

Is the Tea Party Taking the Government Hostage?

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That is the affirmative conclusion one might reasonably come to by listening to the Democrats and their MSNBC and Nation magazine echo chambers. Far right monies bundled together by conservative “social welfare” groups are said to be defying a hapless public powerless to thwart the House Republicans from exercising veto power over the budget process, in their effort to impose more austerity and defund the Affordable Care Act.

Yet this is a very curious hostage taking. The budgetary victim is not exactly chained to some metaphorical basement pipe; and the front door, rear door and all the widows of this kidnapping enclave have been left wide open and unguarded. The Democrats need only take the hostage by the hand and lead the way through any of the myriad points of egress. Their abject failure to do so, to even suggest that it can be done, testifies to the unlikely suspicion that the Democratic establishment are utter fools or, more likely, willing accomplices to the entire process with their own distinct ruling class agenda that this entire drama plays into. Meanwhile its media amen corner tirelessly gins up outrage from a complacent and resigned public.

How the Democrats relish sharing their concocted nightmare about the “full faith and credit” of the United States being at stake. Who, they ask, will fund the government, if the state defaults on its obligations? The liberal commentariat continues to play into that cracker barrel wisdom so supportive of ruling class interests – and so erroneous – that links public financing to the elite tax base and good graces of party donors, who, if betrayed, may let the entire fiscal scaffolding collapse around them. Oh the horror of what the teabot nutwing is foisting on this teetering economy!

Back on planet earth, however, the debt ceiling is both a functional anachronism — a vestige of a time in which the dollar was linked to gold — and an economic MacGuffin. Since Nixon severed the link, the dollar has been a fiat money created at will by the state. The state crowds out every other form of money, including precious metals, by the simple fact that it enforces payment of taxes in its own currency and only in its own tender. Taxing doesn’t “finance” state operations; it suppresses private demand so that real resources may be shifted from the private sector to the public sphere. The Fed engages in buying and selling treasury bills, “debt instruments,” to regulate interest rates in the private sector, and thereby expand or contract the scope of private sector borrowing and lending.

The government budget requires outlays to the private sector triggering the treasury to write checks against its “account” with the Federal Reserve. The Fed, in turn, credits private bank accounts to satisfy the contractual obligations of the state. It effectively creates this money ex nihilo. At no point does the private sector “fund” the state. By law, the state reconciles its internal accounts with the Fed by levying taxes and, where this falls short, by “borrowing” back a part of the monies it itself – through the Fed — injected into the private sector. It swaps out a noninterest bearing vehicle — money — for an interest-yielding asset — treasury bills. This is a bookkeeping operation. Functionally, the capitalist state could dispose of the entire process as long as there are idle productive assets, were it not for its episodic and rare need to suppress inflationary pressures through taxation and to prevent the cost of private sector borrowing being reduced to zero, where it would otherwise settle given that state money, unlike gold, is a freely expandable “instrument.”

All of which brings us back to how the Democrats could, were they so motivated, circumvent the

entire budgetary debt limit and spending crisis that the Republicans have imposed on the state. The key to ending this hostage crisis is to locate legal means of augmenting state spending that does not incur additional debt obligations. And these exist or can be created even within an existing legal framework that exercises prior restraint on the operations of fiat money. Perhaps the most obvious means, and one that Tea Party darling Ron Paul once even endorsed, is having the Fed's holding of treasuries negated. The Fed currently holds \$2 trillion in government bonds, which, if cancelled would free sufficient spending power to circumvent the entire process.

Another means is for the state to finance its spending in excess of taxes by issuing "perpetual bonds" known as consols. These are not redeemable, but issue a steady stream of interest in perpetuity. Because the principle is never paid off, they do not add to the accumulation of state debt. There is nothing new here. The British used these instruments to pay off debts incurred to finance the Napoleonic Wars.

Jack Balkin, a professor of Constitutional Law at Yale Law School, has proposed that the state could "sell the Federal Reserve an option to purchase government property for \$2 trillion. The Fed would then credit the proceeds to the government's checking account. Once Congress lifts the debt ceiling, the president could buy back the option for a dollar, or the option could simply expire in 90 days."

Then of course, the President, a constitutional lawyer himself, might have mobilized the Justice Department to challenge the debt ceiling by invoking the authority of the 14th Amendment, which ostensibly renders contractual obligations of the federal government legally inviolable.

The point is this. The Democrats have no desire to challenge, much less supplant a budgetary process that legally tethers the state to the constraints of an outmoded and functionally superfluous appropriations process. To do otherwise would open the possibility that an informed electorate could demand a breadth and sweep of services and public goods that undermines social discipline, impedes profitability and threatens the system's legitimacy.

As it plays out, the Democrats are using this crisis to burnish their reputations as the ruling class's good cop, while evading responsibility, demonizing the Republicans, and selling their softer version of austerity — of clawing back public resources to the private accumulation process — as the more reasonable and measured alternative.

It is a cynical game and one the left should internalize when next we are urged to engage with the Democratic Party as a meaningful alternative to Republican neanderthalism.