What the presidential campaign should really be about

America is on a suicidal fiscal and monetary trajectory

Washington Times, By Alvaro Vargas Llosa, May 30, 2024

The latest U.S. economic data pours cold water on the optimists who predicted robust economic growth in the first quarter of 2024 and an inflation rate approaching 2%, which would encourage the Federal Reserve to start lowering interest rates.

Instead, the economy grew by just 1.6% from a year ago, according to the Bureau of Economic Analysis, less than half the rate of the previous quarter, and inflation, as measured by a gauge preferred by the Federal Reserve, remained unacceptably high.

To make matters worse, and despite the recurring claims of the Biden administration that hundreds of thousands of jobs are being “created,” full-time employment has declined significantly since June 2023; only part-time jobs have increased — a predictable result when politicians mandate significant wage increases for the least-skilled workers regardless of productivity.

These figures, bad as they are, come nowhere near the truth regarding the suicidal fiscal and monetary trajectory on which the United States finds itself — reason enough for the economy to be the overriding issue of the presidential campaign.

How did we get here? It has something to do with what Isaiah Berlin, one of the great political philosophers of the 20th century, believed: that not all values and objectives are compatible with each other, and that the pursuit of some goals requires the sacrifice of others. In short, you can’t have it all.

You cannot have a fiscally restrained government and a planetary empire at the same time. You cannot have fiscal discipline and a permanent, ever-growing welfare state. You cannot have a steadily improving standard of living and a central bank that prints money to fund the growth of government. You cannot fight wars and cut taxes. You cannot lower taxes and not reduce spending when what you spend exceeds what you take in. You cannot have a low savings rate and high investment levels that increase productivity.

Democrats and Republicans both bear responsibility for what is happening. The Democrats from time to time pay lip service to limited government, but they created the welfare state under Presidents Franklin Roosevelt and Lyndon Johnson, and with the exception of one short period during the Clinton administration, they continue to fuel its expansion.

As for the Republicans, they say they believe in small government, but it was Republican President Richard Nixon who introduced the Consumer Product Safety Commission, Environmental Protection Agency, Occupational Safety and Health Administration,

and several other regulatory agencies that hold sway over so many economic decisions. Republicans have also done little to tame the welfare state, and they have joined their Democratic colleagues in feeding the post World War II “warfare state”: always, of course, in the national interest.

So, what we have is both a welfare state and a warfare state that are incompatible with limited government. The result is a looming financial crisis that paints an ominous picture of the future.

Last year’s fiscal deficit was the largest ever if we set aside the unprecedented gush in spending as the pandemic took hold. Inflation seems entrenched, haunting Federal Reserve Chairman Jerome Powell, who prematurely had announced that the Fed likely would cut interest rates soon.

But the worst still lies ahead. When President Harry Truman left office after the Korean War, federal spending accounted for 18.5% of gross domestic product, the measure of the economy. Now, it’s more than 32%.

The defense budget was about $400 billion (in current dollars) at the end of the Carter administration; now it’s close to $900 billion.

The federal debt amounts to $34 trillion, about 120% of GDP. If we include Social Security and Medicare commitments, total liabilities top $200 trillion, about twice the size of the global economy.

And there’s more. Since 1971, when Nixon ended what was left of the gold standard, the dollar has lost more than 90% of its value. Since 2000, it has plummeted by 45%. No wonder demagogic populism and nationalism are poisoning U.S. society and politics.

I don’t know that any of this is reversible. But I do know that no issue should be more central to the presidential campaign. Because when large empires pursue incompatible goals, as the United States has been doing for decades now, they inevitably decline — and ultimately collapse.

Alvaro Vargas Llosa is a senior fellow with the Independent Institute in Oak-land, California. He is the author of “Global Crossings: Immigration, Civili-zation and America.”