

The Economy and You Report

ESSENTIAL FACTS • OBJECTIVE ANALYSIS • CRITICAL THINKING • THOUGHTFUL COMMENTARY

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Is the USA the Next GM?

It used to be said that what's good for General Motors was good for the USA, but if that's true, what's been bad for General Motors should also be bad for the USA. In that case, could GM's bankruptcy be a signal of what's ahead for the USA?

Very likely, because there are some remarkable similarities between the behavior of GM's executives and what has happened on Capitol Hill since the mid-'70s.

GM ignored very clear warning signals that customers thought Japanese imports were a better value. Our government has been ignoring clear signals our economy has been deteriorating for the past 30 years.

GM denied the problems with its products and pretended things were better than they were. GM said its shrinking market share was caused by foreign companies being lucky to be making smaller cars when the oil crisis occurred in 1973. Partly true, but far from the whole story. For years, GM made excuses for its products and said it would become competitive in the near future – but it never did. Our government attributed our budget deficits, trade deficits, and other economic deficits to short-term problems and kept promising things would get better in the next few years – but our economy's fundamentals kept declining.

GM papered over its problems. Instead of improving the quality and value of its products, it bribed customers to buy its cars with rebates and produced all sorts of marketing gimmicks. Instead of addressing the fundamental problems with our economy and our government's eroding financial position, our government propped up consumer spending with borrowed money and called it prosperity.

GM failed to recognize the economic facts of life. It didn't recognize (or wouldn't admit) that customers will go to where they can get the best value for their money and that loyalty to one's wallet is much greater than to a particular company or product. Our government has not recognized the economic facts of life since at least 1980. (See "Economic Reality 101" in the May 28 issue at www.rstu.org/report.)

GM's executives forgot what the company was all about. It was a car company and its primary purpose should have been to make good cars that customers want to buy, not to make money any way it could, including becoming a bank. Our government has forgotten what we are all about as a country and politicians of both parties have forgotten their primary purpose should be to do what's best for our country instead of whatever is best for themselves, their party and the next election.

GM was never willing to make the hard decisions and suffer the pain of transforming itself into a world-class competitor. Instead of making big changes in its business to

become competitive, it kept working at the margins to buy a little more time. Like GM, our government has not been willing to make the hard decisions and suffer the political pain of doing what's necessary to rebuild our economy and restore its fiscal integrity. Our government also has done nothing but work at the margins because somewhere, some interest group will not like some aspect of every program and no politician wants to offend anyone. Getting votes trumps everything else except for very rare exceptions.

So is the USA going to be the next GM?

Probably so. **We have been going down the same path as long as GM has and there are no signs anything is changing on Capitol Hill.**

But there is one big difference between GM and the USA: **there is no one who can or will bail us out when the walls come tumbling down.** We have to rescue ourselves by investing in our future NOW, before it is too late - and we are already very close to being too late.

Write your representatives in Washington and tell them to wake up, smell the coffee, recognize reality, and start addressing the real problems with our economy. **Our economy does not need "stimulating" - it needs rebuilding.** Private businesses built our economy and only the private sector can rebuild it.

Thought for Today

The gurus in our Treasury Department said they expect GM to become "a formidable global competitor" in five years. When you consider GM and the UAW couldn't learn how to compete in thirty-plus years, it seems this will take a miracle.

Americans wouldn't buy the company's cars, so GM made Americans buy the company. How's that for an effective marketing strategy?

Will Someone Please Tell the Truth about Social Security?

The erosion of Social Security and Medicare funding because of recession-induced lost wages and taxes was in the news recently. All the politicians are wringing their hands because the Social Security Trust Fund trustees said reduced tax receipts means Social Security will only be able to pay full benefits until 2037 instead of 2041 that was forecast a year ago.

This is bad news, but 2037 is a long way off and we have plenty of time to fix it. ...Right?

WRONG! There are no real assets in the Social Security Trust Fund. Every penny of surplus Social Security taxes collected since 1983 has been spent on other government functions. What's in the Social Security Trust Fund is IOU's our government has written to itself and they are only worth what our government will be able to collect from increased income, business, and Social Security taxes when Social Security starts giving out more money than it collects in 2016 (which will actually happen in 2010 because of the recession).

You don't believe the Social Security Trust Fund is worthless? Well, do this. Send me \$5,000 to put into a trust fund for your retirement. I'll put it in the Fools Security Trust Fund for a few weeks, but then I'll take everyone's money and spend it on wine, women and song - and I might even waste some. But when I take the money, I will give the trust fund my personal IOU so the fund will still have the same dollar amount of assets.

Let's say I receive and spend \$10 million over the next five years and then I have to start paying \$100,000 each month in retirement benefits. That shouldn't be a problem because I have \$10 million of IOU's in the trust fund plus another \$2 million in accrued interest. **But where am I going to get the money to pay off the IOU's I wrote to myself?**

I will have to go out and earn it or borrow it. If I can earn enough, I'll be able to pay the promised benefits. If my income falls short, payments to retirees will have to be reduced if I can't borrow the necessary funds from other parties. **This is exactly what our government will have to do.**

So the "start to feel the pain" date is 2016, not 2037 and **that is only seven years away.** This is very little time to rebuild our economy and our private labor income base, which is the source of nearly all of our government's revenue.

What really bothers me about the dire news from the Social Security Trustees is that **not one politician, journalist, or commentator told the truth that it makes absolutely no difference whether there is fifty trillion dollars or fifty cents in the Social Security Trust Fund.** The only things that matter are whether our government has the will to pay the benefits and will be able to collect enough additional taxes to cover Social Security's revenue gap.

Instead of being honest with the American people, everyone wants to perpetuate the myth that there is a vast pile of money Social Security can draw on to cover its future budget deficits.

Why won't anybody tell the American public the truth? Because keeping the Social Security fairy tale alive avoids having to deal with the problem until it becomes a crisis - as it surely will.

Tell your friends the truth and tell them you read it here. And while you're at it, tell your political representatives to admit the truth and start dealing with the problem.

***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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