upward pressure on prices, which signals the presence of too much money in the system, the Federal Reserve Bank would simply intervene to remove the monetary excess by selling government bonds. Alternatively, the government could also increase taxes to remove excess money from the system. Note that federal (unlike state and local) government spending is not financed by tax revenues, so full employment can be financed without any burden on the government.

What is needed is the political willingness to do the right thing, namely to stop spending unlimited resources in areas that do not contribute to fixing the problem (bailing out Wall Street mega-banks), and focus on simple policies that bring prosperity to those who have been left behind in this economy even during the best of times. We need to get rid of our national deficit disorder and get our priorities straight once and for all. Good paying jobs and social justice for all. What kinds of jobs will this full employment program create? That will be the subject of the next installment of The Social Justice Column. Stay tuned, and check out the next issue of Street Speech.

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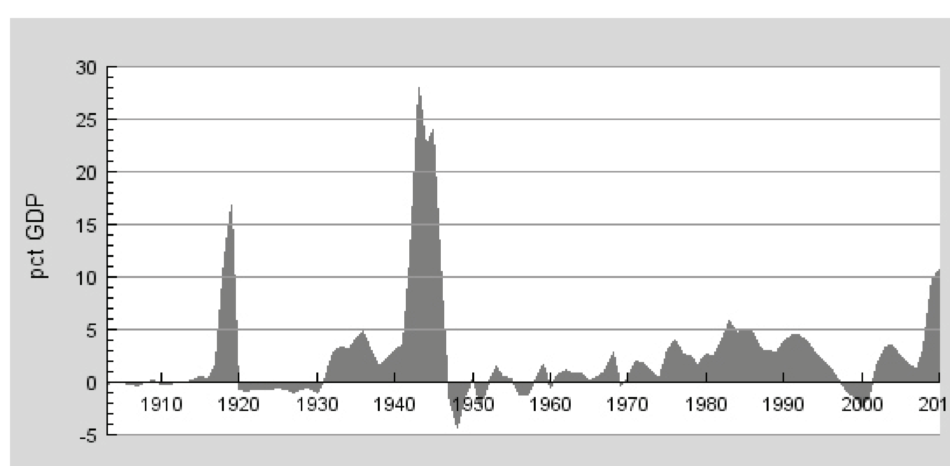

U.S. Federal Government Deficit as percentage of GDP (1903-2010). Source: usgovernmentspending.com

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1. Street Speech will be distributed for a donation of $1. I agree not to ask for more than $1 or solicit donations for any other purposes while selling Street Speech. If a customer donates more than $1, I am permitted to keep the donation. I will be clear that the donation goes to me and not CCH.
2. I will purchase papers only from the Columbus Coalition for the Homeless at $0.25 per paper. I will not sell to or buy papers from other vendors.
3. I will present my badge when buying papers and display while selling papers. If I do not have my badge, I cannot buy or sell papers.
4. I understand that my badge is property of Street Speech and I will not deface it. If I lose my badge, I will purchase a new one for $3. If my badge becomes ruined or weathered, I will purchase a new one for $1.
5. I agree to treat others-customers, staff, and other vendors-with respect. I will not use abusive or forceful language when selling papers. I will not be aggressive, threatening, or continue to ask after a person has said no.
6. I agree to stay off of private property while selling Street Speech. I will not sell door to door.
7. I will not sell any additional goods or products while selling Street Speech.
8. I agree to respect the space of other vendors, particularly those who have been at a spot longer. If I encounter another vendor selling papers, I will move to another location before selling papers.
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11. It is my responsibility to police fellow vendors. I will report violators of these rules to CCH. The value of the paper depends on keeping it credible.
12. I understand that any violation of these rules will result in suspension of my privilege to sell Street Speech and possible termination from the program. Badges and Street Speech papers are property of CCH and must be surrendered upon demand.

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