

So what's with the economy?

Are your grown kids losing their jobs, whether or not they went to college? -----

As of May 2.7 million jobs have been lost since recession began in March 2001.

Unemployed who have been seeking work for 6 months or over has been 20% of all unemployed persons since October 2002.

Average unemployment period jumped to 19.6 weeks in April, longest since 1984.

U.S. Department of Labor quoted by Jared Bernstein in The American Prospect

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We have to get people back to work. We have to stimulate the economy. The Bush administration and the Republican-controlled Congress claim their recently enacted tax cuts will do the trick.

Tax cuts will not stimulate the economy. Historically tax cuts have never worked to stimulate the economy. John Cassidy in the May 12, 2003 issue of the New Yorker points out that in 2001 Bush pushed through the largest tax cuts in a generation. The result has not been to stimulate the economy. Instead a million and a half jobs have disappeared. Reagan in 1986, created an enormous tax cut, \$726 billion dollars, along with an enormous deficit. Unemployment stayed high and the economy stayed in its doldrums until Clinton raised taxes to control the deficit.

Worse, the tax cuts will cause enormous deficits. Deficits mean that in order to meet its obligations the government has to borrow money. Deficits absorb money because the government has to pay **interest** on its loans. Money that should be going to salaries, investments, building roads, jobs, etc. goes to paying interest. This slows the economy down even further.

Government spending stimulates the economy. The way the government can fix the economy is to keep money flowing to as many people as possible. This is called increasing demand. Money goes to those most likely to spend it. Not-so-rich folks spend almost every penny that comes into the house, thus, for example you extend unemployment benefits. States must balance their budgets; hence they are always looking for cash. Give money to the states. The important thing to remember is to get the money where it will be spent.

Why does it have to be government? Because in an economic downturn businesses have to cut back on their spending. If a manufacturer keeps producing and inventories swell, that drives prices down and the economy goes into a further depressive cycle.

The administration's rationale for tax cuts is that they will stimulate the economy by putting money in the pockets of investors and they will invest, thereby creating new jobs. This doesn't work in an economy where individuals and institutions are cutting back because there is no money around. **In short, the one thing you do NOT do** is capture large pieces of the money supply and give it to wealthy individuals and big corporations. They already have money and if they were going to invest in producing assets and jobs they already would have. The same \$100,000 in many pockets will produce many more times its amount. That \$100,000 in Cheney's pocket stays there.

The reason things work this way lies in the nature of our economy.

The economic system we have in the United States is called a market economy.

What does Market Economy do? Any economic system distributes goods and services in ways that will generate production and get them to the largest number of people. A "market economy" bases the distribution on the decisions of hundred of thousands of people every day. Those decisions are decisions to buy and control what is produced, what is advertised, what is sold. So long as those decisions keep being made in great numbers, even for trivial things, the economy chugs along. Manufacturers make the goods or buy them overseas, advertisers market them, people remain employed and the money keeps sloshing around. Everyone is acting in his or her self-interest, or even out of greed, but nobody minds until things go wrong.

So what's with the economy?

Things always go wrong. A market economy requires ambitious, adventurous, even greedy, people. However these qualities that work so well to get the economy going tend to generate overreaching (a nice name for fraud, dishonesty and bad investments). The buyers, us, on whom this is all based, discover the fraud, get tired of the products, or employment starts to fall anyway because manufacturers overproduce. Businesses stop making profits. People are fired from their jobs and they no longer have the money to do all that buying. The prices of stocks fall because nobody wants to invest in companies that are not making money. Large stockholders like state governments and pension funds start to lose money, as do individual investors. State revenues drop. When state revenues drop cutbacks are required on teachers, Police, firefighters and social workers. This cycle is characteristic of a market economy. So since the Great Depression of the 1930's, the federal government has used various agencies to monitor the economy, e.g. the Federal Reserve Bank and the Securities and Exchange Commission, safety net programs like Unemployment Compensation, Social Security and welfare benefits. These programs, if they are allowed to work moderate the severity of the business cycles.

The tax cuts just passed increase the deficits so severely that all safety net program are endangered. The Republican tax cuts not only do the exact opposite of what's required to stimulate demand, but they force severe cuts, and further cuts in the future. **If it's the economy they want to save, it's the exact wrong solution.**

Why then is the Bush administration promoting this tax cut?

Are their reasons political and ideological, not economic?

Do they want government out of the regulation, and social welfare business? Do the supporters of the Bush administration want to be able to make as much money as possible without worrying about paying their workers, diversity, the social welfare of their neighbors or whether their annual fiscal reports are a true picture of the company's profits? Probably but surely they know that getting rid of such program will endanger their profits.

□ Falling prices and widespread unemployment create population pressure. Even if it is not appealing now, the military becomes appealing when there is no other work to be found. Is it possible that there are members of the Bush administration and the congress, as well as corporate officials, who want to create an American empire for which they need considerably more troops? Could it be they want to stay at war, Iraq now, Iran tomorrow? If so, they need to expand the military. Is this what they are thinking?

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Read Paul Krugman in the New York Times Tuesday and Thursday. <http://www.nytimes.com>
Center on Budget and Policy Priorities: www.cbpp.org. The article I used is Principles for Economic Stimulus by Andrew Lee (<http://www.cbpp.org/1-6-03tax3.pdf>).

Compiled by Cape Codders for Peace and Justice which promotes decision-making which is democratic, respectful of racial and cultural diversity and advocates peaceful solutions to national and international problems.

Join CCPJ at a monthly meeting above the Cape Cod Community College cafeteria at 10:00 AM the first Saturday of each month (but the 12th of July).

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Revised 6/17/03.

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