

Jobs and Deficits: Obama Squares the Circle

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President Obama outlined his new American Jobs Act before a packed Congress, more than half of whom believe the poor and jobless are undertaxed moochers and that the government does not create jobs. The Democrats will have their hands full.

The Obama speech signifies that he is again in campaign mode. He's challenged the conservative contention that "the only thing we can do to restore prosperity is just dismantle the government, refund everybody's money, and let everyone write their own rules, and tell everyone they're on their own..." But has he offered an adequate alternative?

The earlier stimulus packages stabilized the economy and arrested its freefall plummet. But it was too underpowered to reverse the downturn. How do these proposals shape up? According to the Congressional Budget Office, the GDP gap (the difference between actual or projected GDP and full capacity GDP) is 5.1% for 2011. The corresponding unemployment gap, the difference between actual or projected rate of unemployment and "natural" rate of unemployment, is 4.4%. These deficiencies translate into an \$805 billion shortfall in aggregate demand, according to economist William Mitchell. For Paul Krugman, "The lingering effects of the housing bust and the overhang of household debt from the bubble years are creating a roughly \$1 trillion per year hole in the US economy."

Either way the \$447 billion in combined tax cuts and spending outlays that Obama has proposed is still woefully inadequate to the size of the problem. Yet, there are few means by which the President can bypass this deeply reactionary congress. The Federal Reserve has ruled out another round of quantitative easing (the buying back of long term bonds). But this is also a head nod to reality. Placing additional reserves in the coffers of banks is basically useless. Even if quantitative easing was what was needed to provide adequate banking reserves for the expansion of business and consumer lending (which is a widely held myth), banks cannot find a sufficient scale of profitable businesses and creditworthy consumers in a down economy to make this worthwhile. There is no straightforward way to translate additional bank reserves into additional private demand.

Inadequate though it may be, the union movement will be behind this plan and will predictably take up the call to pressure congress to enact it. By some measures, the job performance during this "recovery" is even worse than during the Great Depression and this speaks to their level of frustration and desperation. But there are no real departures here: an extension of the payroll tax, limited mortgage relief, a continuation of unemployment benefits, infrastructure spending, revenue sharing with the states. Obama is still singing in the austerity choir and these proposals fully reflect this.

All his initiatives are "fully funded," meaning that they are designed not to add to the deficit. If the past is any evidence this will entail, for example, shortfalls in social security revenues occasioned by the proposed cuts in pay roll taxes being made good out of deductions from general revenue. Other government programs will simply be shortchanged. And Obama's warnings of cuts to Medicare and Medicaid are ominous harbingers of where offsetting future funds will come. One part of Obama's working class constituency will largely be paying for the benefits for the others. It's hard to find the expansionary thrust to all these "balanced" programs.

Obama, it is true, also proposes to open new revenues sources by lowering corporate tax rates,

while closing loopholes. Even assuming that this is acceptable to the Republicans — which it isn't — this would be largely a leap of faith. There is no certainty that this will result in more than a mere wash or worse, as corporations remain ever resourceful in squirreling away their profits in off shore tax havens. The predictable result of “unforeseen” revenue shortfalls will be further cutbacks in social spending to keep the overall project in balance. These proposals simply perpetuate tired old supply-side nostrums — useless under Reagan, self-defeating under Obama.

A private-sector recovery requires 300,000 jobs each month. No series of proposals that cannot adequately supplement aggregate demand sufficiently to create the need for 300,000 jobs each month can be expected to make a dent in the problem. In the black community where unemployment and underemployment is double that of the population as a whole, the urgency is particularly acute. As the business sector and workers pay down debts, the government has to offset these by massive injections of net spending. Business has already put Obama on notice that proposed tax incentives will not be a spur to hiring because markets are themselves too weak to justify ramping up production. Obama is boxed into a corner, a corner that he himself helped designate.

The economy needs to deficit spend its way out of this. Otherwise a contractionary spiral will be unleashed. Business has been content with government providing a minimal demand floor that protects profits. But it has fought against any expansionary proposals that might go beyond that fearing that tight labor markets might embolden labor. A truly expansionary agenda can be financed by taxing the idle balances of the wealthy, provided they don't respond by ratchetting up their savings. Or it can come by creating a real jobs program funded by the federal government's ability to create money, without first appropriating resources through taxes or borrowing. This technically adds to the deficit, insofar as government spending would be in excess of tax revenue. But this additional “debt” is owed to no one. Obama might have explained that this is how the TARP was “funded.” There were after all no sources in the midst of the financial crises to borrow or tax from.

And the left should remind the public that the ruling class knows full well that this is eminently doable. Its unfunded imperialist wars have been underwritten in the past decade precisely along these lines.

The labor movement needs to identify and expose the weaknesses of the Obama initiatives, welcome as they may now sound. These proposals cannot provide an adequate basis for a new beginning because they are constrained in their ability to augment aggregate demand. They are welcome only to the extent that they nudge the national conversation from deficits to jobs.

What is needed is nothing less than the call for adequately paying government jobs on demand. The labor movement needs to launch a campaign urging government to assume the role of employer of the last resort. These proposed government jobs should come with living wages, COLA provisions to secure workers a share of productivity gains in the larger economy and the right to collective bargain, a right that the President has now so conveniently rediscovered in his jobs speech. Unemployed workers have no stake in whether government jobs augment the profit making capacity of the private sector and are therefore immune to the Republican claim that flows from that contention that such jobs are “not real.”

The problem with making sensible demands — and these, with roots in the New Deal, are neither socialist nor radical — is that there is no vehicle at present through which they can be channeled. The Democratic Party remains a company union party. It's not a membership party and cannot be controlled by its voting base. This means that it is forever at the mercy of its wealthy donors to finance its campaigns and it directs its appeals largely on a lesser evil basis. If the Republicans oppose the President's proposals, the Democrats will argue that the conservatives have again turned their backs on the working class. It will matter little that the administration's proposals are weak

tea.

This highlights all the political infirmities that bind the hands of workers and minorities. The Democratic base urgently requires a party that is structurally capable of implementing a consistently progressive agenda, and of transcending liberal constraints if, as socialists believe, those constraints will be obstacles to the achievement of liberal goals. It needs a party that can, in other words, actually defend and advance working class interests — not on our socialist grounds, welcome as that might be — but on the basis of their immediate jobs and economic security centered understanding of the issues. That requires a party shorn of its corporate tentacles. Such a party may have all the ideological weaknesses and inconsistencies of the Democratic Party. It might not even have progress beyond the Democrats' formal agenda. Objectively it would still serve the interests of capitalism to one degree or another. But it would not be a genetic instrument of social control from on high. It may well be a captive of bourgeois ideology at the outset, but not an organic tool of the existing social order.

American socialists need to connect with the disaffected liberal and minority base of the party by orienting around a perspective that addresses the immediate needs of the that base, a base which would provide the mass constituency of any future socialist party. This means raising the need for a real jobs program, robust enough to actually put the unemployed back to work. If the capitalist duopoly cannot deliver, we must use this to expose the frailty of the political system. But socialists need to make clear that our call to break with the Democratic Party does not derive from a sectarian insistence on ideological purity, but from a substantive analysis of why the Democrats cannot consistently represent the mass support of those who are called upon to put it in power.