OpEdNews

How to Create an Economic Downfall

By Dan Lieberman (about the author)

financial-crunch-economic-collapse by http://arcticcompass.blogspot
Weeks of Congressional budget debate misplaced the objective of resolving the United States unemployment and economic problems. The meaningless discussions, with political cheerleaders and media incitement, played out as a sport, who would win, who would lose, and how to position for the next embarrassing election.

No best minds gathered pertinent data, sifted through analytical expressions, or spoke decisive words. Rhetoric replaced knowledge. Spurious words displaced truths. Demagoguery ruled.

The debate did not resolve any problem. Instead, the stock market response and S&P rating system indicated the debate had engineered an economic downfall. Nobody seemed to realize that the current account deficit and sidetracking of excessive domestic funds have forced government deficits to compensate for the loss of liquidity and purchasing power. The economy does not want a balanced budget. Cut the deficit and the economy stalls. Allow increased deficits and steer the nation towards bankruptcy. The principal solution to the fiscal liability demands decreasing the domestic and foreign balances. This equates to the domestic account acquiring more investment and shifting government borrowing, which is backed by a falling full faith and credit of the U.S. government, to private borrowing, which is backed by assets, and greatly decreasing the trade balance. This solution, described logically by **commentators** did not enter into any discussion or debate.

The most discussed topic, budget balancing by tax reform, only shifts purchasing power between the government and private sectors. Neither raising nor cutting the income tax increases total purchasing power in the system, which is the purpose of government deficits. Tax reform contains separate issues of fairness, sharing of government burdens, distributing income, and optimizing spending.

Progressive representatives railed against anticipated cuts in social programs and budget failure to reduce defense spending. These representatives spoke valid issues, but not the vital issue. Better to speak of how to induce manufacturers to produce and invest more in the USA , and hire more domestic workers. Better to use rhetoric to determine how to increase exports and decrease imports.

The New York Times gauged the deal accurately.

From Spending to Cuts, While the Economy Stalls

By BINYAMIN APPELBAUM and CATHERINE RAMPELL , July 31, 2011

"Last week brought the disconcerting news that the economy grew no faster than the population during the first six months of the year, in part because of spending cuts by state and local governments. Now the federal government is cutting, too. 'Unemployment will be higher than it would have been otherwise,' Mohamed El-Erian , chief executive of the bond investment firm Pimco, said Sunday on ABC . 'Growth will be lower than it would be otherwise. And inequality will be worse than it would be otherwise...We have a very weak economy, so withdrawing more spending at this stage will make it even weaker.'"

By quoting Carmen Reinhart, senior fellow at the Peterson Institute for International Economics and co-author of "This Time Is Different," a history of debt crises, the NYT demonstrated how accepted economists miss the significant and escape scrutiny by a simple recognition of their mishaps.

"We sure missed a big window of opportunity to reduce our debt in those strong years when asset prices were booming. Instead, we're stuck trying to do it now, when the economy is so weak."

The article's statement by Torsten Slok, chief international economist at Deutsche Bank, clarified the lack of depth in economic textbooks and indicated that economists read the wrong texts.

"It's difficult to find a textbook to tell you what should you do now."

America 's national newspaper balanced its commentary with the usual unproven and non-scientific assertions:

"The Republican authors of the debt ceiling deal say that cutting the size of government will increase economic growth down the road because federal borrowing soaks up money otherwise available to private businesses and federal spending distributes that money inefficiently.

"Some conservative economists argue that even the immediate impact of a deal could be positive. Classic economic theory holds that people respond to the growth of government by spending less of their own money, because they assume that taxes will increase. A reduction in the federal debt therefore should encourage people to spend more of their money.

"'From an accounting point of view, it seems obvious that you would reduce G.D.P. if you cut government spending," said Randall Kroszner, an economics professor at the University of Chicago and a former Fed governor appointed by Mr. Bush. "'But the key is really the impact on consumption and investment. If you reduce government spending and if people think that reduces uncertainty about the tax burden down the line, they may be more comfortable with spending.'"

All of these statements lack proofs, analysis, theoretical foundations, or positive agreements from reliable economists; just subjective assertions gathered from dubious statistics and accompanied by a reference to Classic Economic theory. What classic economic theory?

The seriousness of the lack of knowledge and void of necessary attention to reasons for a rapidly falling economy focuses on growing segments of the U.S. public, the *Libertarians* and an associated *Tea Party.* These organizations are rapidly gaining adherents and influencing electorate positions. The Cato Institute leads the charge and its concepts, as expressed in excerpts from the following bulletin, require rebuttal.

Beyond Exports: A Better Case for Free Trade

by Daniel J. Ikenson and Scott Lincicome, January 31, 2011
Cato Free Trade Bulletin no. 43

"The case for free trade is much broader than the one that trumpets only export potential. And it is more elegant. The most principled case is a moral one: voluntary economic exchange is inherently fair, benefits both parties, and allocates scarce resources more efficiently than a system under which government dictates or limits choices. Moreover, government intervention in voluntary economic exchange on behalf of some citizens necessarily comes at the expense of others and is inherently unfair, inefficient, and subverts the rule of law."

Is it moral to move production around the world to locate the lowest labor content in order to achieve the largest profits? "Voluntary economic exchange of some citizens," or "seeking an additional few cents of profit, regardless of the detrimental effects on all citizens?" Which rule of law does the government intervention (what intervention?) subvert?

"If imports detract from growth and reduce the number of jobs in the economy, then why does import value tend to rise when the economy is expanding and adding jobs and fall when the economy is contracting and shedding jobs?"

Insinuating that imports enable growth is equivalent to saying that light enables the sun to come up. This backward look does not consider the simple; when people work, they have money to spend. Unfortunately, domestic production cannot fulfill their needs and they are forced to purchase imports. This prevents purchasing power for domestic goods, causing an economic lapse and government deficits as a rescue plan.

"Imports are vital to economic growth. U.S. producers account for the majority of imports. More than 55 percent of what Americans purchase from abroad is classified as industrial supplies or capital goods inputs used in manufacturing and other value-added activities, such as the construction and transportation industries."

Are imports vital or without recourse? Isn't that the problem? The imports are either unique or less expensive than domestically produced goods, both of which are satisfactory reasons, and worthwhile benefits from imports. Nevertheless, they do not merit a sweeping assertion of being "vital to economic growth." Wouldn't it be preferable if all value-added were domestic?

The Cato economists don't mention that foreign borrowing compensates the deficits in trade balance. The foreign debt is now $4.5 trillion and cannot be repaid without purchasing power leaving the country or by a positive balance of trade. They seem to suggest this is not a problem, and the U.S. can sustain more of it. Apply Cato subjective thinking, which replaces objective analysis, and the American economic system will become an ordeal of continuous suffering.

The U.S. Congress, conventional economics, and conventional media have misinterpreted the deficit crisis. It's not a crisis due to government mismanagement. It's a crisis due to private mismanagement and a failure to recognize that the economic system runs on debt and needs a much-needed overhaul. Will the government and private sector heed the call to action based on thought and do what has to be done? Probably not. The wealthy will maintain their S&P subscriptions and have the first read of the additional downgrades following the great fall.

Dan Lieberman is the editor of Alternative Insight, a monthly web based newsletter. His website articles have been read in more than 150 nations, while articles written for other websites have appeared in online journals throughout the world(B 92, (more...)