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Is that Light We See the End of the Tunnel or a Freight Train Coming Our Way?

A few small positive signs about our economy have raised hopes on Main Street, Wall Street, and Pennsylvania Avenue, but getting worse at a slower rate is still a long way from recovery. If we bottom out this year, anyone expecting a significant recovery in 2010 or 2011 will probably be very disappointed.

Why? Simply because correcting the excesses of the past 20-30 years can't be accomplished in a year or two without divine help. More specific reasons include the following.

- Many big and small banks are still not on firm ground and it seems very unlikely all the problems in the banking system are known. Future home mortgage resets will add to foreclosures as will losses on credit cards, consumer credit, and commercial real estate. Some analysts are saying the future holds as many problems for bankers as are already behind them.
- Real estate prices are still declining in most markets and there is a huge inventory of unsold and foreclosed homes.
- Wages are declining in many parts of the work force while consumer credit is tightening and banks are raising fees. Lower wages, less credit and higher credit costs mean lower consumer spending.
- Many indicators say the mindset of consumers has shifted into a lower gear. The assumption that "I can buy it today and pay for it tomorrow" has vanished from the brains of a great many people.
- The problems with banks, credit, and recession are worldwide. With a few exceptions, everyone's hurting and the thought that everyone can borrow from everybody else to prop up their economy doesn't make sense. Worldwide inflation and more financial instability are distinct possibilities for the not-too-distant future.

No one can foretell the future, but it seems the best we can hope for is to relieve most of the fear and uncertainty caused by the bursting credit bubble and for a modest recovery to begin in the next 6-12 months. Relieving severe pain is not the same as restoring someone's health.

The following article gives some clues about what we must do to rebuild our economy.

Economic Reality 101

Politicians and economists are proposing all sorts of remedies for resurrecting our economy, but to build a stronger economy, we must create real economic growth, not just provide temporary relief with borrowed money so we can dig the hole we are already in a lot deeper.

There are no simple cures for what ails our economy, but there are some time-tested economic principles that Congress, the White House, and all Americans must keep in mind when deciding what we must do to rebuild our economy.

1. A country cannot perpetually consume more than it produces.

2. A country cannot borrow and spend itself into prosperity. However, like a business, a country can borrow and invest in programs that will produce a positive net return on investment.
3. Every dollar our government spends must come from current taxes or future taxes. Reducing taxes without reducing spending just passes the bill for today's spending on to future generations.
4. Tax cuts to support consumer spending do not pay for themselves. Just ask history, the Congressional Budget Office or any serious economist who isn't running for office.
5. Someone always pays the principal and interest on a loan. It should be the borrower, but it may be the lender or, as we are seeing today, current and future taxpayers.
6. If our government prints money faster than we increase the wealth we produce, inflation will be the inevitable result - and inflation can ruin any economy.
7. Our government cannot rebuild our economy. Government policies can facilitate business development, but private businesses built our economy, and only private businesses can rebuild it.

The fundamental problem with our economy is that for most of the past thirty years we have been consuming more than we have been producing and borrowing to make up the difference. It was fun while it lasted, but our personal debt has finally caught up with us and our government's debt is knocking on the door.

Some short-term stimulus is appropriate to help restore confidence in financial markets, businesses and consumers, but government spending must emphasize investment and business development instead of consumer spending. Propping up consumer spending with borrowed money did not fundamentally strengthen our economy in the past and it won't work this time around either.

Congress must recognize economic reality and not spend taxpayers' money on anything that doesn't pass through the filter of being necessary, a good investment, or providing some relief to those in need. A great deal of spending contained in the stimulus package and the budget approved by Congress fails to satisfy these standards. However, it is not too late to change and Congress can change anything it wishes.

Our economic future can be as bright as we Americans want it to be, but we will have to earn it, not borrow it. The only way we can earn it is by building private businesses with investment, innovation, and hard work.

There is no doubt we can do it. All we lack is political leaders in both parties who can recognize economic reality - and who have the courage to make the hard decisions that are best for our country instead of doing what's best for themselves and their party.

Fair Game Department – Republican Economic Theories

The image below has been floating around the web lately. It's good satire - and I don't like many aspects of Obama's stimulus and budget plans - but when it comes to practicing sound economics, the Republicans have little claim to fame.



The economic theories advanced by Republican politicians since 1980 include the following gems.

- Voodoo Economics – You can spend the same dollar three times. {Only if you have Bernie Madoff or Ken Lay as your accountant.}
- Starve the Beast – The way to reduce government spending is to reduce taxes instead of reducing spending. {What happened? Taxes were cut, government spending increased, and our national debt soared.}
- The Tax Fairy – Tax cuts will pay for themselves. {They didn't - and they won't unless there is a radical shift in government spending and policy.}
- Trickle-down Economics – Making rich people richer will increase the income of the people on the middle and lower rungs of the economic ladder. {What happened? The river at the top was barely a dribble by the time it got to the bottom.}
- Free Money - Budget deficits don't matter. {But they matter very much and so does our national debt.}
- The Inverse Parallel Universe – Excessive spending and budget deficits by Democrats is bad, but when Republicans do it, it's good. {Political posturing garbage.}
- Only Words Matter – Fiscal responsibility depends on what you say, not what you do. {Only true in the minds of the politically brainwashed, the factually disadvantaged, and most of the residents of Capitol Hill.}

The Democrats have their share of lame-brained self-serving theories as well, including the belief that any social problem can be solved by throwing money at it. However, getting into those issues will have to wait until later.

The primary lesson to be learned from this sermon is that someone else being wrong doesn't necessarily make you right. Another lesson is that people who live in glass houses shouldn't throw stones.

***Work hard, play hard, help someone who needs it,
and remember to count the day lost that you don't learn something new.***

Regards,
Will Kaydos

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