

# Blurry Lines

By [The Moscow Times](#)

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In the last week, bond markets have been ravaged by political instability and a parliamentary standoff as warring factions refuse to compromise on a deal — which, if not forthcoming, could lead to a default on sovereign debt and cause chaos and pain for the struggling economy.

At the same time, yields on sovereign bonds are at all-time highs as the government desperately tries to raise cash to meet redemptions on maturing debt. Debt-to-GDP levels are spiraling upward, and without deep structural reform another round of default is almost certainly in the cards.

Meanwhile, another parliament is investigating a leading independent media holding that routinely uses its power to slam the government, support its friends and influence elections. At stake is the parent company's 33 percent stake in the broadcaster, which regulators may arbitrarily remove on the grounds that the owner is "not fit" to own the media asset.

Now, if the dateline on these news items was any time in the 1990s the first item would neatly

describe Boris Yeltsin's decade-long war with the Communist-dominated State Duma, led first by Alexander Rutskoi and then by Gennady Zhuganov after 1993. It would also describe the Russian government's finances up to the first big crisis in August 1998.

If the dateline were 1999, then the third item would describe the attack on both Boris Berezovsky, who controlled ORT (now Channel One), and Vladimir Gusinsky, who controlled NTV.

But, as the dateline is 2011, these stories are about America, nearly all of Europe, and the last item refers to Britain's fight with Rupert Murdoch, as the regulator is revving up to question News Corp.'s "suitability" to own about 33 percent in BSkyB.

If you step back and squint at the news today it looks as if the world has been turned upside down. For two decades, the West has criticized Russia for authoritarianism, its lack of free press and horrible fiscal position.

The West is supposed to be a paragon of stability and liberal values. But from where I sit, it is Russia that looks stable and America and Western Europe that are going to the dogs.

Let's start with the U.S. debt ceiling debate that will culminate next Tuesday. What is going on in Washington is insane. If you look at the fundamental economics underpinning this debate, it is blindingly obvious that there should be no debate at all.

Take a look at the chart below, published this week by Business Insider. It plots federal income against federal expenditure. As you can see, federal expenditure is at an all-time high, while federal revenues are at an all-time low. The spending binges under Ronald Reagan and later under George W. Bush are clear, while the only president to actually get revenues above spending was Bill Clinton.

This graph clearly says that U.S. spending needs to be cut, but it even more clearly says that taxes need to be raised. The fact that the Republicans are flatly refusing to consider any tax increases at all is frankly irresponsible, and from an economic perspective totally unjustifiable. But what makes this refusal so disingenuous is that you can hike taxes easily by ending the Bush tax cuts, which affect only 2 percent of the population but account for a third of the deficit.

Getting rid of the tax cuts is a no-brainer. The Republicans' charge of Barack Obama's "socialism" is empty rhetoric. Looking at the numbers, a far better description of politics in America today is that it is a classic "oligarchy" in the style of Julian Rome, where the rich run the country for their own benefit to the detriment of the poor. How is it that the majority of Republicans are multi-millionaires? How representative is that?

If you don't think this is true, then consider Republican Paul Ryan's plan to bring the deficit down by cutting benefits like state-sponsored Medicare payments, while at the same time maintaining tax breaks where the average hedge fund manager pays less tax than his secretary. In other words: Reduce the state's support of the very poorest to maintain the excess benefits of the rich.

But all this is aside from my main point. The world has been turned upside down as

representative government is crumbling under the pressure of economic pain.

In the last two decades, Russia has been riven by political uncertainty, whereas today, despite the obvious flaws with the Russian political system, it is a paragon of stability. The huge irony is that the main political instability — which is now threatening the health of the entire global financial system and hence everyone on the planet's prosperity — is to be found first and foremost in Washington with Brussels a short way behind.

The crucial point that House Speaker John Boehner is missing is that the financial system — all financial systems — are built on trust. Banks never have enough money to meet demand should everyone ask for their money back at the same time. This is not some superficial aspect of banking; our debt system is the core idea on which the entire financial system is built. In other words, you never screw with that trust in a financial system — ever.

And that is exactly what is happening now. It is almost certain that every country in the world will now reduce its exposure to the dollar. And the only reason that the U.S. has managed to keep its castle in the air by refinancing its massive debt and deficit is because people are still willing to buy U.S. debt. If they stop and the cost of borrowing starts to rise, then that castle will crash to the earth. By creating this political uncertainty and the very real possibility of default, Boehner has already done a huge amount of damage, even if a deal is made as everyone seems to believe.

A subsidiary point to this crazy situation is the West's obvious double standards when it comes to the media. The phone hacking scandal at The News of the World is clearly without qualification totally reprehensible. At the very least, all the members of staff involved should be sacked and better yet jailed (as many of them may be). However, closing a 168-year-old paper was a bit of an extreme reaction, and going on to force Murdoch to sell his stake in BSkyB because he is "unfit" as a proprietor is going too far.

Personally, I have a lot more problems with Fox News, which is frankly offensive to a professional journalist like me who actually believes in our duty to report accurately and honestly on what we see as our contribution to democracy as part of the "fourth estate." Fox not only ignores these ideals but baldly lies and twists stories by routinely taking comments out of context when the editors know full well that they have produced an impression that often is diametrically opposed to the original intended meaning. The broadcaster is a fascist in its attitude to what passes for "truth" and openly partisan to an extreme extent. It is also the most popular station in the United States by a factor of four. Fox is the principle of free speech gone mad: Taken to its logical extreme, the right to free speech has been equated to the right to lie with impunity.

The 2008 crisis has brought out the flaws in Western democracy. Representative government is great when things are going well because consensus is the best way to move forward when everyone's interests are — more or less — aligned.

However, the model clearly has been perverted by corporate greed, which has brought massive resources to bear. Corporations are now considered citizens with the protection of the First Amendment's right to free speech and no limit on political contributions. Are you serious?

Having said all this, I am not arguing that the Russian political system is better. But the point is that at the moment it works and the Western one doesn't.

*The views expressed in opinion pieces do not necessarily reflect the position of The Moscow Times.*

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