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"Cram-down" economic policy isn't the answer

Steve Bakke March 7, 2023

This commentary will conclude, for now, my recent focus on America's financial concerns. I've previously dealt with our budget process, the national debt limit, and the future of social security. These are all interrelated and should be part of the same conversation. Too often it's politically advantageous to isolate these issues into separate analyses and discussions. I want to be careful not to make the same mistake.

America's national debt is high, over $31.5 trillion, and growing fast. But there's an even bigger story to be told. In addition to the borrowed debt, we need to consider unfunded obligations of Social Security, Medicare Parts A, B, and D, federal employee benefits, veterans benefits and obligations of other programs. These obligations deserve more public attention and should be on the minds of our congressional leaders while budgets and debt ceilings are being decided.

Unlike what's required for private sector financial reporting, we don't "officially" track or publicize the total of all government obligations. However, we're a country of wannabe and legitimate pundits whose estimates range as high as $220 trillion. Low estimates hover in the "mid $100" trillions. Those measurements are imprecise, but whatever the amount, we can be sure that the worrisome national debt is but a small fraction of our total obligations.

Some argue that government trust funds, such as those for Social Security and government employee retirement plans, mitigate the problem by providing their own funds necessary to pay their obligations. But as we've learned, those trust balances are Treasury securities, intergovernmental obligations, not cash or deposits. In order to redeem those securities, our national financial situation requires the Treasury to borrow elsewhere, thereby increasing our nation debt.

Some suggest focusing on "waste, fraud, and abuse" to solve a major part of the problem. That would be a "good thing," but we're so far in the hole, addressing those problems would amount to the proverbial "drop in the bucket."

Taxing the rich as a solution would also be futile. If we took all the wealth away from the richest Americans, we wouldn't come close to paying off just the national borrowed debt. And if that were done, there'd be no more rich folks to tax. They pay the bulk of our federal taxes now. And we could no longer depend on their capital to provide an investment source for economic growth. And even after taking all their wealth, the unfunded obligations would remain intact.

There's a subtle movement afoot to revolutionize economic policy. Some progressives suggest the alternative of managing our economy with minimal concern for deficits or rising national debt. I'm referring to proponents of Modern Monetary Theory (MMT), a decades old concept that has come into favor with some during the last few years.

Bernie Sanders' first foray into presidential politics was done with a MMT guru as his economic advisor. Under MMT, the Federal Reserve's monetary tools would be used, with few constraints, to fund program growth by expanding the money supply i.e. "printing money." Taxes alone wouldn't be able to pay the bills.

Under traditional economic assumptions, rampant inflation is the likely result of unbridled expansionary monetary policy. Under MMT, when inflation does occur, the suggested solution is to shrink the money supply by aggressively increasing taxes and using the Fed's monetary tools. That's dangerous and the results can be chaotic.

MMT policies would result in a herky-jerky ride through alternating heavy spending with exploding debt, followed by tax increases and dramatic monetary policies shrinking the money supply. Uncertainty would rule the consumer markets, the stock markets, and our decision-making. A smooth economy would no longer be within reach. Economic confidence and feelings of well-being would be a mere memory. Rather than "MMT," I sometimes refer to this heavy-handed government tinkering as "cram-down" economic policy.

Unfortunately, there's no easy way out. The first step is to acknowledge the problem and admit that change is needed. More than mere "tweaks" will be necessary, and we can't expect to totally solve the problem. Let's at least pull our economy off its current path and tune our minds to making smart improvements and structural changes. That will reduce our uncertainty and anxiety and allow better financial management.