

THE NATION SOLD

The economy prospers and collapses in a manner analogous to how waterways both benefit the growth of civilization and cause havoc to it on occasion. Cities emerge and prosper near rivers , but rivers sometimes flood, destroy property and take lives. These either good or destructive effects are typical of economic conditions in general. Sufficient credit and mild inflation, for instance,

encourage investment for economic growth, but runaway inflation or an abrupt change from inflation to deflation sometimes leads to recessions.

These outcomes are also influenced by management, as by either government or the private sector of the economy. Storm cellars protect people from tornados. The flooding of New Orleans by Hurricane Katrina might have been prevented if natural wetlands had not been sacrificed for economic growth.

As for a condition of mismanagement by government, suppose Nation A declares war on a foreign country. The war needs financing. However, a tax on the people decreases popular support for the war effort. Bonds could be sold to finance it, but not fast enough for victory. Government therefore borrows money from Nation B.

Further suppose Nation B acquires the currency of Nation A by exporting more goods than it imports between them. Nation

B therefore loans to Nation A the same currency it acquires from Nation A.

Eventually the interest rate on the debt approaches one-hundred percent of the government's budget such that Nation A is no longer able to function without additional revenue.

For Nation A to pay its foreign debt several remedies come to mind: decrease spending, increase taxes and/or print more money.

Printing more money did not work for Adolf Hitler during World War II, as it resulted in runaway inflation whereby more German dollars were needed to buy goods.

Inflation cheapens the dollar, which raises the price of imports, such as oil for energy, which is needed to produce goods for exports, as to generate income for enough tax revenue to pay off the foreign debt.

Simply increasing the percentage of tax could also be of negative consequence if the

loaning nation decides to hoard the money. If it does, such that the borrowing nation's internal supply of money dwindles, then goods and services of the borrowing nation tend to decrease in price in order to maintain their same distribution among customers.

That is to say, if half our income is taxed out of existence and the prices of goods and services are halved to internally adjust to our ability to pay for them, then our ability to purchase local products stays

relatively the same. However, the rate of interest on foreign debt does not change. It becomes relatively greater in view that the foreign nation can now use it to purchase twice as much goods and services at half the price as before.

There is also a limit to how much a person can be taxed. If the income of a worker is taxed one-hundred percent, then the worker earns no money to buy goods and services from the private sector.

The money earned as interest is only worth what the loaner can purchase with it, but the choice of goods to purchase and the timing of the transaction are speculative. In the future, for instance, Nation A might produce more for its own dollar.

Nation B can either buy goods, as to purchase such assets as land and businesses from Nation A, or save the money for future acquisitions. If Nation B simply saves the money to drain the internal flow of capital

from Nation A, then the price of goods and services within Nation A reduce such that the interest earned on the loan is able to buy more goods and services. In effect, the borrowing nation eventually becomes sold to a foreign entity.

This problematic situation is only an example of how it is possible government can mismanage its responsibility to its people. It is not yet a reality in the US. Although President Bush chose to borrow

from China and Japan to finance US involvement in Iraq, that foreign debt is only a small portion of the total budget.

A crisis could still be imminent.

Instead of borrowing from a foreign nation to finance war or any other matter, consider the selling of government bonds. Instead of being totally in debt to a foreign nation the debt is then owed to whoever owns the bonds. Whether they are purchased by many individuals, a few individuals, or only one

individual, the same speculative condition of hoarding money for greater profit applies to them as well. The nation is still sold.

Projections are that by the year 1917 the US government will owe more money than what it has to spend unless it either decreases spending or raises additional sources of revenue. Social Security is now projected to be broke by the year 2037. Concerned critics therefore claim bankruptcy is in store for our grandchildren.

Should we then conclude that we need to reduce social spending, as to do away with social security benefits? Nay. Real economic wealth is product whereas money is only a means of distributing the wealth. If there are no goods and services to be sold, then money is worthless. Therefore, not investing in the future of our infrastructure could also leave us poorer. No doubt the majority of elders on Social Security regard it as a worthwhile investment for them.

Even though storms cause havoc, water is still essential to life. Similarly, too much unrestricted credit feeds an economic bubble doomed to collapse, but credit is still needed to invest in a more prosperous future.

The aim, therefore, is not to decrease in investment of product; it is to better manage resources. With plenty of natural resources to develop, and able bodies willing to develop them, we can in time adjust to the situation at hand. As long as we have land to grow

crops, there is food to eat. As long as we have houses, there are homes to live in.

Recessions and financial crises run their courses. Better economic management could ease their burden on the people or even prevent them from occurring.

Management involves both the private sector of the economy and government. How they interrelate is generally a political issue of concern. It involves rules by government to restrict freedom of the private sector.

With regard to a government for the people and by the people, it is responsible for fulfilling whatever the people determine necessary to their interests. However, the issues, as elaborated on in the next three sections of this article, are complex.

The next section simply elaborates on how government best serves me or us, but this effort only fuels the debate. What is to my interest is not necessary preferred by others. We therefore compete.

A deeper concern, as given in the third section, is with regard to how to prevent or recover from recessions. Worthy of review is the Great Depression of the 1930s. Its lessons could provide us with a better understanding of how we can avoid another one, and how we can invest more wisely in our future.

The final section proposes solutions on how to manage and invest wisely in order to maintain the economic infrastructure.

A Government for the People

As beauty is in the eye of the beholder, a car sells by way of its attractiveness to the eye of the customer as well as for its usefulness.

The demand for beauty along with its supply is thus a measure of wealth. However, real wealth and economic wealth, as elaborated on below, are not necessarily the same thing.

If supply of product is scarce its price tends to be relatively high. For an abundant

supply the price tends to be relatively low. A rock from the moon could have relatively great economic value if wealthy buyers are able and willing to pay plenty for it, whereas air has little or no economic value inasmuch as it is plentiful and free for us to breathe. Water is also relatively free. However, a drink of water could be more valuable to a person lost in the desert than would be a ton of gold. Therefore, economic value is not necessarily real value.

Air is free to breathe because it costs nothings to produce. To the contrary, great effort is required to bring a rock from the moon. The required effort along with the consumer's desire to have the rock is what determines its economic value. This is the law of supply and demand economics of the free enterprise system.

We consumers thus play a vigilant role in determining what effort is to be invested to satisfy our wants and needs. We live our

lives to determine our fates. The economy adjusts according to how we compete with it.

To be free to determine our own fate is part of our psyche in accordance with our competitive nature. I might not desire a moon rock, but many of my fellow consumers might. The effort to spend energy to obtain a moon rock is thus invested outside my approval. This effort could be at the cost of not producing olives cheap enough to satisfy my hunger for them. As only one member of

the free enterprise system I only partially influence it. I do not always determine its outcome. The money I earn nonetheless has personal value inasmuch as I enjoy the freedom to be able to spend it as I see fit.

Win or lose, I still compete for my livelihood. Sometimes I win, sometimes I lose. This is the game of free enterprise. It is thus stated that the private sector of the economy is best determined by the ingenuity of the individual rather than by government.

There is a counterargument. Some of us prefer consumer protection in some cases instead of our freedom. Some deviant person, for instance, might poison a bottle of cough medicine in a store before putting it back on the shelf. Since customers are not expected to know the content of every bottle of cough medicine, laws are passed to require all containers of medicine to be sealed before sold. Freedom is thus sacrificed for the sake of security.

Freedom to choose is more generally sacrificed for the sake of those of us with less ability. An elderly lady who is unable to fend for her own self, who is not wealthy enough to hire protection, is helpless to anyone taking advantage of her precarious situation.

She is not alone in her need of help. Without police to enforce the law, society would most likely be dominated by powerful drug cartels and crime syndicates. For the welfare of every one of us, either weak or

strong, government for the people is thereby established to enforce the rule of law.

Most of us would further agree that government can establish a strong defense against the possibility of a foreign invasion. More controversial, however, are internal threats, as with regard to environmental concerns. Clean air is free to breathe as long as there is plenty of it. Pollute it and there is the cost of environmental cleanup and/or health care. Moreover, if people do not prefer

to live in an area of industrial pollution, then property in such areas could decrease in economic value.

Who is to protect society from its own destruction of economic greed? This question suggests government has a significant role in regulating the private sector of the economy in that individuals' choices are not always best for the overall economy. Even with adequate law enforcement the decisions of society members are sometimes counter-

productive to the overall economy. The Big Dust Bowl during the Great Depression of the 1930s, for instance, was caused by the erosion of fertile soil. It came about because of such decisions not to rotate crops in favor of ones that were more marketable at the time. However, who is to say government at the time was any wiser? More recently it failed to recognize an environmental threat by off-shore-oil-drilling in the Gulf of Mexico until a catastrophe occurred.

Assuming that security sometimes trumps freedom, how do we decide which is more preferable for the general health of the economy? Many citizens living along the coast, where their livelihood depends on the sea, might protest the individual's right to drill for off-shore oil, but other individuals might prefer it for the sake of a healthy economy independent of foreign sources.

Who is in the right is controversial at best. We want to live our lives as we see fit,

even if we fail to succeed in our goals, but some of our choices intrude on the freedoms of our fellow humans. The air I breathe is no longer free if it contains smoke harmful to my health. Someone else's freedom to smoke thus trumps my freedom to breathe clean air. The social order is thus determined by a battle of issues concerning freedom of individual choices and the general welfare of other individuals. Society as a whole, for instance, might still decide smoking is a

pleasurable custom too established to let go of. In some cases the non-smoker wanting clean air to breathe will need to make the personal effort to find it elsewhere if other members of society are able to dictate it as such.

It is still alleged by leading economists and politicians that economic wealth is best determined by the innovation of each person of the private sector rather than by a few elected officials. This claim assumes freedom

to live our own lives is desirable in itself. We each compete for our jobs and livelihood. Hopefully the person with the greater ability and/or effort prevails over the less gifted and/or more lazy. In any case, the laborer earning a living does not desire to pay taxes for the benefit of wasteful spending, or to fund the wages of government employees earning more for an easier job in need of less competition to obtain it. Some of us who play by the rules do not care to have our hard-

earned earnings taxed to pay someone else's drug rehabilitation.

Some of us thus prefer free reign of the private sector of the economy while others of us rather sacrifice some of our freedom with government regulation instead for the sake of security. A multitude of examples on each side of the debate could be given to support each argument, but that only divides us in opposing ideology. The point here is that both sides can be right in their own way and

that the ideology that trumps both sides of the debate is that a government by and for the people is for the will of the people to decide each issue. Sometimes individual freedom wins out; sometimes social service is preferable. Whatever circumstance supports either argument for each particular case in point is what influences the outcome.

There are, however, more pressing issues of concern with regard to economic collapse of the free enterprise system. The

Great Depression of the 1930s is a case in point.

Recovering from the Great Depression

Although the Great Dust Bowl during the time from 1930 to 1936, and even to some extent to 1940, contributed to the Great Depression of the 1930s, recessions have not in general been caused by a lack of product. Whatever their cause they usually result in

an unbalanced distribution of wealth from which a large proportion of the population is unable to buy food and pay the mortgage or rent. With a large unemployment base, there are plenty of hands available for production, but few job openings to fill.

As a case in point the Great Depression was caused by the succession of several key events. Easy credit allowed investment and the growth of wealth. However, a speculative bubble of investment was followed by tighter

credit and a period of deflation that placed too much burden on the population for it to adjust to.

Cities generally grow and prosper close to a river, but the river sometimes floods to result in much disaster. The free enterprise system likewise lends to innovation and leads to prosperity, but the unrestricted flow of credit can also lead to economic collapse.

Credit is still a means to create wealth. The farmer needs seeds and equipment to

produce crops. A loan from a bank speeds up the process such that people have more food on the table for the following winter. If the crop fails such that the farmer is unable to pay off the loan, then the bank forecloses on the mortgage. Even if a few banks go under from time to time, there are larger more central banks to absorb the losses. Hopefully the system survives for future investments.

It is an interesting coincidence that Charles Ponzi introduced his Ponzi Scheme

to the US public in 1920. Such economists as Friedrich Hayek of Austria and Murray Rothbard of the US pointed out that this is also the time of a key event for the Great Depression to have occurred, as by way of the expansion of the money supply along with unsustainable credit. Two similarities with regard to our latest recession are the housing bubble due to generous credit by large banks and Bernie Madoff raising the Ponzi Scheme to a new level.

A Ponzi Scheme acquires capital from investors and pays them money earned on their investments by acquiring additional capital from other investors. Since there is no actual profit from another source, the scheme eventually fails, as does a chain letter when it fails to attract new investors.

In view of the latest recession, banks did acquire physical assets (mortgages) but they lent generously and insured their bad loans with an institution with insufficient

capital to cover them. To cover themselves, as for profit, the banks then sold their bad loans to other banks.

In the 1920s it was an ease of the gold standard that led to the downfall of the economy. The ratio of the dollar loaned to its required backing of gold bullion became six to one. For every dollar deposited, brokerage firms lent nine dollars.

Along with more lax credit came an increase in economic activity. However,

demand outpaced output. Prices increased. Inflation occurred. The rich got richer while the poor got poorer. Debts rose along with a decrease in profits. Interest rates increased, making the situation worse. Finally, in 1929, the stock market crashed.

One reason the crash occurred when it did, and not later, was a restriction imposed by the gold standard. Its backing reached its limit, as by law, such that the ease in credit could not be expanded any farther.

The gold standard was finally changed on April 5, 1933 by F. D. Roosevelt signing Executive Order 6102. Private ownership of gold in the form of certificates, bullion or coins thereby became illegal.

By means of international trade the Great Depression extended to nearly every major and third world country trading by way of the gold standard, whereas such nations as China, which based its economy on a stricter silver standard, avoided it.

Abandoning the gold standard was itself a way of recovery. Such countries as England that abandoned it as early as 1931 were first to recover. Those of them that abandoned it last were generally last to recover.

After World War II, with most of Europe left in devastation, the United States helped in its recovery. The US dollar then became the standard measure of money for international trade. To keep it as such, the

United States Federal Reserve became responsible for a healthy economy, as to ensure there will be an ample money supply to maintain only enough cause of inflation for stable growth.

Inflation does not itself cause recession. As with the ease on the regulation of credit in the 1920s, further easement, as with the abandonment of the gold standard, also helped end the Great Depression. That was because it really resulted from a squeeze

between inflation and deflation. With inflation the dollar cheapens. Wealth is thus transferred from the loaner to the loaned. Commodities increase in monetary value. Investment in them, as in purchasing a home, is thus encouraged. With deflation, however, the process is reversed. Wealth is transferred to the loaner. The distribution of money is decreased. Income becomes less. Home owners then tend not to have enough money for payments on their mortgages.

There is nothing wrong with the general process except that it needs to be managed for it not to run out of control. John Maynard Keynes of Great Britain thus argued that government spending should even result in a budget deficit to invest in a slowed down economy in order for it to avoid the calamity of recession. This policy was carried out in the US inasmuch as cc camps and so forth provided job opportunities. After the private sector is able to adjust to the

harsh changes that contribute to the slowdown, the policy is then to be reversed.

The key word is "change". When change is greater, a greater adjustment to counter it is required. When workers invest their hard earned income in a home only to lose their ability to pay the mortgage because of no fault to them, but because of a tremendous change in the conditions of the economy, it is then the role of Big Brother to come to the rescue.

From Freedom to Financing

Big Government

What mainly distinguishes the private sector of the economy from the public sector is that competition among members of the private one inspires innovation whereas the role of government is to protect the populous from external and internal threats. (However, government programs could also compete with each other for funding.)

The relation between the private and public sectors is sometimes complementary, but it is controversial and opposing from time to time as well. Freeway financing by government, for instance, enables commerce to flow more freely. Whereas oil companies seek to be more efficient, as to cut cost of off-shore drilling, government is more concerned with the catastrophic impact the cheaper drilling procedure could have on the environment.

Natural disasters occur in nature.

Economic disasters occur in the economy.

Buying a home or any other commodity is not without risk. It is a form of speculation. Jobs are lost. People are expected to perform with innovation. However, there is still a point to be made with regard to how the public sector can improve the conditions of competition within the private sector. For instance, if government acts to improve the opportunity for business to be financed, such that the

percentage of unemployed is decreased as well as the risk of buying a home, then the standard of competitive living is raised.

Free enterprise is driven by innovation inspired by competition, but it is also speculative and can result in an uneven distribution of wealth. When one player wins out, the game is over. Any possibility of it occurring in the private sector of the economy needs to be guarded against. Monopolization must be prevented.

Monopolization is a fundamental part of nature. The larger, more powerful tends to rule over the weak. A dynamic principle of nature supports this tendency. A larger cube, for instance, has relatively less surface area per volume for it to fall more freely through the atmosphere at a greater rate of speed. To confirm this fact, stack eight small cubes together in such a way that they form one large one. Note: Half the surface area of the smaller cubes is contained inside the larger

one, but the total volume remains the same either as one large cube or eight smaller ones. The large cube therefore has half as much surface area per volume than do the smaller ones individually. This difference allows the large one to fall through the atmosphere with relatively less resistance per weight.

This geometrical outcome applies to economic efficiency. Large containers can transport the same amount of cargo with less

wind resistance per volume of cargo than do many small containers. Fuel is saved. Also, a large store has more space per volume to store product more efficiently with relatively less servants than do many small stores combined.

But dominance also comes from success in speculation. Those of us who invest wisely succeed more often than those of us who do not. In this sense money has intrinsic value insofar as it can be invested to earn more

money. One of us with enough of it can, with a certain amount of risk, loan it out or invest it in stocks and/or bonds. If successful, the investor can live on the interest alone that the money earns. With enough fortune, the investor becomes richer and richer.

It is thus no wonder large corporations emerged during the industrial revolution to dominate over smaller entities. It is no wonder the greater amount of wealth during the Great Depression was accumulated

among the privileged few. Even gas wars in the 1950s drove out independent stations choosing to buy and sell cheaper gas.

In theory, ideally, we are all free to make the same investment, but it involves risk and some of us are likely to fail. This is the point to be made. Competition thus results in an uneven distribution of wealth, which results in more internal competition among us, as with poor against poor and rich against rich.

But there is also competition between the rich and the poor. The many without can join forces to compete against the few with plenty. If the many are successful, as with the help of unions and government, then the distribution of wealth is restored.

There are company employees with the attitude of protecting their livelihood. In many cases it is just, where ambition and success provides more community service. In other cases the conditions of manual labor

become intolerable. Coal miners die for the cause with little or no complaint from family members. Life goes on, but there are also those individuals who challenge the establishment for a better, more fruitful way of life.

Working conditions during the rise of the industrial revolution became intolerable due to competition between large companies in control. However, individuals united for a common cause. Unions were formed. Wages

became more competitive. New laws were passed. Conditions at work became more tolerable. A more even distribution of wealth enabled more opportunity and prosperity to occur among the middle class.

But the need for our labor can also be replaced, as with robotic automation fueled by such energy as electricity and fossil fuels. Whoever owns the robots thus obtain the upper hand such that others of us need to find new uses for our labor in order to better

serve society and ourselves. If our innovation is suppressed by lack of credit, then our only hope is for government to lend us a hand.

For instance, more of us can be put to work on repairing and maintaining a stable infrastructure. We could clean up the environment that industry pollutes, and so forth.

A bigger, more vibrant economy needs management to contain it. Management of the private sector means bigger government

with a larger budget to operate efficiently (not inefficiently). It, too, must be financed.

There are two primary ways to finance government. It can print money and it can tax its citizens. Whether either method is helpful depends on management, as to whether the tax is affordable and what it is invested for.

Printing money could lead to runaway inflation if it is not properly managed, but it can also be a useful tool for maintaining a

stable rate of inflation. If the population of the citizenry increases along with production and consumption, for instance, then the same increase in the amount of money per person will keep it in balance. Actually an increase in the money supply balances an increase in production and consumption regardless of an increase in population, as more products on the market for the same amount of people require more money to purchase them at the same price.

Taxation on the other hand takes away a portion of a person's income. However, government generally spends it, such that it is put back into the private sector. What changes is what the money is used for. We could get either a more or less valuable service from government in place of what could be produced in the private sector.

The private sector can still adjust to a fair tax. With more public servants there is less labor available for free enterprise, but

with the use of such energies as electricity and fossil fuels, and hence with a minimum loss of production, the private sector can adjust to the conditions of having less money to spend per item by way of lower wages and so forth.

This is not to say an adjustment to an increase in tax is automatic. A fixed rate of interest on a home loan could be a problem. It is better to say in the long term effect an increase in tax can eventually be adjusted to,

but too much of an increase during a short amount of time can be too much of a burden to endure.

Of final note, this analysis is based on the assumption that natural resources are aplenty and that an uneven distribution of capital is mainly responsible for economic failure. Just the opposite condition is the lack of natural resources.

Climate change, whatever the cause, might be a culprit for the depletion of our

natural resources. If the threat turns out to be true, then for the sake our grandchildren it is the role of government to ensure that they do not have to experience this fate. This choice is with us.

Bob Ticer

Author of Sci-Fi Thriller

THE HUMMINGBIRDS WILL HELP

<http://whatisgravity.com>