A Free-Market Manifesto

by

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When the economy slumped in 2007 few experts believed it would turn into the worst recession since the Great Depression. They had great faith in Keynesian economic policies that rely exclusively on government and consumer borrowing. In an inexplicable irony, the administration economists used debt to cure a malady that had stemmed from excessive debt to begin with. By 2014, fully seven years later, a large majority of Americans were unsure about their future, even though the government had spent trillions to restore their battered fortunes. True, the stock market had made a nice comeback, and a few million workers had been called back to work. But after $8 trillion in extra federal debt, employment had barely reached its level in 2007, while poverty was the worst in more than 50 years. In addition the Federal Reserve had wasted some $4 trillion to bail out the financial system.

Evidently, something has gone awry. Economists and other experts have been confused between cause and effect. The base their policies on what they observe, but what is observed is the effect not the cause, which occurred many years back. It is this confusion that has led them to cure debt created ills with heavier doses of debt. Consequently, at most, the status quo has been preserved but at an enormous cost to the nation and future generations. Something new has to be tried, something that is practical and impervious to the obstructions of our do-nothing congress. Let us get back to the nitty gritty of why the nation needed $8 trillion of extra debt, and plenty more from the Federal Reserve, just to restore the status quo, and what needs to be done now to accelerate the recovery. Here is a brief summary of the arguments I have presented in preceding pages.

1. Unemployment occurs if productivity rises faster than wages, because then supply increases faster than demand, leading to overproduction and the threat of layoffs. The threat can be removed through monetary and fiscal policies, which generate debt year after year and artificially raise demand to the level of supply. But this can't be done forever, and when the day of reckoning arrives, it is too late to get out of the slump in a hurry.

2. It is futile to expect banks to increase their lending substantially when consumers are heavily indebted because of several decades of monetary expansion and the resulting puny interest rates. Low interest rates revive demand for homes on one side but lower spending by retirees who depend partly on their savings. Overall, there may not be much benefit from the relentless use of easy money policy, but there can be great harm to the economy.

3. Bank bailouts increase speculative activity, because, with people already in heavy debt, Fed supplied money sits idle in the financial system and finds outlet in asset markets, thereby raising the price of oil and other assets. Low priced oil helps end the recession, but that avenue has been blocked this time around so that the recovery remains mediocre.

4. The wealthy love budget deficits and money printing, which temporarily stabilize employment but sharply raise profits and hence CEO incomes. The process gives them more resources to lobby Congress

and have laws passed in their favor. So it is not surprising that the rate of profit was the highest or close to it in 2014.

5. Our persistent trade deficit is among the biggest destroyers of our middle class.

Let us now see what we can do to fix the economy quickly without raising debt and relying on lawmakers.

1. The creation of free markets is the best way to rejuvenate our economy, but that requires splitting the nation's myriad conglomerates into smaller firms, which our Congress would not allow. However, some agencies working for the president can generate free-market outcomes in several crucial industries, and that will do the job. For instance, the FDIC can use its authority to create what is known as a bridge bank, and through it offer competition to large banks. This will bring down interest rates on credit card balances from the current average of 15 percent to just 5 percent. The banks are still charging the same interest rates as in 2007, even though, thanks to the Federal Reserve, their borrowing costs are close to zero, and competition from the bridge bank would sharply lower the monthly payments of credit card holders.
2. Similarly the CFTC can use its emergency power to raise the margin requirement for buying oil futures from the current 6 percent to 50 percent so that the petro price falls to its free-market level of about $20 per barrel. In minor recessions in the past, such price usually collapsed to less than $15, and helped speed up the recovery.
3. The Treasury should issue 5-year bonds to needy retirees, offering a fixed interest rate of 3.5 percent. This will not raise long-term borrowing cost for the government, but offer a lifeline to pensioners nearly devastated by Federal Reserve policies.
4. The Federal Reserve should intervene in the foreign exchange market to offer a depreciated dollar rate with respect to the yuan and yen so that our trade deficit with China and Japan vanishes. This measure will enable us to follow a policy of balanced free trade and generate over 5 million manufacturing jobs within a year.
5. Ideally we should gradually raise our minimum wage and link it with inflation and national productivity, but Congress would not go for it—at least not soon. So the president should continue to ask federal contractors to raise their minimum wage on government supported work. In competitive markets the real wage rises in proportion to efficiency gains, so that linking the minimum wage to national productivity would simply generate a free-enterprise system, where, over time, the living standard rises for all.
6. The government should not permit mergers among large and profitable firms in order to preserve competition and avert job losses.
7. All these measures will raise consumer demand on home goods significantly, enhance the growth rate, increase real wages, alleviate poverty, boost tax receipts, and slowly help retire our debt.

The free-market manifesto proposed above will create competitive-capitalism effects in a number of industries without recourse to Congress. That is why the measures just outlined are practical and can be easily put into practice to bring an end to joblessness, debt and poverty. Ever since 1981 the official economic policy has been this: what is good for the Big-Business, Big-Bonus CEO is good for America, and what is good for the poor, middle class and small business is bad for America. The free-market manifesto will at last put an end to the hemorrhage that the public has long suffered at the hands of the oligarchs.

Finally, the emerging economies should follow a modified version of the old putting out system that preceded monopoly capitalism.