Debt and the Great Deprivation

Description

by Jeanne Haskin

When all our political swill has us struggle to pay the bills
It's unsurprising how the consensus lets greed remain relentless
But strange that your free enterprise is publicly subsidized
So serenely egotistical, proper, painless and principled
For you it's not difficult to return to business as usual
We're hurting, you think you're invincible
By all means feed at the trough, but don't lecture me on core values
–Incapable

Without the efforts of Senator Sanders, it is unlikely that the presidential election of 2016 would have been so adamantly focused on income inequality. This does not mean that our government is not obsessive regarding our debt and household income. To name just a few of the agencies that collect, analyze, and distribute information on what Americans owe, earn, how they spend their earnings, and what they own in terms of assets, the government relies on the Bureau of Labor Statistics, the Bureau of Economic Statistics, the National Census, data from the I.R.S., and reports from the private sector. This tells us that employment demographics, consumer debt and disposable income (or what we have left after taxes) are all important considerations in the matter of taxation. In short, the government decides how much money we should have to manage our household budgets.
This is also true at the state level. Aside from income tax (which is not levied in all states), state legislators can levy excise taxes on everything from vehicles to consumer goods to groceries.
Put differently, both state and federal governments compete with the private sector for a share of our household budgets, including our household debt. The point being that, however it accrued, the national debt is our debt.

Restructuring the Debt to Value Ratio

The issue of economic leveraging, or how much debt a household can hold while still remaining solvent, is dependent on the worth of assets and income, both of which can increase or decrease in proportion to the level of debt. A high demand for assets, such as homes and rental properties, tends to increase their worth. This encourages more borrowing, whether consumers upgrade to more expensive homes or take out equity loans for home improvements or other spending. At the same time, an overheated market, or economic bubble, can not be sustained forever. As soon as the bubble bursts, assets plunge in value and real property owners may owe more than their homes are worth. High interest rates and a recessionary environment will encourage pay squeezes and layoffs, downsizing, and disinvestment as both businesses and households are forced to make do with less. In other words, market-driven inflation is a temporary valuation. The higher the inflationary boom, the more crushing the market correction. This is the long-term cost of buying into the illusion of growth.

The Subprime Mortgage Meltdown

The market bubble that burst between 2008 and 2009 was based on more illusion than demand-driven inflation. In the first case, mortgage lenders tapped every possible customer by both relaxing lending standards and faking supportive documents. In the second case, stock market brokers exhausted their imaginations in creating new investment vehicles based on the subprime mortgages. At the farthest end of the spectrum, investments weren't even directly linked to the mortgages but tied instead to the Price Index. In the third case, the nation's top credit rating agencies colluded with the banks and stock brokers to issue falsely positive ratings on blatantly toxic assets. This allowed stock brokers to sell to hedge funds, which are typically viewed as the safest investment vehicles (particularly for retirement purposes) because they can only invest in top-rated securities. Above all, it was a party that no one wanted to end because banks and brokerages wished to maximize their earnings. They also had a very real need to unload their toxic assets before the music stopped. Only then could they bet on the downside as well as the upside of the stock market. In practice, the brokerages and banks ended up stuck with what they churned out.

If not for the intervention of the government and the Federal Reserve, which not only backed, repackaged, and remarketed the toxic securities but also dropped interest rates to zero in order to discourage saving in favor of investment in the stock market, the banks would have had to sell at a loss, if they could have sold at all. By then, many teetered on the brink of insolvency. For its part, Lehman Brothers could not have been saved by any means.

By bailing out the banks, the Federal Reserve restored confidence in the market, but in doing so it assumed a dual mandate. Once it got the stock market moving, it engaged in a policy of "quantitative easing," which means that it bought Treasuries and other securities to free up more money for bank lending (without printing bank notes). It also issued $2.6 trillion in zero-interest loans to banks that didn't even touch the money. Instead they opted to leave it on the books of the Fed, thereby demonstrating that behavioral economics (providing monetary incentives and economic disincentives) is not always successful in terms of government goals. In this case, the bankers sat out the Great Recession, only after which they began ultra-selective lending. As for the other half of its mandate, the Fed hoped to blunt the effects of the Great Recession with a corresponding growth in wages. The point after deflation that wiped out value for homeowners, retirees, smalltime investors and small businesses was to induce a targeted 2% inflation in wages, a figure that seemed safe enough that the Federal Reserve held steady at zero interest until the end of 2015. But just as the bankers refused to lend, there was little movement in wages.

Inflating Our Way Out of Debt

Obviously, re-inflating the economy to achieve a lower ratio of National Debt to GDP (Gross Domestic Product) would make holding our National Debt seem less risky in the eyes of creditors. Insofar as the U.S. is largely a paper economy, re-inflating the stock market became the number one priority.

But by late 2015, some market analysts gauged stocks to be overvalued by 70%. And since the banks were not lending, the shadow banking sector (comprised of non-bank commercial lenders) grew in leaps and bounds. Households took on more debt through the shadow banking system until the same practices of relaxed and even fraudulent lending standards that led to the subprime mortgage meltdown of 2008-2009 became prevalent once more.

Since many borrowers, who were tapped out by the Great Recession, became more indebted just to stay afloat, the obvious implication is that homeowners, retirees, smalltime investors and small businesses are about to get burned again. This is not only a matter of market correction. It is the Republican agenda.

Forgetting for the sake of convenience that both National Debt and household debt were necessary and instrumental to economic recovery (and not just in America but all across the world) Republicans now insist that the Fed overstepped its bounds. They seek Congressional control of the Fed through audits and policy input. They are also pressuring the Fed to raise interest rates, which would reinstate deflation. Accordingly, the increased National Debt that ended the Great Recession would assume true crisis proportions in its ratio to GDP. So, too, would household debt in proportion to household income. In short, the imperative to rein in fiscal policy and reduce the National Debt will no longer be a matter of Republican ideology.

How, Then, Can We Be Self-sustaining?

Like it or not, our economy is dominated by Wall Street. Banks and brokerage firms were literally forced to merge during the government bailout as a matter of our country's economic survival. Those who insist that we need to break up the banks may be understandably angry about the burden it placed on taxpayers, but as of now, with the loans made by the Fed, the banks are in no way near insolvent. They have tightened their criteria for lending and become so selective that only the wealthiest and most stable entities remain viable clients.

The issue for the next president will not be saving the major banks but the shadow banking system. Having admitted during their surge of growth that the non-bank commercial lenders were frantically driving the pace for expansion, their hope of government invention once their own pool of toxic assets goes belly up is not based on "too big to fail" but "too big to be ignored."

In that event, the government can't hope to offer a bailout, not with all the residual anger over the last bailout and certainly not with the furor over our National Debt. This means that the burden for saving the system will likely be borne by consumers. Large-scale liquidation would be the obvious answer, and judging by the precedent set by the banking system, all manner of shady practices (such as alleging that a customer can skip a payment without repercussions and then foreclosing on the loan or offering terms of refinance that are rigged to trigger default) are bound to come into practice. Too, Congress may elect to restructure the bankruptcy laws, as it did in the wake of Hurricane Katrina, to ensure that fewer people are eligible for protection. In that event, consumers will lose their assets as well as their credit ratings. In the long term, the damage might be much worse. They could lose their jobs in the market downturn and join the ranks of the unemployed.

The No-Mans Land of Long-Term Unemployment

It is generally accepted that unemployment near or at 5% is healthy for the market. On the one hand, it provides a reserve pool of labor that remains fairly consistent. On the other hand, it doesn't tighten demand to cause an increase in wages.

Unfortunately, this sweet-spot of 5% unemployment has changed from a transitional state, where workers cycle in and out of jobs, to one of relative permanency for the long-term unemployed. Potential employers who base their hiring decisions on uninterrupted work histories and favorable credit scores have consigned the long-term unemployed to a virtual no-mans land. Their unemployment benefits can either expire or be ended. New regulations get people off the rolls by requiring participation in job-training programs which are known not to exist. Republicans who were reluctant to re-fund unemployment, even at reduced levels, under President Obama may seize the opportunity to end the program completely.

Too, the unemployment statistics do not report the under-employed and those employed at poverty wages.

Shifting the Burden onto the States

In the worst-case scenario, the long-term unemployed and chronically under-employed become dependent on the state. They may have to rely on Temporary Assistance to Needy Families (TANF), food stamps (SNAP benefits), their state's Medicaid program, or private charities and food banks. The danger to beneficiaries is that these programs are also on shaky ground.
In states where governors tout the benefits of free-market "solutions," they either slash funding and benefit levels for social programs of last resort or apply a cynical calculus to payments and eligibility. In 2015, Scott Walker, the governor of Wisconsin, who gave businesses huge tax breaks, cut funding for food banks just in time for Christmas. Some lawmakers even pass legislation to prohibit people from feeding the homeless in public. Where they do not, the private sector can raise rents on charities to stop them from feeding the poor.

Financial Stress and Suicide

The so-called "ennobling of the poor" (or forcing them to work) may sound like a lofty ideal to legislators. In reality, it is a visceral attack on society's most vulnerable. Forced to turn to a job market that doesn't even want them, it is no wonder that suicide statistics have been climbing in proportion. The last is not just an American issue. Nations all over the globe suffer the same problem.
In response to criticism, The IMF (International Monetary Fund) has finally conceded that its "made-in-America" neoliberal prescription for restructuring client economies has increased income inequality while providing financial windfalls for society's richest people. As an institution that has its nose in every country's business, the IMF's first response to criticism was to recommend stop-gap measures for the poor in debtor countries. However, these measures were impossible to fulfill, since they ran against the grain of economic restructuring and were not, in any way, funded.

Other Punitive Measures

The reactions of county governments to citizens who try to be self-sufficient are not always favorable. A man was arrested and sentenced to prison for simply collecting rainwater. A couple was ordered to remove the garden that occupied their front lawn. As for two separate men who lived completely off the grid, their homes were considered unsafe for lack of city utilities. These men faced eviction once their homes were condemned.
In Los Angeles, the city reacted to the construction of tiny homes for the homeless by declaring them "bulky" constructs for immediate confiscation.

Political Economics

The issue of political economics brings us back to demographics. The persistence of redistricting and gerrymandering has allowed both Democrats and Republicans to excise needy communities and keep them isolated. If the Tea Party had its way, non-homeowners would not be able to vote. Now Republicans are insisting that the poor should have no vote. Republicans also oppose early voting, claiming that it allows the poor to vote in large numbers. Republicans further insist that people should pay to vote if it is necessary to keep the polling stations open after hours.
In the 2016 presidential primaries, illegal shenanigans at the polls included purging eligible voters and

infrequent voters, limiting voting opportunities to registered Republicans only, misdirection of voters and obfuscation of the voting process. In the state of California, where Hillary Clinton presumably won the primary, nearly three million provisional ballots still remain uncounted. For that matter, Senator Sanders has been shafted at every turn.

Under DNC Chair Debbie Wasserman Schultz, Sanders was cut off from using the DNC's registered voter list for accidentally accessing Hillary Clinton's campaign voter list. Wasserman Schultz also stated that the reason we have superdelegates is to prevent establishment candidates from being challenged at the grass-roots level. Finally, there has been all but a full media blackout wherever Sanders has campaigned.

Reducing the Rolls through Incarceration

The Alabama police recently admitted that they specifically targeted blacks by planting incriminating evidence to result in prison terms.

Although President Obama is pressuring the states to restore voting rights to non-violent felons who have already served their time and Virginia has actually done so, the overall trend is not just to incarcerate the poor but to keep them incarcerated or send them back to prison via unpaid fines and fees for services. It is no longer true that every indigent facing trial has the right to a public defender. With the de-funding of the justice system, all costs, including appearance in court, must be borne by the offender.

So, too, the maxim of "innocent until proven guilty" becomes a meaningless phrase. Since the offender bears the financial burden of facing the court system, he or she is penalized up front, regardless of guilt or innocence. It also means that innocent people lacking representation often go to prison. Because they are indigent in the first place, the burden for keeping family members out of prison has fallen disproportionately on women.

In states that "service" private prisons, contracts require them to maintain full occupancy and/or a prisoner quota.

In other words, criminalization is now market-driven. And because the market has no place for the disadvantaged, there was, in at least one prison, an involuntary sterilization program targeting poor women.

Social Engineering

The full implication regarding the disadvantaged is that once they are down and out, the collusion of market and government will either ensure they stay that way or fall into deeper distress. Those who are eligible for food stamps (SNAP benefits) receive debit cards and have their spending allotments reduced because the banks take their cut with every financial transaction. Nor are food stamps exempt from excise taxes.

It is doubtful, however, that food stamps will survive the next administration, since the Republicans have proved quite willing to end school lunch programs for poor children. It is also a myth that this would disproportionately affect minorities. In fact the largest percentage of food stamp recipients consists of poor white families.

There is no reason to believe that Veterans benefits and Social Security would not be slashed in turn. Lastly, Republicans are committed to repealing the Affordable Care Act by any and all means.

Religion and Morality or Meek and Docile Constituents?

President Obama's commitment to funding preschool education and encouraging college participation are not Republican goals. Republicans would prefer to abolish the Department of Education. Their determination to replace the nation's core curricula with educational agendas more suited to evangelism have already played out in states such as Maine, under Governor Paul LePage. His appointed Commissioner of Education is biased toward Creationism.

Too, Republicans seem enamored with revisionism. From claiming that blacks were better off during slavery to refusing to read the portion of the Constitution that portrays blacks as less than full persons, these acts are predictive of other changes in education. In Texas, for example, a school text book referred to slaves as migrant "workers," which presumably is the place reserved for blacks in a Republican-controlled future, once illegal immigrants are expelled from the country.

In the most forward-looking sense, the insistence that America is a Christian nation is predictive of persecution, whether it manifests in a "sin" tax for people of alternate religions or non-hiring of non-Christians. If onerous and pervasive, such developments would result in forced conversions or religion-based territorial cleansing.

The Danger of Ruling through Disincentives

Because we live in a world that is constantly manipulated by behavioral economics, we must understand that no nation has ever avoided revolution by ruling through disincentives. Yet cutting everything possible in the name of Republican ethos is just what Republicans mean to do. To paraphrase the words of House Speaker Paul Ryan, the Republican Party is more important than the United States of America.

This is where neoliberalism gives way to neoconservatism, and the latter will be much worse.

It implies, on the one hand, that Republicans would willingly sabotage our government both politically and economically. On the other hand, the majority of Republicans have overtly stated that they would welcome a military coup before they would allow another Democrat to become President.

The precedent for this is the Iraqi Provisional Government headed by Paul Bremer.

At worst, Republicans would plunge the entire world in a period of voluntary contraction that I have called The Great Deprivation. At best, Republicans would have us align our expectations with policy failure in Iraq. The idea that there could be a different outcome on Republican terms and conditions is pure fantasy run amok.