

## ISSUES IN PERSPECTIVE

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2 June 2012

### *THE DEBATE OVER ECONOMIC POLICY*

Europe is in crisis. Greece, Spain and Italy are on the edge financially as they struggle with enormous debt, unsustainable obligations to government pensions and health care expenses and commitments to the euro that are currently impossible for them to fulfill. Furthermore, the governments of Europe are experiencing political upheaval because voters are turning against austerity and frugality. (Witness the recent elections in France and Greece.) Within the United States, similar debates are occurring. The US debt is out of control and the US government, let alone many state and local governments, simply cannot meet obligations to its citizens and employees. Some states (e.g., California and Illinois) are virtually insolvent. Some local governments are actually declaring bankruptcy. And national unemployment rates are over 8%, while the underemployment rate for young adults (ages 18-29) is 32%. I could go on!

How should we think about this? There is so much confusion in all the discussions and debates about economic policy. That we are now beginning the 2012 presidential campaign is not very helpful either. The simplistic and reductionistic thinking of both candidates does not give Americans a clear picture of what is really occurring in our nation—and our world. I recently read an essay by columnist David Brooks that succinctly summarizes the debate over economic policy in the United States and in Europe. Permit me a summary of this most helpful essay.

Brooks argues that there are two basic positions about how to deal with the economic downturn in the US and Europe—the cyclicalists and the structuralists. For the **cyclicalists**, America is operating well below capacity. To energize the economy, the government must borrow and spend more. Although the current federal deficit is about \$1 trillion per year, many cyclicalists believe that debt should be \$1.4 trillion per year! Brooks summarizes: “The cyclicalists rail against what they see as American austerity-mongers who resist new borrowing. They really rail against the European ones. They see Francois Hollande’s victory in France as a sign that, in Europe at least, the pendulum might finally be swinging from austerity to growth.” Those who are critical of this position believe that cyclicalists are simply ignoring core issues that must be addressed. To not do so is self-defeating. That is where the **structuralists** come in. For them, the recession grew out of and exposed long-term flaws in the economy. Fixing these structural problems should be the priority, not papering over them with more debt. What are those structural problems?

1. The nature of globalization and technological change. Hyperefficient globalized companies need fewer workers. Therefore, unemployment rises while “superstar salaries surge” while lower-skilled wages stagnate. As Brooks puts it, “the middle gets hollowed out and inequality grows.”

2. There are structural issues surrounding the decline in human capital. The United States, once the world's educational leader, is falling behind. Although unemployment is high, many companies simply cannot find enough skilled workers. We are simply not training Americans for the jobs of the 21<sup>st</sup> century. The human capital deficiency in America is at crisis proportions.
3. Most basic to the structural problems of the US is politics. Brooks writes: "Over the decades, companies and other entities have implanted a growing number of special-interest deals into the tax and regulatory codes, making it harder for politically unconnected, new competitors, [thereby] making the economy less dynamic." The political climate in Washington is so serious that many politicians place their personal ideology over the national good.

What has been the result of these structural issues? Along with other matters, these structural problems have retarded growth and wages for decades. Consumers therefore tried to compensate by borrowing more. Politicians tried to compensate by "reducing the tax bill, increasing deficit spending, ensuring easy credit for homebuyers and by helping workers shift out of the hypercompetitive, globalized part of the economy and into less productive and more sheltered parts of the economy—mostly into health care, government and education." The current model under which America is working is broken. This nation cannot compensate for structural economic weaknesses with more tax cuts and the unsustainable welfare state. The level of government spending is not the main factor in determining how fast an economy grows. As Brooks argues, "if that were true, then Greece, Britain and France would have the best economies on earth." Running up larger deficits without fixing the structural problems will not restore growth. As Raghuram Rajan of the University of Chicago maintains: "Since the growth before the crisis was distorted in fundamental ways, it is hard to imagine that governments could restore demand quickly—or that doing so would do enough to get the global economy back on track. The status quo ante is not a good place to return to because bloated finance, residential construction and government sectors need to shrink, and workers need to move to more productive work."

The Democratic Party is pursuing a bankrupt set of public policies. Larger deficits fueling larger entitlement programs are unsustainable. But this Party ignores the structural problems that have caused the crisis. The Republican Party, especially presidential candidate Romney and Representative Paul Ryan, seem to understand the structural problems America faces, but they serve a Party that seems single-mindedly to see tax cuts as the only solution. That is not the major problem facing America. The antiquated welfare state that has brought Europe down is growing in the US (e.g., Obama's health-care law). But that welfare state is simply and profoundly unsustainable. We cannot preserve the status quo in America. We need someone to lead this nation who understands the systemic structural problems and can provide solutions that recognize the global nature of our economy and the technological change, which is redefining our economy. We also need someone who understands the crisis in human capital we are facing and the catastrophic political dysfunction rampant in the American political culture. Neither political party seems to understand these structural problems and neither is thereby able to lead.

The United States is facing a rather dismal future if its leaders do not set aside the political infighting and focus on the massive structural issues facing this nation. Greater debt, an expanding welfare state and maintaining the status quo constitute the pathway to self destruction. With the recent elections in Europe, those who see an expansive and dependency-creating government seem to be winning the day. May that not be the case in the United States. May God in His grace have mercy upon us.

See David Brooks in the *New York Times* (8 May 2012).