The "Committees" that ruined U.S. Finances

Back in 1998, TIME published a cover story titled "The Committee which saved the world" with the photographs of Alan Greenspan, then Chairman of the Federal Reserve; Robert Rubin, Treasury Secretary; and Lawrence Summers, Deputy Treasury Secretary. TIME's description came from the role they were supposed to have played in the IMF-led external assistance to the crisis-hit countries in East Asia. In a way, it was an apt description; the IMF has been a handmaiden of the U.S. Treasury: in a broader sense, the cover title also manifested American arrogance in their power, both economic and military, particularly after the collapse of the Soviet Union.

The latter was even more explicitly articulated in the agenda of the so-called "neocons" in the U.S. a group (Committee?) of right wing conservative Republican intellectuals: a couple of years before the turn of the century, they promoted *The Project for the New American Century*, "dedicated to a few fundamental propositions: that American leadership is good both for America and for the world; that such leadership requires military strength …" etc. The first manifestation of the New American Century was the "regime change" in Iraq by invading the country in 2003. (A couple of years earlier the U.S. had invaded Afghanistan in retaliation for the terrorist attacks on 9/11). The existence of "weapons of mass destruction" was obviously a ruse.

In retrospect, the ideological, deregulatory stance of the Committee which was supposed to have saved the world, and the monetary easing following the stock market bubble of the late 20th century (and 9/11), led to the 2008 financial crisis, and put trillions of dollars of burden on the country's fiscal resources, directly or indirectly – the funding needed for rescuing the system, the fiscal stimulus, the lost growth and taxes, and the additional unemployment benefits. The neocon agenda directly led to the invasion of Iraq on false pretexts, adding another few trillions to U.S. deficits and debts.

In many ways, it is perverse that the Republican Right is posing as the protector of fiscal virtue. It was under President Reagan that the U.S. started incurring then-record high deficits, thanks to the foolish belief in the so-called Laffer Curve (does anybody remember it now?) which convinced Reagan that the lower the taxes for the rich, higher the growth and revenue, and a lower fiscal deficit! The Democratic Administration of President Clinton brought the budget back into surplus by the turn of the century. The tax cuts for the rich and foolish military adventures of the following Republican Administration of President Bush in the middle-east, led once again to growing, Reagan–like deficits. As Paul Kennedy analyzed in *The Rise and Fall of Great Powers*. (1987, well before the wars in the Middle East) "*the awkward and enduring fact that the sum total of the United States' global interest and obligations is nowadays far larger than the country's power to defend all simultaneously*". Clearly, the Republicans bear the maximum responsibility for the current state of U.S. finances and the downgrade of its rating.

The lack of political consensus on how to bring the debt down to a sustainable level, also represents a dysfunctional government with the ultra right elements in the Republican Party having a veto power. The so-called Tea Party wing of the Republicans professes religious and constitutional "fundamentalism", rejects Darwin and evolution, and manifests a nostalgia, a yearning for *laissez faire* capitalism of the 18th and 19th century variety. (They forget history: it was the excesses of capitalism which led to the birth of Marxism in the mid-19th century.) The basic problem is that the Republican Right would allow the deficit cut only through reducing social services, while the President and Democrats would prefer a more balanced approach between increasing taxes for the rich, and reducing expenditure. But cutting expenditure would hurt the already anemic growth. Unemployment remains stubbornly high (near double digits) and 45 mn people have to depend on the Nutrition Assistance Program for their food -- double the number in 2000! In the current state, growth and employment would need a Keynesian fiscal stimulus; not expenditure cuts, as Nobel Laureates Joseph Stiglitz and Paul Krugman, have been urging. In the current political climate this seems extremely unlikely. Meantime, the rating cut does not seem to have affected the status of U.S. Treasury bonds as a safe haven investment. As other asset classes have become more volatile and risky, bond prices have risen (and yields fallen further!), partly also as a result of expectations of low short term interest rate for a year. Even a QE III in one form or another should not be ruled out. But in the current environment, this may well be as effective as pushing on a string! Coming back to Keynes, fiscal stimulus in times of slow growth requires resources to be conserved when times are good and growth is fast: neither of the two largest economies have done this. (Capital regulations expect banks to do exactly this!).

A.V.Rajwade
Email: avrajwade@gmail.com