Obstructionism strategy: A downward economic spiral
By Byron A. Ellis – August 06, 2012

Throughout President Obama's term, the Republican strategy has been to prevent fiscal and monetary expansions. Republican governors refused stimulus funds and the Republican majority in Congress engaged in obstructing federal fiscal spending.

Fiscal and monetary expansions are essential for achieving economic growth and full employment, after recessions.

Fiscal spending pays for wages of millions of Americans in public and private employment. For instance, government contractors, such as Lockheed Martin, Boeing, Booz Allen Hamilton, and a host of other private contractors receive billions of dollars from government purchases and use it to create "private" employment.

When the government reduces spending, many private employers that depend on government purchases reduce employment.

Obstruction on the monetary side occurs when the central bank depresses the price of money (interest rate) close to zero. When the price of money is too low, banks supply less of it and monetary expansion does not occur. We see this price effects, on normal commodities; for instance, when the price of housing falls, builders supply less housing or when the price of crude oil falls, wells are shutdown.

Thus, obstructing fiscal and monetary expansions during an economic recovery adversely affect economic growth and employment.

The Republicans, however, promised after Mr. Obama presidential victory that they would make him a one-term President. Mitch McConnell claimed that his number one goal is to ensure that Obama is a "one-term president."

The Republicans understood from the beginning of President Obama's administration that the only way to make him a one-term president was to prevent economic growth and then run a candidate who would proclaim that the Republicans could improve the economy.

It was, and is, a brilliant strategy. And, it works because Mr. Obama was somewhat naïve. He appointed Republicans to control the economy, Bernanke at the Federal Reserve (Fed) and Geithner at Treasury.

Geithner was head of the New York Fed prior to the Great Recession. The NY Fed executes open market operations, increasing or decreasing bank reserves (increasing or decreasing federal funds rate). Prior to the Great Recession the federal funds rate increased, meaning that the NY Fed drained reserves from the banking system making credit scarce.

Thus, monetary expansion, which occurs through the banking system, was constrained at the same time when crude oil prices (imported inflation) were rising. The effect of this misguided policy was to diminish consumers' purchasing power, contributing to the Great Recession, see http://research.stlouisfed.org/fred2/series/FEDFUNDS/, which shows a pattern of consistent recessions after the Fed drains money from the banking system.

Voters cannot afford to reward obstructionism from either party. If politicians perceive that obstructionism is a winning political strategy, the losing party will always prevent the winning party from attaining economic growth.

Repeated rounds of obstructionism strategies would lead to a downward economic spiral leaving the nation worse off.

Nonetheless, only the voters can stop obstructionism by punishing the obstructionist party, but will they? Obstructionism and its outcome are not easily discernable, particularly to die hard party members. Moreover, the potential short-term payoff is almost certain victory for the obstructionist party.