THE STUPIDITY OF MID-20TH CENTURY AMERICAN ECONOMICS

James F. Welles, Ph.D.

Introduction
During World War II, the inflation that deficit spending invited during the Depression loomed as a threat, but John M. Keynes had an answer ready. According to the Messiah, “All” that had to be done was to put everything into reverse after the war: Taxes would have to be raised to keep pace with spending (or even more to pay off the debt), and labor would have to forego wage increases. This was a nice solution for dreamers (i.e., reform-minded economists), but it proved to be a politically inexpedient remedy virtually impossible to effect in a democracy at any time. On the other hand, the president had already undercut the Keynes in December, 1940, when he revealed his basic, maturing economic policy – re: Lend-Lease – that he would like to get rid of the “Silly, foolish old dollar sign”.1 After all, why bother with such a petty, symbolic hex! Just turn the printing press and crank out more “Greenies” whenever you want them.

By 1942, the long-term, slow acting suicidal complex of deficit democracy was established, and, with the government a major debtor, inflation became a positive feedback system running away with itself:2 The war made the implementation of the suggested control mechanism totally unthinkable so it never was even tried. During the war, fascistic control measures of price fixing and rationing were needed, albethem to the detriment of quality, and after they were removed at the war’s end, inflation became an unalterable fact of modern American economic life. In a way no economist could have anticipated, the debtor federal government, struggling to plan freedom,3 became trapped by the garnering the short-term, immediate rewards of spending dollars which at first did not exist and which ever since have become progressively inflated to be worth less and less.

In 1981, budget director David Stockman conceded that no one really understood what was going on with all the numbers and that the people involved in the budgetary process did not know what they were doing.4 Well, one of the numbers in 1983, as the country began the recovery phase from a then extent recession, was a $200 billion federal deficit. Twenty-seven years later, in the same phase of recovery from an even better recession, the number was $1.56 trillion. This might be euphemistically labeled “Negative progress”. If we cannot solve this problem, and we evince no inclination much less ability to do so, the federal deficit for the recession of 2040 will be on the order of $1 quadrillion– $1,000,000,000,000,000, meaning the dollar will be worthless.

One of the reasons we cannot afford to solve our political/economic/social problems is that more than 40% of personal income taxes go to pay interest on the debt: That is, previous generations mortgaged off the future, and we are now paying their bill. There was a time when parents lived for their children: Now, we live off our children, and years from now they will live off their grandchildren leaving Americans to figure out which is worse – the conservative corporate state or the liberal give-away state?5 Sad to say, the prospects are that we are falling behind on the economic treadmill and will pass along an inflated bill to our descendants until they cannot pay the interest on the debt, at which time the dollar will be dead.6 or until our chief supporter , that bastion of capitalism, China, stops buying our debt at which time we will be bankrupt. Having China control our insolvency – i.e., Chimerica7 is a bit chop-sticky, but if we go under, the Chinese would lose all they have invested in our debt so there is some balance in this ballet of potential worldwide financial disaster by military/political/economic rivals.

a. A culture is doomed when it raises expectations that it cannot satisfy. That occurred in the early 16th century Church and late 18th century France. Now America is discovering it cannot afford a government that has to fund the welfare state everyone expects. (See P. Howard’s The Death of Common Sense.) Current deficits are about a nifty 30%/year.

As in matters alcoholic and economic, in labor relations, what was regarded as a cure to one problem ran to excess and became a problem itself. Before the 1930’s, the courts had
been the major bulwark against the organization of workers. Property had been granted the right to organize up to a point: Corporations were legal but trusts were not. Still, this favoritism was enough to produce the "Corporate state" which, with the blessings of the federal government, assumed responsibility for the economic well-being of practically everyone especially those responsible for running the corporate state. The very nature of the American Republic changed as corporations took over and the characteristic of “Virtue” so essential to a functional republic disappeared: i.e., there is no such thing as a “Virtuous corporation” any more than there is “Corporate virtue” or a virtuous CEO, as Machiavelli would have noted.

After the corporate-state debacle leading to the Depression, the New Deal encouraged unionization of workers and made big labor a counterpoise to big business, but all within the system: most emphatically, the typical America non worker was not a Marxist revolutionary dedicated to overthrowing the establishment. Although this seemed sensible in so far as the National Labor Relations Act (1935) safeguarded the workers’ right to collective bargaining, the labor movement proceeded to go to excess with absurdly high demands of more pay for less work. This became a classic case of a positive feedback system with increasingly inordinate union exactions rewarded, although they fueled national inflation. This then reduced business and eventually first to unemployment, then, in some cases, to the wholesale hiring of illegal aliens and eventually the inevitable loss of jobs with businesses moving abroad in the guise of Free Trade.

The reality of the post-war world economy was that American steel workers getting $26 per hour simply could not compete against cheap foreign labor and thus drove business overseas. In the 1960’s, laborers struck, paraded and demonstrated for their right not to work; in the ’70’s, they were equally emphatic about marching and demonstrating for their right to work. Of course, this idea of a right to work was a fiction embraced by workers trying to cope with the fact that they had priced themselves out of the international labor market. Only in the 1980’s did union executive back off in their self-defeating demands and resumed their proper role of helping rather than harming the American worker.

b. With benefits, reaching $70/hr in the early 21st century. In 2010, a wage earner in American manufacturing got $30/hr; in China, 80 cents. So, if you were a shrewd capitalist, where would you set up shop?