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Commentary: Use Global Economic Policy Like in “Draft Day”

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Abstract

This commentary explains different theories on the fiscal policy of deficits and debt through the use of the topical American sports movie “Draft Day,” particularly arguing against the dangers of indebtedness, which may cause America and other Western powers to turn inwards to address this domestic problem, at the same time that newer global powers are emerging that could become potential economic and geopolitical threats

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As a Ph.D. student in development economics and political science, I recently saw the American movie “Draft Day” starring actor Kevin Costner, which was an excellent sports film, but can additionally can have lessons for economic policy. An economics professor of mine last Fall in Mississippi, where football (American style) is worshipped like a religion just as regularly as the sun rises over the bayou, compared current, constrained American monetary policy to being backed-up near your own end-zone. The United States has struggled domestically in using fiscal policy over the last four years due to unprecedented political gridlock between the two parties, which can be compared to the football gridiron, causing monetary policy to be more difficult. For some reason, the American people have historically preferred the executive and legislature to be oppositely controlled, to make fewer policy mistakes, but they have also liked the idea of compromise which is quickly disappearing from the English vocabulary. This has the potential to weaken the United States internationally, which may cause America to pause and turn inwards.

America’s economic policy has implications for other nations as well, such as the fact that when President Barack H. Obama first took office in January of 2009, he encouraged other states to follow an expansionary, stimulus policy to increase economic growth, increase trade, and lower domestic and global unemployment. This policy can be justified historically in that no one knew the extent of, or the type of, the economic problem that was presented. It was nearly two years later, however, when Prime Minister Stephen Harper of Canada convinced the Group of 20 (G20) members to agree on a joint policy goal of cutting deficits in half in three years.

In using another analogy, that of the NFL (National Football League) draft, in the edifying tradition of such American economists as Galbraith, Samuelson, Friedman, and Krugman, I here turn theory into facts on how America’s roughly 17.5 trillion dollar debt, or the debt of any nation, raises interest rates, ultimately hurting growth, and has been forcing the

Federal Reserve as America's central bank to take greater action to lower interest rates. The new Federal Reserve Chairwoman Janet Yellen has recently made dire predictions about America's future deficits. With European voters having gone to the polls in late May, they will in propinquity determine if they should continue some form of austerity policies or return to the prior policies of Keynesianism. The real NFL (National Football League) draft transpired across May 8-10, of which the first round on the first day provides the succinct name. I use this football analogy to explain, to offer a view on deficit and debt, and to stimulate further discussion and insight. As budgeting is taking place at national and local levels, it is worth examining fiscal policy for greater understanding and dialogue.

Deficits, which are yearly, and debt, which are all deficits combined, are like "trading up" during the NFL draft, the subject of the wheeling and dealing of this movie, which could be applied to the draft in many sports. You give some of your top picks in a future year for another team's picks for this year, sacrificing the future for the present. This was the view of British economist John Maynard Keynes, writing mostly in the 1930s, that governments should sell debt, in the form of bonds, that as a society you will repay in the future to use now. This could never hurt a government, because, as the saying goes, "we owe it to ourselves," or at least most of it. The lower draft picks we traded for in the future will always be given back to the home country, not some foreign nation, or foreign team. However, like the Super Bowl winning Seattle Seahawks of last year, it is often forgotten that even Keynes would have traded players or picks after winning a championship, running a surplus in good times, thus "trading down."

A second theory is from James Buchanan, an American Public Choice economist, who explained political behavior economically, writing mostly in the 1960s and '70s. Buchanan held that political leaders would always want to keep their jobs, so they would deficit spend now, recklessly, with little regard for the future, like a General Manager or coach trying to impress the team owner to keep their job. "Draft Day" depicts this as Costner's character, who, after the death of his father, must initially prove himself to the demanding owner by making a trade for the first pick. However, trades made sacrificing the future for the present would also affect future fans, so it is unfair to them, just like deficits are unfair to posterity. Posterity does not have a say in how it is spent. The 19th Century British economist David Ricardo thought that future generations would always willingly bear the cost, either by saving more now, or paying higher taxes later on, so-called "Ricardian equivalence." Empirical studies show that at least the first of these actions is not happening.

A third theory comes from lesser-known Robert Barro, from the 1970's and '80s. He claimed that deficits were simply a way of smoothing taxes and expenditures over time. This is like making a casual football draft trade here or there put out a perennially decent team, or to meet an overall salary cap, which Jennifer Garner's legal character must tackle. Barro held that eventually the fans and the team would not tolerate General Managers who sacrificed the future too much, and would replace them in the long run, such that over time all teams would basically even out. There is also the Minskian view, more popular after the 2008 financial crisis, that excessive or flashy trades, or debt, can be very risky, and the "preferred habitat hypothesis," selling bonds as standard measures to calculate risk and inflation, and offer businesses a safe investment, such as a team offering a position to the respected downhome player, if you will.

The problem with Keynesianism, the seemingly most widespread view in the United States and possibly worldwide right now, is that inevitably bad players will be taken in the draft, as well as that eventually you have to live with the lesser picks. In government, this would be taking out debt and using it for bad spending "investments," hurting future growth. Such policy is only affective if the spending investments made today are more valuable than if they are made in the future, discounting via interest rates back to the present, which is often is not the case. Interest rates might be represented in our model by individual salaries. We see this in football constantly; each year, highly paid "stars" are chosen who amount to nothing in the NFL, or are even injured. I can understand the reasons for sometimes wanting to "trade up." Perhaps the quality in the division has improved, and you need to compete. Perhaps this year's draft pool is projected to be stronger than in the future, like having better investments now than later expected. Of course, economists would say you cannot compare pools across years, because it is difficult measuring "utility" across time or different players.

There have been times historically when the United States and the West needed to run huge deficits, such as World War II, to defeat the "division rivals," the Nazis, or the Soviets during Reagan and Thatcher's time in office, but the reasons now are less apparent. The terrorist attacks of 9/11, 2001 are long past, and entitlements are a quick fix. Fortunately, America's deficit has fallen recently, from the expiration of some of the President George W. Bush tax cuts, greater revenues from economic growth, better performances by quasi-government housing agencies Fannie Mae and Freddie Mac, the sequester cuts, and now projections of lower health care costs. Therefore, President Barack H. Obama has actually kept his campaign promises to halve the deficit. However, with the demographic change of the retiring of the post-World War II "Baby Boom" generation, the deficit is predicted to increase astronomically in just a decade, and other wasteful spending is egregious.

The deficit and debt of the United States are one of its greatest threats to the future. Instead of offering help to the European Union, and other struggling states like the Ukraine, contrasting for instance in the 1990s when it was able to "bailout" Mexico, this arrow is slowly falling out of America's foreign policy quiver. Countries like Germany, which are fiscally sound, are becoming stronger in foreign policy, giving rise to the so-called "G5+1". For the United States, although running yearly surpluses under President William J. Clinton, they soon evaporated under a tax cut for the wealthy under President George W. Bush, two wars that went unpaid for, and an unpaid expansion of Medicare, policies which were largely continued by his successor. In short, both sides are to blame, as they are too for the hopping from one budget showdown to another, characteristic of the last four years, which has destabilized American and foreign markets, and especially has complicated business decisions. In the draft, this is like a team waiting until the very last minute to make decisions, which aggravates players, fans, and lower echelon team officials alike. The term "fiscal responsibility," in America, is being redefined amongst the parties, particularly with the mid-term 2014 and 2016 presidential elections approaching, in the first of which the Republicans are likely to retake control of Senate. But, any further large budget changes are dubious to pass the Senate's filibuster rule, or survive a presidential veto.

With such massive domestic problems, or "bad draft picks," so many other developing powers are emerging both economically and politically on the international scene, in what American President George H.W. Bush presciently called the "New World Order," or what others have termed everything from: globalization, to Robert Keohane and Joseph Nye's "complex interdependence," to Thomas Friedman's "electronic herd," to David Brooks' "swarms of [rebelling] individuals" (as evidenced by the Arab Spring and the Ukraine), to Goldman Sachs'

"BRICs" (Brazil, Russia, India, and China), to the "MISTs" (Mexico, Indonesia, South Korea, Turkey), to the "VISTAs" (Vietnam, Indonesia, South Africa, Turkey, Argentina).

New York University economist Nouriel Roubini has compared the rising regional powers of the modern day to the time just before World War I. There are no longer secret treaties in the aftermath of President Woodrow Wilson's "14 Points," but it is noticeable that the world is increasingly becoming more dangerous with regional powers and crises, so very different from just ten years ago when the United States was abundantly wealthy and the leader of the international liberal order. Today, America is nearly broke. Politically, America has had to cut its defense budget, while at the same time weapons of mass destruction are likely to spread over time beyond such threats as Iran and North Korea. Secretary of State John Kerry has warned about the dangers of isolationism, but this may be necessary given the current domestic situation, and is a concept that Republican leaders from Senators Rand Paul to Marco Rubio are debating and grappling with.

Furthermore, in roughly a few years, if its bubble does not burst, America's greatest economic "division rival," China, is expected to surpass the United States as the world's Gross Domestic Product leader, which will come as a "Sputnik moment" to many Americans, although as measured in per capita, China still trails America and a number of other countries. Beyond talking about income inequality and the minimum wage, which can cause unemployment and also short-term inflation, deficits and debt is the discussion we should be having, for the sake of economic longevity. Inequality is gaining in popularity as a topic, in part due to French economist Thomas Piketty's recent bestseller, but there are many ways of addressing it, such as through tax credits, and how Dutch economist Jan Tinbergen theorized that inequality is education catching up with technology.

Although they may have been off with their data and lack of theory in their now infamous paper on deficits and debt, Harvard scholars Carmen M. Reinhart and Kenneth S. Rogoff were right to raise the conceptual issue. For all of the reasons above, there is now an inflection point about what policy to take, as a country, and as a world community. Great Britain will go to the polls sometime in 2015 to decide whether to continue austerity, while some of the emerging market countries are considering stimulus to combat recent slumps. This is just as China has done since 2009, and as Japan is pursuing "Abenomic" stimulus, named after its populist leader, to confront a liquidity trap problem of lack of investment opportunities.

Unlike the discussions at the last G20 summits, at the next meeting, or "international draft," which will culminate in November, 2014 in Australia, it is likely that some countries may prefer the future while others prefer the present, so then perhaps we should debate differing policies for both the short and long-term. Or, we could talk about targeted stimulus such as tax credits for companies to incentivize hiring. That said, the question remains, if we should "trade up" for additional stimulus, or "trade down" for balanced budgets? As they say in the draft, the time is ticking, and America, and the world, are on the clock.