Hyperactive Deficit Attention Disorder: the economic dyslexia of the Right

Many on the left find it difficult to understand the right wing arguments against countercyclical activity. And I suspect no source of clarification will originate among the knuckle dragging idiots contesting the field for the Republican presidential nomination. Their pronouncements are as exasperating as they are primitive and self-contradictory. But to understand the mindset of the modern reactionary—to impart to it a coherency that it normally cannot do on its own, one cannot avoid plumbing the depths of gold bug-ism. That is not because gold bugs dominate the conservative camp. This species exists only in the backwaters of the movement. It is rather because the concerns that gave rise to the ideology of gold bug-ism nevertheless suffuse and unites the modern reactionary moment.

What gold bugs desire above all is a system that prevents hyperinflation. They believe that a gold standard does this because it constrains the state by forcing it to operate by the same principles that govern the private sector. The private sector cannot spend without first appropriating funds to do so, either by first creating additional income or by borrowing. The state, having no independent source of income, could only expand its demand under the gold standard, by *diverting* resources either through raising taxes or by indebting itself to private lenders or some combination of the two. This means that the growth of state demand also comes at the present or future expense of private sector expansion. For debt presupposes future taxes to service interest that is accruing and to pay down the principle. Under the gold standard, any means of overstepping these limits by debasing the currency would produce a hyperinflation. But that would signify, in effect, the suspension of the gold system. And it would only be a short term fix. Ultimately it would leave the state coffers bereft of precious metals and thereby reduced to what gold bugs would say is its proper dimension. The system would make an end run around the state, reintroducing directly or indirectly gold within the private sector for its internal and foreign transactions and increasingly refuses to honor state demands issued in its own debased currency. At least that’s their take on it.

So why do modern gold bugs call for a “tight money” policy? It’s difficult to tease this out of their own rhetoric, which is too often simply bar room gibberish and braggadocio. “Tight money” is itself a useless restraint on the federal government, because the state does not functionally have to borrow or tax in order to spend. A “strong dollar,” a term rooted in a bygone era of gold convertibility, is simply a recipe for worsening the balance of trade and even more unemployment. The only thing tight money and a strong dollar would constrain is the private sector.

So let me try to offer something that lends some consistency to it. Fiat currencies unleash a new dynamic that conservatives fear to their marrow. It allows the state to spend without the prior appropriation of funds. That is, the state can provide permanent net additions to aggregate demand, beyond anything it could do within the confines of the gold standard. It therefore unleashes the potential for hyperinflation without any self-limiting feedback loop from below. It can pay its debt obligations and its foreign debt service in debased dollars, whatever the rate of inflation. The state can in effect repudiate its debt by making it worthless. It can enforce contracts with the private sector written in its own currency, whose purchasing power dwindles before the first payment installation comes due. Repudiating debt and enforcing contracts with worthless currency is tantamount to expropriation.

So those infected with gold bug derangement syndrome, whether they actually wish to return to it or not—and more often they don't—are increasingly compelled by their understanding of a fiat currency, to resort to forms of legal prior restraint to prevent this scenario: debt limits, restrictions on future spending, elimination of government programs, public debt defaults The fact that government spending at the federal level is still legally and operationally aligned with taxing and borrowing policies, when there is no functional need for this, is itself a form of prior legal restraint. Conservatives seek, by these means, to enfeeble the public sphere so that it acts as if it were, in fact, encumbered by a gold standard and therefore unable to unleash a hyperinflationary dynamic.

This is why they fear meaningful countercyclical activity. The accumulation of debt as a result of deficit spending in their minds must be serviced by additional taxes. And if state spending induces inflation (and this is an article of faith in these circles), then that can also only be addressed by siphoning off excess demand by levying still more taxes.

It is for these reasons, gold bugs—I mean, conservatives argue, that countercyclical activity by the state is counterproductive. The state injects demand into the system. But at the same time the private sector, sitting on an ocean of profits, is refusing to spend. It prefers to squirrel away its profits in anticipation of the massive tax bite to come. State spending is neutralized by private saving. The larger the deficits pushed on the system, the stronger the pull back by the markets. The private sector therefore—or so the argument goes—needs to be reassured, to regain confidence before it is again willing to invest. The only thing that can instill this confidence is a state that is neutered. So a do-nothing state is the pre-condition, by conservative lights, for unleashing private sector investment and hiring and usher in a true recovery.

But this entire take is senseless. It plays with pieces of the puzzle without positioning them into a coherent image. Government can always service its debt simply by depressing the appropriate key strokes on the fed’s computers. Technically, this is financing the debt by means of additional debt. But it crucially bypasses the need for any additional taxes down the road. Fiat currency creates demand ex nihilo.

Moreover, hyperinflations occur when the injection of additional net demand confronts the limits of the system to respond by generating additional output. At that point, the system can only respond by raising prices. A system suffering from unused capacity of almost 25% and a 20% unemployment/underemployment rate is in a contained contractionary spiral. The output and income lost can never be recovered. A systemwide increase in price levels is out of the question. Additional state demand would directly be translated into additional output and continue to do so until full capacity utilization was approached.

The system is in fact in a balance sheet recession. Consumers have lost a massive part of their retirement wealth, with the deflation of the housing bubble. This will never return. And that bubble itself has yet to fully deflate sufficiently to revert to its historical trajectory. Workers are trying to rebuild their wealth through additional savings out of income. Collectively, this is a drag on aggregate demand. The business sector has suffered an enormous decrease in its return to assets over the past 40 years. It too is in the process of deleveraging, with massive debt obligations coming due before 2015. Profits are being locked away in short term financial instruments in preparation for the debt bills to be retired. Balance sheets are being cleansed. The economy is running a balance of trade deficit, which is an additional drain on aggregate demand. The automatic stabilizers (unemployment insurance, limited mortgage relief and nutritional supports) can only go so far. Without a massive dose of offsetting deficit spending, it is highly likely that prices will begin to collapse, profits will no longer be realized at present levels, unemployment will begin to grow and the system will nose dive.