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LION AND THE LAMB: Economics 101 in the new year

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CROSSVILLE — 2013 ended in a bad financial way for many people in our nation.

In November, food stamp benefits were slashed for an estimated 48 million people, including 22 million children, by an average of 7 percent. On Dec. 28 Congress allowed the Emergency Unemployment Compensation Program to expire. This program was of crucial help to 1.3 million unemployed Americans after their state-offered jobless benefits, restricted to 26 weeks, had run out. Republicans had opposed its renewal, quoting a Cato Institute report that claims "the current welfare system provides such a high level of benefits that it acts as a disincentive for work." The Economic Policy Institute, however, called the notion of a welfare/work tradeoff "wildly misleading." "The notion that people would rather get unemployment compensation than a job ignores how low weekly benefits actually are. ... We have a temporary federal program because unemployment is so high and jobs so hard to find." Many people today don't realize that unemployment benefits are one of the more effective forms of stimulus because money is badly needed and thus spent right away.

At the high end of the financial scale, the picture has been quite different. 2013 was another good year for rich people who were able to take advantage of special tax cuts. When they get extra money from tax cuts, they don't spend it since they have pretty much everything they may want or need. Instead, like Romney, they may open tax-free bank accounts in the Cayman Islands or Switzerland or invest it in cheap labor companies overseas. Romney was reported to have paid no taxes for years on hundreds of millions in income. The Koch Brothers have invested millions in supporting conservative political candidates in the U.S.

There's an interesting correlation between the tax rate for the wealthy and financial crises that's worth pondering. In 1922 when Republican Warren Harding reduced the top tax rate from 73 percent to 25 percent, it resulted in a real estate and stock market bubble that burst in 1929. Franklin Roosevelt raised the top tax rate to over 90 percent, leading to forty years of stability and prosperity. Ronald Reagan, however, reduced the top tax rate to 28 percent, resulting in a depression and the Savings and Loans crisis. Bill Clinton raised the top income tax rate back to 39 percent, and the economy boomed, but then George Bush Jr. cut it back down, resulting in another crash and a high rate of unemployment.

The major economic crisis we are experiencing in our nation at present is both a financial one and, even more serious, a moral one. Inequality has been deliberately increased through a whole range of policies intended to redistribute income upward. And this redistribution process has often involved intentional fraudulent practices such as portraying dubious mortgages as sound risks. The failure to prosecute those responsible, both corporate and individual, must be judged one of the most serious failures of our criminal justice system.

Journalist Chris Hedges catches the critical seriousness of our nation's economic situation at the present time: "Money, as Karl Marx lamented, plays the largest part in determining the course of history. Once speculators are able to concentrate wealth into their hands they have, throughout history, emasculated government, turned the press into lap dogs and courtiers, corrupted the courts and hollowed out public institutions, including universities, to justify their looting and greed. Today's speculators have created grotesque financial mechanisms from usurious interest rates on loans to legalized accounting fraud, to plunge the masses into crippling forms of debt peonage. They steal staggering sums of public funds, such as the $85 billion of mortgage-backed securities and bonds, many of them toxic, that they unload each month on the Federal Reserve in return for cash. And when the public attempts to finance public works projects they extract billions of dollars through wildly inflated interest rates.

"Speculators at megabanks or investment firms such as Goldman Sachs are not, in a strict sense, capitalists. They do not make money from the means of production. Rather, they ignore or rewrite the law—ostensibly put into place to protect the vulnerable from the powerful--to steal from everyone, including the shareholders. They feed off the carcass of industrial capitalism. They produce nothing. They make nothing. They just manipulate money. Speculation in the 17th century was a crime. Speculators were hanged."

It will be interesting to see what happens during this new year.