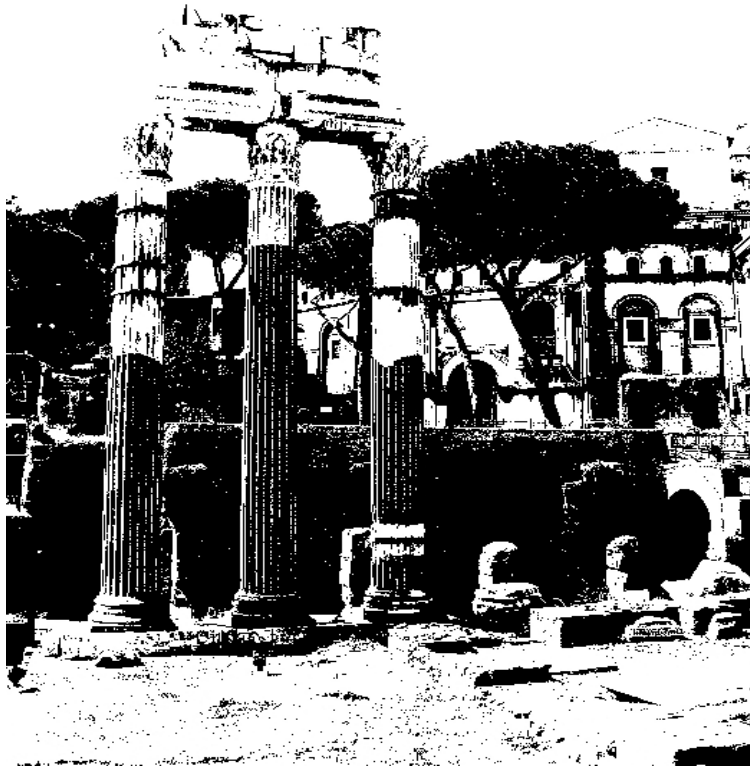


RECOVERY 101



Introduction to RECOVERY 101

An Exercise in Realistic Adaptation

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As Published On

→The Policy Think Site: <http://www.jaygaskill.com>

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Disclosure One:

I am a fan of **David Brooks**, not because he is always right, but because he almost always makes sense in the way that smart, reasonable minds make sense when they are being intellectually honest.

David Brooks is an ecumenical centrist who – like many intellectuals of a certain age – are highly susceptible to the attentions of other intelligent people, provided they are charming and sincere.

Therein hides the trap: I believe Mr. Brooks has been overly charmed by our charming, but sophisticatedly disingenuous president



In today's **New York Times**, (*Ultimate Spoiler Alert*), he praises both **House Budget Chairman Paul Ryan** and **President Barak Obama**, and laments that these two charming, intelligent people cannot locate the common ground that would yield the Grand Compromise needed to save the republic.

Disclosure Two: I am a disenchanted democrat of the **Scoop Jackson** bent, a **realistic** optimist (see **Optimism 101**¹) who believes in American exceptionalism², entrepreneurial capitalism and a social compact that mandates honoring our contractual obligations, especially to our own citizens, among other things.

And I am a fiscal hawk for two primary reasons:

(a) Debts must be eventually paid or they will crush the debtor, gravely damage the debtor's credibility, usually both.

(b) Evading debts by devaluing the currency with which debts are paid, especially using the mechanism of significant, protracted inflation, is a violation of the social compact (see above) bordering on theft.

Keep this disclosure in mind when reading Mr. Brooks' piece.

Here is that **link**: http://www.nytimes.com/2011/04/15/opinion/15brooks.html?_r=1&ref=opinion



David Brooks proposes that Congressman Ryan, whom he admires greatly, believes in five things that President Obama, whom he admires greatly, does not, to wit:

¹ <http://jaygaskill.com/Optimism101.pdf>

² <http://jaygaskill.com/CreativityAndSurvival.htm>

- (1) Demographic trends make the current welfare state model unsustainable, therefore fundamental reform is necessary.
- (2) Seniors and the middle class cannot be exempted from the needed cuts.
- (3) Health care costs cannot be curtailed without market based reforms.
- (4) Tax increases are off the table because of the damage they do to recovery.
- (5) Government can't effectively stimulate economic growth with targeted investments.

David Brooks agrees with Obama only on tax increases and the efficacy of targeted investments, but he agrees with Ryan on entitlement reform, the realistic assessment that benefited groups cannot be exempted from cuts, and that consumer-driven market-based reforms are necessary to hold down health care costs.

Referring to Mr. Obama's Washington University Speech³, he gives the president credit where I believe it has not yet been earned.

“These are exactly the sort of vague but well-intentioned policies that have sold well in election after election. The president is not being cynical about this.”

With one critically important qualification, I do agree with David Brooks' assessment of the stakes:

“After the next election, though, interest costs on the national debt are likely to rise ruinously, global markets might lose confidence in America's debt, with catastrophic consequences.”

Here is my qualification: **If** the next election fails to produce a sharp about face in the general direction of Congressman Ryan's position (a direction that –IMHO- a hard-nosed realist liberal like Harry Truman would take), **then there will be catastrophic consequences**.

We are squarely in the **Fiscal Trap** situation I've been writing about in this and other **Policy Think Site** spaces for the last three years.

Yes, there **is** a realistic way out, but first:



Recovery 101 **Recovering from the Conventional Wisdom**

The **first element** of an economic rebound is the **recovery from the conventional wisdom that got us into this mess**.

³ <http://jaygaskill.com/BackToTheFutureWithBarak.htm>

Here are the key ten lessons on which any actual recovery (*instead of one last bubble*) must be constructed.

1. There is no viable US economy without the productive sector.
2. With the exception of a few public utilities, mostly operating at the state and local level, the *US productive sector is private, not public*; in the real sense, the productive sector consists of that part of our in-country economy that produces energy, food, goods and services that other productive economies would preferentially purchase from us.
3. The notion that federal spending always stimulates economic growth is obsolete; it applied to a time when the USA had a far more robust productive sector; but ***our real productive sector is now pathetically hollowed out***.
4. *The manipulation of asset prices in a closed economic system*, whether in speculative financial instruments, in the stock market or in private transactions with a criminal Ponzi schemer like the infamous B. Madoff, can create bubbles, but *almost never directly stimulate real production*.
5. *Federal spending that has the net effect of transferring wealth from the productive to the non productive* (however noble and humanitarian its objectives) *operates as a net drag on the productive sector*.
6. Political management (an oxymoron) and political regulation operate to generate a growing load on the operation of commerce; over time, ***the political load on commerce cripples the productive sector***.
7. We are in a very dangerous slump; the *US economy teeters on the edge of a protracted economic malaise that might actually mutate into a full-on depression*.
8. *The US government is flat out of real money to throw at the problem* (borrowing almost half of its ongoing expenditures, including the money to service its increasing debt); worse, it is at risk of postponing the necessary fiscal correction so long that its day-to-day essential operations would be placed at risk.
9. *There are trillions of dollars parked in private hands* (some here, some offshore) waiting for opportunities to safely invest in new productive, commercial enterprises.
10. *Jobs tend to follow, not lead new productive enterprises*; productive enterprises seek business-friendly environments, minimal political interference and the opportunity to retain and enjoy earnings and profits.



THE WAY OUT

A Thought Experiment for Obama Liberals

I invite you to entertain the possibility that these ten observations collectively capture the main truth of our situation. If that is so, it should be apparent that the creative heavy

lifting needed to extricate this still great nation from the morass necessarily includes a multi-level, multi-focal, practical and proactive effort to → ▼

...lift the political load on commerce.

I do agree with David Brooks that targeted investments can be effective, but only when they are not paid for by further borrowing and are done in the context of a truly credible full-on attack on the fiscal problem. This would by no means represent the utterly irresponsible squandering of precious resources on shovel ready public works attempted by the last congress. Instead it would represent something more fine-tuned, non-bureaucratic and intelligent, like the DARPA-seeded efforts to start a private sector space launch capability.

As a polity, we need to inhale and incorporate into our national DNA the primary lesson of entrepreneurial creativity: Empowered bureaucrats are the blood enemies of the creative enterprise.

And I also agree with David Brooks that tax changes that increase revenue can help mitigate the transition to fiscal soundness (a position that is actually shared by Congressman Ryan) provided that they are carefully and responsibly crafted so that:

- (a) The tax burden is more widely shared.
- (b) The net increase in the burden does not negatively impact production.
- (c) The tax changes do not differentially punish or burden success.

Mr. Obama does not support (a) or (c) and betrays no sign of understanding what (b) entails.

The bottom line: Over several decades, many thousands of petty and not so petty approval processes, licenses, regulations, “public input” mechanisms, bureaus and commissions and boards staffed with unelected ideologues, tariffs and other politically motivated obstacles to commerce have accrued like barnacles on an otherwise sleek sailing vessel. The result replicates a third world crazy quilt of irrational regulations and interferences that have driven foreign corporations to outright bribery just to get something done. Buried in this regulatory nightmare are some reasonable rules necessary to assure transactional transparency and to safeguard protect public health and safety. This subset is miniscule compared to the far greater political load on commerce.

This is actually good news because it represent something real that we can do to help restart the productive economic engine without spending more borrowed public money.

Unpeeling the political load on commerce in a timely manner is the key to our escape from the fiscal trap. The most plausible mechanism, as I have argued in other articles⁴, is to achieve comprehensive regulatory relief by empowering regional **deregulatory commissions**, the actions of which are subject to congressional review, the authority of

⁴ <http://jaygaskill.com/Breakout1.0.htm> and <http://jaygaskill.com/Breakout2.0.htm> and <http://jaygaskill.com/BREAKOUT3.0.htm>

these commissions having been given a statutory sunset. These commissions would harness the very “commerce clause” authority that allowed the regulations to accrue in the first place to selectively and intelligently peel them back, in order to free up economic growth. And, yes, the devil is in the details – business knowledgeable and growth friendly commissioners who are sensitive to core health and safety issues will be needed.

Thereafter, all new regulations would require an *economic impact report* that, in the style of the environmental impact reports, would address the business, commercial and employment impacts of any new regulations, and would require a congressional green light before they could become effective.

There you have it. The task ahead requires courage and honest by both liberals and conservatives. The stakes could not be higher.

Here is David Brooks’ spoiler:

“What’s going to happen is this: We’re going to raise the debt ceiling in a way that fudges the issues. Then we’re going to have an election featuring these rival viewpoints, and Obama will win easily.”

I disagree. We Americans are writing this story and the narrative is under our control. Public opinion polls tell us that a majority of Americans actually understand the gravity and scope of the fiscal crisis. The most of us still believe in American exceptionalism. A majority of voters are out of synch with Obama 1.0, the arch liberal who pushed through a hugely costly health care reform scheme that rank and file Americans strongly opposed.

The remaining questions are these three:

- Will the country be in a plausible economic recovery in late 2012?
- Is there really an Obama 2.0?
- Will the GOP nominate an electable candidate?

I don’t pretend to have the answers, so there is no Gaskill spoiler here. But I have the audacity to hope that the answer to the third question is, **yes**. And that the answer to a fourth question, “Will the next election produce a sharp about face in the general direction of Congressman Ryan’s position?” is also **Yes**.

Stay tuned.

JBG