



Popular Economics Weekly The Decline of the West

Berkeley Economics Prof [Brad Delong](#) has posted a very sobering essay. Because economically conservative policymakers now hold sway in both Europe and North America, we could be in for a very prolonged “Lesser Depression”, as he calls it.

“I had always thought that policy makers well understood the basic principle of macroeconomic management. It was that the government's proper role was...to tweak asset supplies so that there were sufficient liquid assets, enough safe assets, and enough financial savings vehicles that the economy as a whole did not feel under pressure to deleverage, and so push production below potential output.”

“This principle has gone out the window. The working majority of the Federal Reserve believes it has extended its aggressive expansionary policies to if not beyond the bounds of prudence. The working majority in the U.S. Congress is taking its cues from the Saturday Night Live character "Theodoric of York, Medieval Barber". It believes that what the economic patient needs is another good bleeding of rigorous austerity, and that is putting further downward pressure on employment and production.”

Why is that? Why do not policymakers in the West understand that it is in our best interests to prod economic activity enough to create robust growth, until enough revenues are generated to strengthen our finances enough to maintain our position with the rest of the world? Who are the deficit hawks that choose not to understand basic economics? [Paul Krugman](#) has called them out countless times.

“And why are we shortchanging the future so dramatically and inexcusably? Blame the deficit scolds,... whose constant inveighing against the risks of government borrowing, by undercutting political support for public investment and job creation, has done far more to cheat our children than deficits ever did.”

In other words, it is Republicans who have become the protectors of the wealthiest among US, as they siphon every more public funds away from public investments to their own profit. “Fiscal policy is, indeed, a moral issue, and we should be ashamed of what we're doing to the next generation's economic prospects. But our sin involves investing too little, not borrowing too much — and the deficit scolds, for all their claims to have our children's interests at heart, are actually the bad guys in this story.”

Why have the “scolds” gained so much power, in which the 1 percent wealthiest now control some 50 percent of the wealth? We had a similar situation at the beginning of the 20th century, when robber barons ruled, and we needed a JP Morgan to finance World War I, due to the Industrial Revolution. Public laws had not caught up with private innovation.

So Teddy Roosevelt came along with an answer, which he called the “New Nationalism”. Industrial monopolies ruled as more Americans poured into the cities. It was still the beginning of the Industrial Revolution, when most of America was rural and Oligarchs ruled government and business. Sound familiar? That has happened once again with the enormous fortunes created via deregulation and the digital revolution. And once again 99 percent of American households are suffering from the excesses of modern oligarchs who want to abolish the safeguards that were established to protect Americans from those excesses.

“The American people are right in demanding that new Nationalism without which we cannot hope to deal with new problems,” [said Roosevelt](#). “The new Nationalism puts the National need before sectional or personal advantage. It is impatient

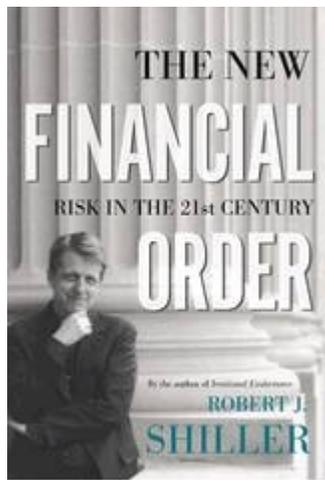


of the utter confusion that results from local legislatures attempting to treat National issues as local issues. It is still more impatient of the impotence which springs from over-division of governmental powers, the impotence which makes it possible for local selfishness or for legal cunning, hired by wealthy special interests, to bring National activities to a deadlock. This new Nationalism regards the executive power as the steward of public welfare. It demands of the judiciary that it shall be interested primarily in human welfare rather than in property, just as it demands that the representative body shall represent all the people rather than any one class or section of the people.”

Much of the Great Recession and slow recovery is due to widespread ignorance of economic fundamentals that actually depend on social welfare. For no economy can prosper if educational and environmental standards are ignored, which enable good health and social mobility. It is also an ignorance of what is in our national interest. Raising educational and environmental standards, restoring our aging infrastructure, and creating a truly universal health care system make us more competitive globally.

Don't take my word for it. Lord John Maynard Keynes saw the consequences of increasing abundance in his famous 1930 essay, [Economic Possibilities for our Grandchildren](#): “Thus for the first time since his creation man will be faced with his real, his permanent problem – how to use his freedom from pressing economic cares, how to occupy the leisure, which science and compound interest will have won for him, to live wisely and agreeably and well. The strenuous purposeful money-makers may carry all of us along with them into the lap of economic abundance. But it will be those peoples, who can keep alive, and cultivate into a fuller perfection, the art of life itself and do not sell themselves for the means of life, who will be able to enjoy the abundance when it comes.”

What will the future look like? Professor Robert Shiller also discusses its consequences in his recent book, [“The New Financial Order, Risk in the 21st Century”](#), in which he lays out what our new information technologies will be able to do. In it, “Shiller describes six fundamental ideas for using modern information technology and advanced financial theory to temper basic risks that have been ignored by risk management institutions--risks to the value of our jobs and our homes, to the vitality of our communities, and to the very stability of national economies”, says the publisher, Princeton University Press.





It will do all this by leveling the playing field in order to create a greater transparency of markets, as financial information in particular will be available to all. Therefore much of the risk in one's profession, or housing value, or even health, will be able to be insured against unexpected events, such as recessions, or loss of career, or debilitating illnesses because of the new information technologies.

In other words, there is no longer any reason to be ignorant of how the modern world works. It will become more difficult for those who profit from such ignorance to accumulate excessive wealth. Or, as Teddy Roosevelt knew, we will continue to repeat our past mistakes.

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