

Local Currencies: The Key to Economic Recovery

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Steven Pearlstein, business columnist for the *Washington Post*, published a column on January 6 entitled, "Recession Over? Not Unless We Make a Major Shift." The problem is that the "major shift" Pearlstein writes about won't solve the problem even if it takes place.

So is the recession ending? The professional cheerleaders from Wall Street think so, now that the Dow-Jones has surged past 10,500. Fed Chairman Ben Bernanke is also cautiously optimistic as the Fed begins to dismantle some of the emergency bailout programs it had implemented to help save the financial system from total collapse after the meltdown of 2008.

How did the apparent turnaround come to pass? Pearlstein notes: "My best guess is that the current upswings in economic output, confidence and financial asset prices are largely a reflection of the extraordinary fiscal and monetary juice provided by Treasury and the Federal Reserve, along with the natural rebound that occurs after a collapse in consumer and business spending like that which occurred in the first half of 2009."

There is in fact a consensus among commentators that it's been government money that has made the difference. But the government money has all come from borrowing. It's why the national debt rose from about \$9.5 trillion to almost \$12 trillion in a little more than a year. Interest on the debt now approaches \$400 billion a year.

But the debt can't continue growing at such a rate. President Barack Obama has already said that with the emergency behind us the federal deficit must start to come down. The reason Congress is about to pass such a terribly flawed health care bill is that the Congressional Budget Office estimates that it will reduce federal health care costs by forcing millions of uninsured people into the private insurance system, cutting back on Medicare, and imposing a five percent tax surcharge on the wealthy.

So what is the economic engine that will keep the economy on track? Pearlstein dismisses all four of the most likely possibilities.

He says that consumer spending, with unemployment staying high, will not come back, writing, "It's hard to see how American consumers can again become the engines of the U.S. or global economies."

On more government spending, he says, "that's also hard to imagine. State and local governments, in fact, are still cutting back spending in response to falling tax revenue, and there's no political consensus for running up bigger federal deficits than we are running now."

Another possible source of growth is new investment, but the economy is already built to overcapacity in many sectors, “including excess hotel rooms, airplanes, office buildings, shopping malls, cargo ships, aluminum smelters and the like.” Regarding another housing boom, forget it. Pearlstein writes, “...with 5 million vacant apartments and another wave of home foreclosures on the horizon, don’t count on the housing sector to lead the way out of this recession.”

Finally, there is trade. But even though the U.S. trade deficit has come down, its persistence “reflects a fundamental reality not likely to change anytime soon: We no longer produce much of what we like to consume, and cannot make up the difference with exports because of trade barriers and an overvalued currency.”

So what is left?

Here Pearlstein returns to a focus on investment by noting that American consumers have started to save again and that during the downturn businesses saved money by living with aging production equipment, physical plant, and computer systems. He comes out in favor of tax breaks for business to encourage investment, along with new government expenditures for infrastructure such as “basic research, clean-energy development and expanded public higher education.” These things, he says, will create new jobs which in turn should lead to more consumer purchasing power.

The trouble is, Pearlstein already dismissed the investment and public expenditure alternatives earlier in his analysis as being insufficient. More government debt could also lead to high levels of inflation and further devaluation of the dollar. Inflation caused by government and central bank “printing of money” kills enterprise at every level.

Pearlstein fails even to mention the severe constriction of bank lending to businesses that has made conditions much worse for the small business sector where half of all start-ups already fail within a year. Business giants can take refuge in their cash reserves, but even they cannot grow if consumers can’t buy more of their products.

Pearlstein’s prescriptions are mainly platitudes. Let’s be frank: without small business and the revitalization of local and regional economies, a real recovery cannot take place, and an unemployment rate that has terrorized the middle class with loss of jobs, incomes, savings, and health care cannot be overcome.

What is the answer then? It’s one that Pearlstein and the *Washington Post*, being in the mainstream of economic commentary, dare not mention: it’s local currency systems that alone can fill the gap left by the collapse of public finance due to debt and the failure of the banking system to function at all levels of the economy and not just for the benefit of the super-rich global capitalists.

If the federal government announced that it would begin to accept local currencies in payment of taxes, and state and local governments did the same, we would see an economic miracle that would astound the world.

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