

A FINANCIAL PRECIPICE

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It doesn't really make sense to say that the decision by Standard & Poor's to downgrade the debt of the United States government led to a stock market crash. When stocks were crashing, the price of U.S. bonds — traditionally seen as a safe haven in times of trouble — actually rose. So one would have to argue that concern about the credit rating on government bonds panicked

investors into selling U.S. stocks so as to stash the money in the just-downgraded Treasury bonds. It is rather unlikely.

Indeed, the whole issue of S&P rating the sovereign debt of the United States is problematic. Although some countries issue debts in currencies they don't control, the U.S. government issues debt in dollars and the U.S. government controls the production of U.S. dollars, so its ability to pay its debts is unlimited as it can just produce more money to make the payments. One could argue that the concern is that printing all this money will be inflationary and that creditors will thus get paid in watered down dollars, but the government also sells inflation-indexed bonds and they sell at just tiny premiums to unindexed bonds, so that doesn't seem to be the fear that is gripping the market.

Part of the issue is overseas. Europe has no answer for the debt problems of many of its nations. It seems to find default inconceivable, yet its solution to help countries that have borrowed too much money is to lend them more. It seems likely that Germany will tire of paying and that other countries will tire of being told what they have to do by Germany, so a collapse of the Euro, and thus a big part of the world financial system, seems increasingly likely.

The riots in London are revealing as well. Despite endless articles, nobody has identified a plausible cause for the rioting. Indeed, it is best defined as opportunistic rioting as the baser elements of humanity and society come to sense that they are dealing with a police force and a society so fearful of being charged with racism and oppression that these institutions hesitate to fight back against hooliganism.

The sense is that Europe is on a precipice financially and has lost the strength to defend its culture.

With this collapse looming, the world desperately needs a strong and effective U.S., yet the recent debt ceiling talks revealed a dysfunctional government. It is not so much that Republicans and Democrats disagree, it is that the end result of their disagreement wound up being both sides agreeing *de facto* that the political structure cannot effectively deal with the problems we face. Creating a super-committee with nominations from Congressional leaders to determine budget cuts with

automatic cutbacks if they are not implemented may or may not work, but it is certainly neither the constitutional procedure for making law, nor a system that gives us confidence that Congress and the President are carefully weighing the value of each expenditure.

Plus, the agreement postpones almost all the spending cuts to periods after the next election. Since today's politicians have no power to bind politicians of the future, the whole exercise is dubious.

The produce industry is an excellent example of the way our political system is producing a kind of dysfunction. The produce industry is mostly made up of business executives, company owners and farmers. Not surprisingly, it is a fairly conservative lot and generally votes Republican. Obviously, there are many who vote Democrat and there is variability based on geography, ethnicity, age, etc., but, mostly, it is a conservative leaning industry.

Yet our government relations efforts are heavily focused on getting the government to spend more money. It might be on more FDA inspectors to enhance food safety or it might be on efforts to put more produce in schools or expand produce access in food stamps or maternal nutrition programs.

We wind up in this wacky situation, where people who would vote in a minute to end a government program instead wind up lobbying for their share. When the last farm bill came along, we saw this vividly. Many in the produce trade find it scandalous that farmers who grow things such as cotton, soybeans, wheat etc., should benefit from Federal largesse. But there is no chance that the produce industry could successfully defeat the Farm Bill. So instead, the produce industry cuts a deal. It agrees to support the Farm Bill in exchange for funding for its various projects. We wound up with press releases from trade associations trumpeting the less than 1 percent of the bill that would be spent on fresh produce and simply ignoring whether the remaining 99 percent of the bill is good for the country.

You can't really blame the government relations people. It is their job to further the interests of the trade in Washington. Whether the country collapses one day from the cumulative impact of a thousand industries, advocacy groups and labor unions doing the same thing is someone else's problem

It is not clear how to control this problem. Some have proposed constitutional changes, such as giving the President a line item veto or enacting a balanced budget amendment. The goal is to prevent the kind of logrolling without limit that endangers the fiscal solvency of the nation.

In the short run, achieving some control over the budget may mean that the produce trade will lose a few projects. Nobody wants to be singled out. But everybody losing a few might be a win for us all. **pb**

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