LETTERS TO BARODA CITIZENS

From BILL HURST,
Running for Election as Baroda Township Treasurer
October 26th, 2022

Note: These letters are self-funded. No Township time, dollars, or materials are being consumed. The views expressed are not relevant to my work as Treasurer, which is a completely non-partisan job. But Township rules require me to declare and run as a partisan, so I have declared as an Independent. You the voters made it clear in 2020 that the party label of the Treasurer matters, in defeating an incumbent who was far more embedded in the community than her opponent, and who knew the job inside out. Despite the voters' preference for party over non-partisanship in that election, the job itself is non-partisan.

I am writing these letters to speak to what I feel is a need to look at our politics through a non-party, centrist lens, and to preserve our democracy, which is under risk for reasons discussed in the first letter, and which will be addressed in my next letter.

Some of you have called me to curtly tell me my first letter was a rant, to tell me I am disgusting, and one letter contained a veiled death threat. Please, if my letters disturb you, just throw them out…

I greatly appreciate the support many of you provided in supporting my right to send these letters, in telling me the letters were unique in a world of slogans, and in recognizing that I criticized both sides. Thanks to a few of you for your monetary contributions, which will not make me whole, but let me know what I am doing is valued. Communicating ideas based on many sources is a solitary road; your recognition helps keep me going. The remaining two letters will be out shortly; the second will be about political reform and will get to you after election day. It provides perspective on reform in general and examines specific reforms – ranked choice voting, multi-member districts, non-partisan districting, etc. These last two letters will be online; you will get a postcard linking you to the full letter.

This second campaign letter is focused on the need to look at US economic performance in a strategic way, so we voters push for the right policies. As a centrist, with views not easily categorized, I am more concerned with the political, social and fiscal sustainability of our economic practices, rather than "horserace comparisons" of presidential economic numbers (GDP growth, wage growth, etc.). A more strategic evaluation using the broader lens of political economy leads to criticisms of Obama, Trump and Biden – all of them. A deeper look morphs into a critique of the two parties who, because of their particular makeup, contribute to our structural economic problems.

The US economy and its workers have amazing strengths. I am optimistic that despite our dysfunctional politics and current issues with supply chains and Ukraine-related supply constraints, that the American economy will be very effective in eventually creating more resilient and more regionalized supply chains after decades of "The World is Flat". This may be a more expensive supply chain, as redundancy adds cost, but a partial reversal of offshoring provides an opportunity for a more balanced economy.

But despite the basic strengths of the US **economy**, our **political economy** is weak. There are political/economic problems which need correction. These include excessive inequality characterized by erosion of the standing of the middle class, an over reliance on financialization versus manufacturing, issues of fiscal sustainability due an excessive buildup of government debt, and risks to three key pillars of our welfare state – Social Security, Medicare and Medicaid. Dealing with the weaknesses in our political economy involves corrective policies from two parties who are more interested in culture war battles. The need for reform of our "**political economy**" is what this letter is about.

My first point in this political economic analysis is to ask that we voters stop worshiping the "bright, shiny object" put in front of you by the media and the parties, which focuses us on "horserace comparisons" to determine which president had better "numbers". Let's illustrate the pitfalls of this approach by comparing the "horserace numbers" of Obama and Trump to show that these surface comparisons, which mislead voters, distract us from a more important, deeper dive.

- First, let's set the stage. Obama inherited the most severe recession since the Great Depression. A severe housing asset bubble, created and exported by Wall Street, caused a collapse of the US housing market, and due to unpriceable mortgage assets (CDOs), froze available working capital and loan availability, putting the entire financial system and non-financial companies at risk. Millions of homeowners lost their savings as they went "underwater" and lost their homes. Measures such as TARP, which were put in place to unfreeze the economy and support critical manufacturing and financial firms, averted disaster. Unemployment, which was 4.4% in May 2007 rose to 8.3% when Obama took office and peaked 9 months later at 10% in October 2009. Financial crises caused by asset bubbles are historically especially deep and long lasting. But by October 2009, the bottom had been reached, setting the stage for long but lackluster recovery.
- With the stage set, we are ready for the "horserace" comparison. **In 7 years under Obama, unemployment dropped from 10% to 4.7%. Continuing this same trend, in the first three pre-pandemic years of Trump, unemployment went from 4.7% to 3.5%. This entire progression was a slow, steady, straight line. No acceleration of jobs growth or sudden drop in unemployment occurred under Trump.**
- **In terms of job growth, average jobs growth under Obama from 2010 through 2016 was 186,000/month and under Trump in 2017 through 2019 was 182,000. Like unemployment, we are talking about the same economic performance under Obama and Trump.**
- In terms of GDP growth, **Obama "produced" US GDP growth rate of 2.2% and in 2017 and 2019 Trump produced trendline US GDP growth rate of 2.3 and 2.2% respectively, representing no improvement in the structural growth rate**. The one exceptional year for Trump, 2018, produced 3% growth, but this was explained by the stimulus of the American Recovery Act which produced a Keynesian growth bump, but at the cost of increasing deficits $300 Billion annually at a time of full employment. It did not unleash an increase in productivity or investment, and it essentially was a tax cut for the rich, not the middle class. Growth went back down to the 2% trendline in 2019 although the federal deficit increased from $563 billion to $900 billion that year due to the ongoing loss of revenue from the 2017 tax cuts.
- **One improvement under Trump was that real wages increased by 3% on average in 2018 and 2019 as unemployment resulted in tighter labor markets which naturally provide greater bargaining power.** Again, this was not a structural improvement representing increased bargaining power of labor but a consequence of extremely low unemployment.
- Of note, in 2019, manufacturing went into a no-growth slump, contrary to Trump administration goal of revitalizing manufacturing.

So, let's sum up. **Here is what the "horserace" comparison tells us. Trump inherited a 2.2% growth economy from Obama and did not improve US growth at all, ending up in 2019 with a 2.2% economy. Even 2018's 3% growth, which occurred due to a Keynesian tax-cut induced bump, was subpar when compared to Johnson, Reagan, Clinton, and even Obama's best quarters of growth.**

The point of this comparison is not to knock Trump. He had several good, but not exceptional years of economic growth before the pandemic, because of trend line he inherited. The point is that we as voters need to look at longer term strategic management of the economy for a full picture. So, let's do a deeper dive into some key issues facing our political economy. We will focus on:

1. Extreme inequality characterized by the erosion and loss of standing of the middle class,
2. Contributing to #1, an imbalanced economy characterized by over-financialization,
3. Excessive deficit spending by our federal government, resulting in unsustainable overall debt, especially as interest rates rise,
4. The coming insolvency of Social Security, Medicare and Medicaid, impacting almost all of us.

Extreme Inequality and the Loss of Standing of the Middle Class:
The middle class has been squeezed over the last 50 years, as it has been denied real wage increases proportionate to its share of growth in US productivity. According to Pew Research, "After adjusting for inflation, however, today's average hourly wage has just about the same purchasing power it did in 1978…. In fact, in real terms average hourly earnings peaked 45 years ago in 1973." Meanwhile, the top tenth of earners saw an increase of 15.7% just since 2000, and those at the very top (the 1% and especially the .001%) have taken home the lion's share of US productivity increases.

So, let's lay the blame for the economic decline of the middle class where it belongs – on both political parties, whose indifference has weakened the standing of the middle class. Through Nixon's term, both parties accepted the basic premise of the welfare state which by then included Social Security, Medicare and Medicaid, acceptance of labor unions, strong protection of the environment, and under Nixon even wage and price controls (which predictably didn't work). At this point, Big Government and regulation were not demonized as the enemy, not just yet.

It was Reagan who united the business class with a socially conservative middle class who were fed up with startling social changes and mass protests which started in the 1960's over civil rights, woman's rights, gay rights and environmental regulation as non-traditional lifestyles and beliefs took hold. The Reagan coalition eventually attracted the Christian right who were angered by Jimmy Carter's IRS. With a solid national majority, the business wing of the Republicans began to frame government as a source of society's problems and free markets as the holy grail, and they were able to use wedge issues to paint government as engaging in "giveaways" to the undeserving, a prelude to shrinking government overall. A long process of chipping away at labor unions, regulations, welfare costs, taxes paid by the rich, and government expenditures on infrastructure, education and basic R&D, began under Reagan and has continued thereafter with some exceptions as Democrats briefly took control and added new programs like ACA. Republican Presidents did not act alone. They had the help of Democratic Congresses who acquiesced to the free-market tide and collaborated across the aisle as capital gains, options, carryovers, and deferred compensation enabled CEOs to pay lower tax rates than their executive secretaries.

But to be fair, it was "new-economy" Democrats, and in particular, Bill Clinton, who cemented the hold the free-market revolution had on the economy. Bill Clinton evangelized for the "knowledge" economy, and less so for manufacturing. It was under his administration that offshoring trade deals expanded supply chains, and that de-regulation of not just the telecom industry, but most consequentially for 2008, the financial industry, occurred. The erosion of restrictions on interstate banking and the repeal of Glass-Stegall, encouraged banks to de-emphasize traditional lending and instead focus on trading derivatives, investment banking, and the packaging of loans (securitization), particularly mortgages, which enabled originators to sell their loans around the world. In criticizing Bill Clinton (with the advantage of hindsight), we need to recognize that he had the encouragement of a Republican Congress which supported free-trade, tax reductions for the rich, deregulation and demonization of government. The New Economy was created with bi-partisan agreements.

Over Financialization of the Economy

Financialization of our economy has been a contributing cause of inequality. Finance makes up 7% of the economy and creates 4% of all jobs but generates almost a third of all corporate profits. Our over-financialized economy has been marked by a reduction in lending for R&D and plant and equipment, and an outsized focus on trading derivatives and securitizing existing assets such as real estate and securities into saleable products. These trends, which produce large profits, have been shown to decrease real investment in the real economy. Over-financialization increasingly has influenced a low level of real investments by corporate America. The largest corporations are sitting on $4.5TR of past earnings, using these massive holdings for buybacks to support stock prices rather than R&D or new plant and equipment, which have a less certain and longer payback.

Fixing over-financialization is a complex subject. Incentives to moor lending to investments to grow real assets requires re-regulation of financial institutions, and changes to tax codes to de-incentivize non-productive uses of capital while incentivizing real investments such as R&D and plant and equipment.

Excessive Federal Deficits:

Up until Reagan, federal deficits were insignificant. It was Reagan who promoted the magic of "supply side economics" which promised a free lunch - reduce taxes on the rich, and overall tax collection will go up. However, when then these tax reductions took place, deficits soared, giving the lie to "trickle-down economics" as a means of increasing tax revenues. Reagan almost doubled total US federal debt by adding $1.86 trillion to the deficit during his term. Since then, various presidents have added to the deficit during their terms – George W. Bush $6,1TR, Barack Obama $8.34 TR, Donald Trump $8.2 TR, and Joe Biden has already added $4.5 TR to the deficit through new programs. The deficit has now surpassed $30TR, well over US yearly GDP of $23.4TR.

With Reagan's demonization of government, deficits were used as an indirect means to reduce the size of government ("starve the beast"). The next step was mandatory pledges from Republicans (Norvell) to never accept any tax increases. Over the years, Republicans pursued tax cuts which primarily reduced tax burdens on the wealthy. During Reagan's term, highest marginal tax rates were reduced from 70% to 50% and then to 28%. Long-term capital gains, a main income source for the wealthy, are at 20%.

The country is now reaching a level of federal debt, which as interest rates rise, puts fiscal sustainability at risk by crowding out other necessary spending. That said, a balanced budget amendment is imprudent, as it will throw the economy into a deep recession thereby making deficits worse. Bi-partisan agreements are needed so we as a nation revisit all forms of spending and taxes in order to get back on a sustainable fiscal path of 3% or less deficits when the economy is near or at full employment.

Neither party has been serious about fiscal sustainability. For example, under Donald Trump, $8.2TR was added to the deficit, including $896BB in pre-pandemic 2019 alone, in part because of the 2017 Tax Reduction Act. Republicans need to abandon the mantra of no new taxes. The rich need to pay more in taxes, and the rest of us need to bear a modest increase.

Democrats, a coalition of interest groups, need to abandon the notion that new government programs, even if unfunded, are its mission in life. I applaud the Bi-Partisan Infrastructure Bill. But it is projected to add $370 BB to the debt over 10 years. The Student Debt Relief bill will add $750BB to the debt over 10 years, and is regressive in its impact, so it is a fiscally irresponsible piece of legislation. It more than wiped out savings from The Inflation Reduction Act.

The Coming Need for Reform of Social Security and Medicare
The Social Security trust fund will be insolvent by 2035. Not enough is being paid into the fund by workers to keep it solvent. This does not mean that Social Security will not be able to pay any benefits, but if nothing is done to fix the situation, payments will need to be reduced by 20%. For many people dependent on Social Security that is a crisis. As soon as possible, there needs to be bi-partisan discussions on how to increase revenues or slow down costs, or ideally, some combination of these two. The longer this gets kicked down the road, the more correction is needed. There has been talk by Republicans of privatizing the program. Not only is this windfall for Wall Street a terrible idea, but it will make payouts unstable in bad Wall Street years, and the transition costs are estimated to be enormous. We need to fix what we have, not jettison the program.

The Medicare Hospital Insurance Trust Fund will be insolvent in 2028 if nothing is done. The rest of the program (Part B, etc.) will remain solvent as it is funded by beneficiary premiums and general revenues. But costs for these programs will go up. How do we fix the Medicare HI fund and keep costs on the rest reasonable? Experts say there are solutions. For example, increasing the HI payroll tax by 1% would raise a substantial portion of needed funds. Cutting the growth of Medicare spending, say by 1 – 2 %, is another solution. Conservatives and progressives will need to compromise, and the sooner the better. This has been kicked down road for too long.

False Promises
The abandonment of the middle class by both parties leaves room for demagogues who recognize the problem, speak directly to it, and provide simple but wrong solutions. If they connect, they can make middle class voters think they have a strong savior. Unfortunately, this tactic of promising to be the savior is used these days around the world – in Turkey, Hungary, Poland, and as sad as this is now – in Russia. Such saviors say, and this is part of a worldwide playbook, “Only I can fix this”.

In our own environment, one thing we can be on the lookout for is exaggeration from those play the savior. For example, looking at steady but slow economic growth of an opposition politician, such a savior might falsely call the economy of that opposition leader a “disaster” and then promise he would double or triple GDP growth of that predecessor. Then as he merely follows the trend of his opposition predecessor, he might falsely call his jobs numbers the “best numbers ever”. As this note explained above, we need to avoid the shiny allure of the “horserace” numbers, which are often misleading.

We also need to be on the lookout for and reject false solutions. Tariffs, for example, such as laid on certain Chinese goods by Trump, and maintained by Biden, should only be temporary if used at all, as they are a blunt tool increasing costs to US consumers, and retaliation is possible. In the case of the Chinese, they have not solved key problems with this trade partner, especially in regard to theft of intellectual property.

The hard work to correct economic problems is mostly in US hands. For example, the US has the power to fix its own deficit, to correct over-financialization, and to create the right incentives for a more balanced economy.

Summary

This dense analysis shows that both Democrats and Republicans have helped erode the standing of the middle class, which has gotten squeezed over 50 years as jobs have been outsourced, and labor unions battered. A financialized economy has exacerbated this erosion, by rewarding speculative activities on the part of banks, reducing the connection between Wall Street and investment in the real economy, increasing risks to the economy through "too big to fail" banks, and distorting economic incentives and inequality as financial executives bring home huge paychecks.

In addition, our political economy has failed to produce responsible fiscal management of the government debt from either party. Republicans have shrunk the tax base while democrats are incented to satisfy their coalition by adding new programs without paying for them. The result is now a deficit (currently running at $1.4TR annually) and cumulative debt that requires correction through fiscally sustainable policies going forward. At the very least, the Biden Administration should not add any more programs that increase debt. Additional corrective actions are needed such as bi-partisan efforts to fix Social Security and the Medicare HI.

Two cautionary notes. Republicans are talking about creating another debt crisis to force fiscal responsibility on the Democrats. This is hypocrisy as Republicans have increased the debt as much as Democrats. Damaging US credibility and credit at a critical time, as war rages in Ukraine and Europe needs our dependable leadership, is irresponsible. This is not the time for a phony crisis over the debt ceiling. Instead, if McCarthy is serious, he should put tax increases and spending cuts to all programs on the table as a bi-partisan gesture.

Closing Prescriptions:

1. Taxes on the richest 1% and above need to be increased dramatically to raise additional revenue to reverse years of underpayment by this privileged group.
2. Taxes on the rest of us need to go up modestly to pay for government services we get.
3. Democrats need to stop adding new programs until we put the programs (Medicare, Social Security, Medicaid) we have on solid ground.
4. Republicans need to drop "no new taxes" as a mantra and need to stop passing tax cuts for the rich.
5. There need to be bi-partisan efforts (not phony fixes) to rebalance the economy including incentives for real investment, disincentives for financial speculation, support for training programs for manufacturing workers, enablement of union organizing in large companies, and programs to encourage industrialization in areas where the US needs to be competitive (like chip making).