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Economic Stagnation and the Stagnation of Economics

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Six plus years after the onset of economic calamity in the West the pundit class and politicians continue to 'debate' economic policy in a self-enforced intellectual vacuum. The question of whether to 'grow' 'the economy' or not is followed by narrow disagreements over how to do so as if the mainstream 'conversation' were either honest or relevant. Currently being proffered by Larry Summers, the former chief economic advisor to President Barack Obama and demon spawn-nephew of Keynesian-lite economist Paul Samuelson— is the 'secular stagnation' hypothesis, the theory that the economies of the West, in particular the U.S., may have entered a period of persistent economic weakness. Left out of consideration is that economic growth of the sort Western economists tend to favor is producing environmental catastrophe, that Mr. Summers' well-fed demeanor indicates that there is more than one economy to 'discuss' and that even academic economists can see what has long been clear to the rest of us when given enough time. Given his central role in creating current economic circumstance through bank de-regulation Mr. Summers' continuing influence might be a bit of a mystery if it weren't for his ability to so convincingly say one thing and do another, as is the favored tactic of the Obama administration.

In more prosperous circumstances the debates of mainstream economists— Freshwater, Saltwater and Out-of-water, would hardly be worth comment. But as well as being Mr. Obama's chief economic advisor for his first term in office Mr. Summers was also first pick to head the Federal Reserve following the departure of Ben Bernanke. And as resident 'genius'-by-birth and paycheck extractor from a truly dis-impressive number of hedge funds, Mr. Summers' ideas continue to carry weight in the New Versailles of Washington and New York. His very late recognition that something might be amiss has the infrastructuralists (New Keynesians) aflutter with the possibility that governments of the West might be so swayed by the brilliance of his recently recovered eighty-year-old argument that they would break down and finally decide to come to the aid of those not bankers or CEOs. With forty-seven and one half million Americans so poor that they need food stamps (SNAP- Supplemental Nutrition Assistance Program) to eat, even this late recognition that there is a problem would be welcomed if it produced potential solutions. But by keeping policy proposals within the realm of mainstream (capitalist) economics these New Keynesians consign themselves to being repairists for the political economy that produced the conditions so in need of repair.

For the economically inclined, the basis of the secular stagnation theory is that some combination of slow population growth and slow technological innovation have led to slow growth of 'the economy.' Left unanswered, and apparently unasked, is where exactly this 'economy' resides? Income distribution data from U.C. Berkeley economist Emmanuel Saez suggests that there are at least two economies— the one that Larry Summers and connected bankers and CEOs exist in and one that everyone else exists in. The number of people who receive food stamps and the otherwise poor suggests that there are multiple economies— significantly more than the one of mainstream fantasy or even the two of the 1% / 99% divide. The secular stagnation theory is one of growing class divisions posed as a unified theory of a unified social order. Over the last thirty years a tiny economic 'elite' has seen stupendous growth in 'the economy' even as the indicators that mainstream economists defer to have shown relative stagnation. Framed differently, were so much of the income that 'the economy' is generating not being taken by a microscopically small proportion of the population the relation of slow economic growth to increasing poverty would be much more straightforward an argument to make. Given the current distribution of income any increase in economic growth, even setting aside its costs in terms of aggregating environmental calamity, would go overwhelmingly to the existing plutocracy. By concerning themselves with the broad 'economy' while ignoring both internal and external dynamics the apparent goal of secular stagnation theorists is to create more of the same economic circumstance. Given current social and environmental conditions as well as their trajectories, the last thing that most citizens of the West need is more of the same.

The pretense that existing social and environmental calamities are outside the realm of concern of Western economists finds its reciprocal in what is of concern. Global warming is a cost of economic production that is forced onto the entire population of the planet— all living things, by degree by the people who benefit from said production. Framing adverse economic consequences as 'solvable' by increasing economic production places them as facts of 'nature' rather than as outcomes of the very political economy that produced them. The totalizing nature of frames like 'economic growth' and 'the economy' hide the social relations that are the only facts actually available for discussion. And more practically, if the only way that economic 'growth' has a plus sign on it is by failing to deduct the social and environmental costs from its theorized advantage its advocates need to explain in what sense this growth isn't economic detraction. Again, since the economic and financial calamities of 2008 'the economy' as measured by GDP (Gross Domestic Product) has 'grown' as has the U.S. role in pre-empting any positive action to resolve global warming and as has the proportion of the population living in poverty. To be clear, and to address the canard of establishment Washington, the forty-seven and one-half million people who receive food stamps live in dire poverty— the rules of the SNAP program assure that this is the case.

The center-left position on 'secular stagnation' appears to be tactical—eighty years ago (John Maynard) Keynes provided economic theories that addressed long-term economic malaise in capitalist economies in the context of the political will to put his policy recommendations into practice. Mr. Keynes' ideas were resurrected quickly and robustly in more recent circumstance but the effort fell flat due to conspicuous political dysfunction and very weak endorsement by the Democrat Party of (Franklin Delano) Roosevelt that implemented the New Deal. Letting Larry Summers revive Keynesian theory under slightly different explanation might give New Keynesians a second wind to get their policies implemented goes the thinking I suspect. Separately, the idea is again being put forward that currency devaluation would make U.S. manufacturing more competitive by lowering the cost of U.S. exports overseas and raising the cost of goods imported into the U.S. There is also likely a bit of pragmatics here based on belief that government spending on infrastructure through the 'private' economy is more saleable than an outright government jobs program and that a second-order 'market' mechanism like currency adjustment better fits prevailing ideology than does rethinking capitalism from the ground up. Left un-addressed is that existing infrastructure is largely the result of industry machinations at public expense with weak results and that without addressing the environmental consequences of manufacturing letting 'the market' decide where to allocate resources could be phenomenally more expensive than direct government jobs programs carried forward under directives that the work done be both socially and environmentally beneficial.

The apparent thinking on boosting economic growth through revival of manufacturing is that the benefits of increasing employment will outweigh the environmental costs that are both real and are borne globally. However, the absolute intransigence of the U.S. corporate-political establishment when it comes to (not) addressing global warming is being expressed in two ways— through continuing to push trade deals that remove the capacity of governments to restrict pollution and through using closed door environmental 'negotiations' that are asymmetrical, that force costs onto others who see less benefit from Western economic production. The condition could be imposed that renewed economic production be proved beneficial net of both local and global environmental consequences but this is wholly politically implausible because the source of much Western wealth is from being able to force others to bear the costs of production. Why else the secret nature of trade negotiations and the clear intent to eliminate the social mechanisms that would force producers to bear their costs of production? Using a currency exchange rate to affect a manufacturing revival would leave the most destructive elements of capitalist production to structure it within the broader political context of the U.S. government's wholesale abandonment of environmental regulation. Proponents of the idea are among the very best working economists. What is at work is the fatally narrow realm of Western economics.

In more plainly Keynesian terms increasing government spending to address secular stagnation sounds reasonable until the terms are actually laid out. The question of funding increased spending is the big lie in American politics. With a fiat currency the U.S. could simply create the money 'out of thin air' to boost economic growth. The big lie of budget 'constraints' finds its twin in the mainstream economic conceit that money and debt (and money as debt) are 'neutral,' that the facts and mechanics of creating and disseminating money, interest and debt have 'unitary' macroeconomic effect. To be clear, within the tightly circumscribed terms of the debate the mainstream argument may be 'true,' but that is the problem. These are the same terms put forward to argue that income and wealth distribution are 'neutral,' that they also have 'unitary' macroeconomic impact. Government money provided to 'private' interests for 'public' projects goes to specific private interests, not to the broad 'private' economy. More to the point, as the Citizens United and McKutcheon Supreme Court rulings make evident, government is to a material extent controlled by the same economic interests that benefit from public expenditure— financial, military, pharmaceutical and technology cartels that are expert at getting 'the public' to subsidize their costs through building publicly funded infrastructure for 'private' use, through monopoly patent protection, through targeted social repression to tamp down wages and through standing armies to 'protect' profits. 'Private' interests have developed 'public' infrastructure to help sell cars, gasoline and tires by destroying mass transit systems. 'Progressive' Robert Moses destroyed a substantial portion of New York City for half a century by building misguided 'infrastructure.' And because of the relation of infrastructure to the broader technologies of social production— ways of doing things, the question of the environmental impact of infrastructure spending can only really be measured at the level of national and global outcomes. (Highways versus mass transit, high-density cities versus suburbs, etc.)

Secular stagnation theory needn't be 'true' to suggest a host of related results. The initial implementation of the New Deal was a political decision made to moderate capitalism to prevent its wholesale overthrow. Much is made today of the relative cooperation the New Deal received from the reigning plutocracy of the 1930s. But the level of dispossession of the Great Depression suggested a real threat of political-economic rupture and the replacement of 'free-market' capitalism with state socialism. The popular distinction being made these days between capitalism and neo-liberalism is academic— neo-liberalism is capitalism and New Deal capitalism is technocratic 'management' of capitalism in the service of residual plutocracy. The New Deal ended approximately when the threat of political overthrow did in the mid-1970s. The practical background of current economic malaise is that the existing plutocracy of bankers, CEOs and inherited wealth was fully restored from recent catastrophe through means and methods that were 'political,' through restoration of economic resources along the lines of division of economic power, and Western economists busied themselves explaining why doing so was necessary. When it came to the other 99.7% of the equation conclusions were quickly drawn that either (a) nothing needs to be done or (b) using duct tape and chicken wire to 'repair' the existing order was the best course of action. The 'infrastructuralists' are the duct tape and chicken wire crowd who haven't yet resolved that current circumstance is the result of the existing order, not some accident of nature from outside of it.

Seen in a different light, it was the very same Larry Summers now pushing his structural stagnation theory who as part of the Obama administration publicly asserted the need for New Keynesian economic policies while doing everything in his power to assure that they were considered politically infeasible inside the administration. To his credit secular stagnation economist Paul Krugman warned at the launch of Mr. Obama's economic 'stimulus' plan that it was (way) too small and that the likely political result would be to 'prove' that government spending to buy stuff and put people to work doesn't result in stuff being bought and people being put to work. And to those who were otherwise occupied at the time, what followed was one of the more grotesque scam-fests in human history as Wall Street banks, under Mr. Summers' and Treasury Secretary Timothy Geithner's tutelage, used faux public interest initiatives like the mortgage 'relief' programs and mortgage 'settlements' to restore banker bonuses on the backs of the currently stagnated. This doesn't mean that the secular stagnation crowd isn't sincere in the present. But it does mean that concern is being kept at a level of abstraction that sees the second-order looting and transfer of trillions of dollars in public funds to culpable bankers as economically 'neutral' when they were the central economic accomplishments of the Obama administration and were / are socially catastrophic.

As was the case with Dorothy as she was about to depart the land of Oz, the way home for Western capitalism was always in theory but a few clicks of the heels away. There were a number of relatively straightforward policies that Mr. Obama could have implemented when he entered office that could have restored economic vitality reasonably quickly. Nationalizing the Wall Street banks and turning them into public utilities would have eliminated their extractive role in the broader economy and limited the financial plutocrats' catastrophe generating hold over public policy. Using bailout funds to 'buy-down' negative housing equity would have had the dual effects of rendering banks and homeowners solvent and the housing bust but a distant memory. And a public jobs program that guaranteed employment at a living wage with full benefits to all comers could have reoriented the 'makers / takers' storyline to joint interest in solving social problems. The paths that were chosen of giving all of the bailout money to the banks while leaving those who were looted by them to fend for themselves and of adding insult to injury by setting up programs claimed to help the looted while in fact 'foaming the runway' with their misery and economic well-being set up the current dynamic of self-proclaimed 'makers' living large on the public dime while externally proclaimed 'takers' suffer the consequences of radical economic dysfunction. Larry Summers was at the heart of each and every one of these policies.

To tie this to other recent pieces, the persistence of race and class as determinant economic factors across decades and centuries raises fundamental issues for arguments that growing the economy will benefit any but those who have already benefited. The basic issue is this: within the terms of the secular stagnation 'debate' the economy is growing, albeit at a slow rate. Income 'inequality' is about relative income dispersion when more importantly absolute levels of income and wealth have been in decline for a substantial majority of the population. In fact, and leaving aside for the moment issues of environmental sustainability and 'external' economic imperialism, the lot of most people could be radically improved by redistributing current income and wealth downward. The dramatic upward redistribution of recent decades is the result of specific government policies and downward redistribution could in theory be accomplished in much the same way. This is an important point— upward redistribution has had little to do with 'market' forces and 'correcting' it would in capitalist economic theory 'improve' market outcomes. The political challenge of accomplishing this is (1) the myth that initial income and wealth distribution is the result of market forces provides the illusion that it is ‘natural’ and (2) the existing plutocracy controls the levers of official power that makes ‘official’ redistribution improbable. The social conditions that facilitated the New Deal were people in the streets willing to fight for a different way. The ‘secular stagnation’ argument isn’t going anywhere without large numbers of people being willing to force the issue. But then the question would be: why fight for half measures that preserve the existing order when it is the existing order that is responsible for current conditions?