Economic Growth Common Idea Essay, Research Paper

Economic Growth

Common Idea

Economic growth is the most important study in economics today. The first book on economics was by Adam Smith The Wealth of Nations the full title was the Inquire Into The Nature And Sources Of The Wealth Of Nations. “Economic growth determines a countries future, and economic growth in the past determines a countries present as far as it’s material values are concerned.” (Buechner Recording) So every material value of the modern world is a result economic growth in the past, or your standard of living is the result of economic growth in the past. Economic growth in the future will determine whether or not there is rising or falling economic wealth, and coordinated with that whether or not the standard of living in the future continues to rise or fall.

For example: In 1870 England was the leading industrial power of the globe, and as a consequence it also was the leading political power of the globe. According to M. Northrup Buechner the real wage rate in England is estimated to have been about 50% higher than the real wage rate in other European countries at that time. (Recording) It was about 1870 because of the rise of statist policies and ideologies that rate of growth in England started to lag behind that of the other European Countries. It didn’t lag a lot Buechner states the statistical estimate was less than one percent a year, however for a period of 10 or 20 years that’ll make a difference hardly anybody would notice. Yes maybe so, but if you compound that interest rate over 100 years what you get is what you see today. England is essentially a third rate economic power, and the real wage rate in England today is estimated to be “about 33% less than the real wage rate in other European countries.” (Buechner Recording) In 1870 the United States in 1870 was an economically backward, internationally insignificant, and unimportant country in the world with respect to matters regarding foreign affairs. According to Buechner it was about 1870 when the United States embarked on a growth rate of over 5% percent a year, which was sustained for a period of over 40 years. (Recording) No country in the history of the world matched that record. At the end of that period about the time of World War I the United States took Britain’s place as the leading industrial power of the globe.

Introduction

Here is the subject, and the direction on which I would like to approach my thesis. In the 19th century the United States rate of growth was over 5% a year. According to Wayne D. Angel et al., chief economist for Bear, Stearns & CO. it’s estimated the best we can do is estimated at somewhere between 2 or 3 % a year. (Online) The long term expected growth rate in the United States has been cut in half. What has happened? As a student of economics I have an economic answer. I’m going to be looking at this from the perspective of the material, physical, and economic means of economic growth. That is the economic causes of economic growth or decline. I’m not talking about philosophy here I’m just looking at basic mechanics. What has to be done in reality? Well it is no surprise that the fundamental answer that question is thought; then, there is action that has to been taken based on the thought. What specific actions are required? I don’t want to be accused of ignoring philosophy so let me just state briefly the philosophical preconditions of economic growth because these are really fundamental. Any Rand, the infamous author of Atlas Shrugged states the belief in the reality of this earth, and the world we see around us is real, not just an imperfect reflection of a higher reality. Also the belief in the power of reason to grasp the world, to know the world, to grasp reality in order to deal with the facts, and that the mind is competent to guide life. Some sanction on the pursuit of personal happiness is also a precondition. Some belief apart from the idea of that to be selfish is irredeemably evil; you can’t believe that and have economic progress. (1075-84) There has to be some degree of economic freedom, men must be able to act to some extent within some significant range. The underlying assumption for everything that I am going to write that follows is a free or at least semi-free country. If you want to push me when all is said, and done I would say if you get the philosophical preconditions you will get economic growth; not without effort but probably without any additional abstract knowledge.

Increasing Economic Growth

When you get it how do you get? So lets begin with a definition economic growth I’m defining economic growth as an “increase in the total productive capacity of an economy”. (Buechner Recording) Now what is productive capacity? Well it’s the “capacity to produce output, goods, and services”. (Buechner Recording) What does productive capacity consist of? According to Buechner these are the primary components of an economies productive capacity?

Here are the components:

1. Knowledge and skills

2. Machinery and tools

3. Plants and structures

4. Raw materials

5. Parts, materials, ingredients, intermediate goods (Recording)

Productive capacity consists of the knowledge and skills of the population; this of course is the fundamental productive capacity, or in more objective terms “man’s mind” is the fundamental productive capacity.” (Rand 1075-84) Everything else in this paper depends on knowledge, and knowledge depends on thought. Those are the fundamentals of all productive capacity. Numbers 2-5 fall under the general heading of capital goods or producer goods. Machinery and tools economists usually put this under a triumberant of machinery tools and equipment. Plants and structures of the economy are a big category, and includes factories, office buildings, damns, highways, bridges, power lines, telephone lines, pipe lines, railroad tracks, airports etcetera. Sources of raw materials include mines, cleared land, oil wells, lumber, fisheries, and things of that nature are what economists call intermediary goods. Intermediary goods are the parts, the materials the ingredients that are passed from stage to stage through the productive process, and are used to produce the things that come out at the other end of the factory. Economic growth means that the total quantity of these things increases, and when the total quantity of these things increases more can be produced.

Now there are two essentially different ways, which they can potentially increase. We can produce more of the same thing or we can have more of the same machines, tools, and factories of the same kind producing the same output, more raw materials of the same kind etcetera. More of the same would mean economic growth signifying that the total productive capacity of the economy had increased. But historically, and this is a crucial point “historically there has been no economic growth with out better machines and tools, better factories, better products, better goods, better sources of raw materials.” (Buechner Recording) I am going to take that as a basic fact. Economic growth fundamentally, and essentially takes the form of better goods and services of all kinds. I’m now going to assume that the “marginal product of capital does not decrease”(Hazlitt 40) the assumption that it does I think is clearly contrary to fact. That makes a huge difference in the theory of economic growth. Where do we start with better? We start with better know how in the means of new ideas, technological discoveries, and inventions. These ideas have to be put into a concrete material form of better machinery, plants, structures, and tools that can be classified under the general heading technological progress. According to Hazlitt if you get that, and you get total productive capacity increasing faster than the population grows you get a rising standard of living. (90) How do we get these things? How do we get more and better? Of all of these components I have a very simple minded answer; they have to be produced.

I am going to use a circle to represent the economies total productive capacity.

Table 1

In order to have an increase in productive capacity you have to use productive capacity to produce more capacity. Now this starts with one-man alone thinking a new idea, a new product, he or she; then, communicates this to others. They have to figure out how the idea or product can be produced, and at the same time raise capital in order to hire the labor, buy the tools, and erect the plant. Once the structure has been created all those involved need go to work, and produce it; thus using the existing productive capacity to produce more capacity. This process becomes a reality by using your existing labor force to train, and communicate skill to other portions of the labor force; therefore utilizing men, old machines, and old factories to produce new factories, new tools, and new sources of raw materials. This is very simple, and at every stage in this processes your using your existing productive capacity to produce more capacity. Well what else can you do with productive capacity? The alternative is to use productive capacity to produce consumer goods and services. According to Buechner for the purposes of economic growth these are the only two alternatives uses of an economies productive capacity-you can use your existing capacity to produce more capacity, or you can use your existing productive capacity to produce consumer goods and services. (Recording) So economic growth involves a trade off here is the trade off.

Table 2&3

Each circle represents the total productive capacity in these two economies, and those circles are the same size so each of these economies have the same total productive capacity, and lets also assume they both have the same population. Now Case I is using about 1/3 rd’ of its capacity to add productive capacity, and about roughly twice as much capacity to produce consumer goods. The Case II economy is using about 2/3 rd of its capacity to add productive capacity, and roughly ? as much to produce consumer goods. So the Case I economy is going to have a higher standard of living. Actually twice the standard of living because it is using twice a much of its capacity to produce consumers goods as the Case II economy is. So the people in the Case I economy are better off today, and the people in the Case II economy are poorer because they have a lower standard of living; they’re not as well off. Other things being equaled rich are better than poor, but other things are not equal. According to Buechner the Case I economy is also using less of its capacity to add capacity meaning that the economy is going to grow more slowly assuming that it’s even using enough capacity to actually grow. (Recording) So here is the Case I economy 10 years later 2009.

Table 4

The inner circle represents 1990’s total productive capacity the red lines branching out from the inner circle to outer circle of the pie represent the total productive capacity in the year 2009. The red lines represent the increase of productive capacity in the economy. The proportions are identical to what they were in 1990 there has been no change if we assume that the population hasn’t changed in those 10 years the standard of living has risen. How does that compare to Case II, which was using a much larger portion of its capacity to add capacity? Here is Case II

Table 5

As you can see the Case II economy for 2009 when compared with Case I economy for 2009 has grown much more in course of 10 years signified by the shear size of the diagram. According to Buechner this is because in the previous diagram for the Case II economy for the year 1999 that economy was using twice as much of its capacity as the Case I economy in 1999 to add capacity, and again as a result it has grown a lot more in those 10 years. (Recording) The standard of living has raised now so much so that the standard of living in the Case II economy is now higher than the standard of living in the Case I economy. You could say big deal of course you drew it that way. That’s right I did draw that way to illustrate this elemental truth about economic growth. “A country that uses more capacity to add capacity has a higher standard of living over the long run.” (Hazlitt 43) Attention should be paid to that difference because the more capacity that is used the shorter that long run would be. Japan is a stunning, unavoidable, and modern example of that truth. The cause and effect relationship for economic growth is you consume less than possible today by accepting a standard of living below – collectively now, the population, the people, the economy – what it could be will result in economic growth. As a result of that economic growth your able to consume more than would have been possible if you had not consumed less. That is the essence of economic growth. In summation the fundamental determinant of economic growth is the portion of an economies productive capacity that is used to add more capacity.

Amidst an increasing mound of research the next question that came my mind is, what determines that portion. “In a free economy that’s determined by the decisions of the individuals” to consume and save thus it is a joint product of the decision of the millions and millions of people who live in the economy, and there decisions of how much to consume and how much to save. (Rand 782) According to Hazilitt savings for the individual is a decision of economic growth.(180) Assuming here an income of 100,000 if the individual making this income spends all of it on consumption that will be the maximum standard of living he or she can achieve on that income leaving out the possibility of borrowing. If this individual decides to save there current standard of living will be below what it could be; therefore, when you save you deliberately reduce your standard of living below what you could enjoy if you spend everything on consumption. Why do people do that? This is what happens if you deliberately reduce you standard of living. In diagram Savings and Economic Growth 1

Table 6

$90,000 is spent on consumer goods and services and $10,000 is saved, however the individual could be consuming $100,000. What happens? By next year and as the result of saving – now I should let you know the assumption is $10,000 is saved at annual interest rate of 10% so over a year a period of a year the 10% interest rate will yield an additional $1,000 dollars.

Table 7

Now that means the income has increased from the $100,000 of 1999 to $101,000 of 2000. The red lines that extend to the outer band of the pie signify this. That additional band represents the additional $1,000 dollars that is derived from the interest on savings of $10,000. Now additional income is available for consumption if the individual wants to spend it on consumption. I’m also assuming that the additional $1,000 that the individual gets from the 10% interest rate return on the $10,000 will continue to be saved at the rate of 10% of his income. In 2000 the individual is going save $10,000 + 10% of the $1000, which is $100. The individual now has an extra $900 to spend on consumption total spending is $90,900. Now that’s not too impressive but it’s important to remember “savings is a stock.” (Hazlitt 177) If you save $10,000 in 1999 and you add $10,000 in 2000 you get $20,000 you save another $10,000 in 2001 you have $30,000 together with interest the individuals total savings by the end of 2001 is $30,301. Looking out at 2009 assuming the individual’s income continues to be $100,000 each year and the individual saves 10% of it at 10% the total savings in 2009 will be $126,825. Now this individual’s wealth 10 years latter is $126,825 this is the equivalent of economic growth for the economy. The individual’s income is $100,000 plus 10% of that $126,825 so the income including the interest on saving is $111,567. Case in point the individual is now consuming 90% of income instead of 100%; the consumption in 10 years will be higher than it could have been, and would have been if he hadn’t saved at all. Why because the individual’s income is now over $100,000 by $410 dollars, and of course as time goes by this effect just continues to multiply. So you have this same effect of saving for the individual that you have for economic growth for a country. You have increasing wealth, and you have the ability to increase consumption over time. So what! That’s just an exact parallel that doesn’t prove a connection. What’s the actual connection? How does saving cause economic growth for an economy? There are two parts to this answer. According to Hazlitt every dollar saved is a dollar less demand for consumer goods every dollar that is saved is a dollar that wasn’t spend on consumer goods. (179) That means that the productive capacity that would have been necessary to produce those consumer goods is instead available for producing additional capacity. Savings reduces the demand for consumer goods and releases capacity to add to capacity. The way that is brought about in reality is through financial intermediaries. This is because the money saved is not tucked in a mattress not if you’re sane. Money saved is put into a bank, a savings and loan, into an insurance policy, mutual funds and, or pension funds these institutions loan it out to business to invest in their business to add productive capacity. This I believe is the essential theory of the origins of economic growth.

Reducing Economic Growth

Now I want to take this and use it to understand why the economic growth in the United States today has been cut to half of what it was 100 years ago. The second part of my paper will now focus on how to reduce the rate of economic growth. Why do I want to reduce the rate of economic growth? I don’t want to reduce the rate of economic growth I hope that is understood. I ask that question in order to clarify my position and state that the research for the duration of the paper is for the purpose of exposition. By coming at it this way one can easily understand what has caused the rate of economic growth to decline and it is very simple to just say just do the opposite if you want economic growth to increase.

According to Buechner the most fundamental direct way to reduce the economic rate of growth is to divert productive capacity from adding capacity to producing consumer goods. (Recording) Diverting productive capacity, anything you can do that can redirect productive capacity away from adding capacity to instead producing consumer goods. How can you do that? Hazlitt states the practical way of doing that, which is being used today, is to generate a net increase in demand for consumer goods. (190) In order to achieve this and make it work you need to some how create an additional demand for consumer goods that doesn’t take away from any other consumer goods. A net increase in the demand for consumer goods means additional revenues, funds, and sales flowing into those consumer goods firms; then these firms could turn around and use those monetary flows to buy machines, add factories, and add capacity. These are firms are now in position to compete away the labor, equipment, and other resources away from the firms that are adding capacity. Well how can you generate a net increase in the demand for consumer goods out of what? Hazlitt states this is what happens when government increases spending out of new money. (164) This is when the government spends newly created additions to the money supply. According to Buechner this point depends on recognizing that the government is essentially a consumer. (Recording) Now this is a very controversial point in economics today economists almost like a plague will deny this. For the purposes of the is paper I’m going to insist on it and I’m not going to try and persuade anybody because I think it’s really pretty obvious unless your totally committed to a statist point of view. The government is a consumer there is very little that the government does that can be interpreted as adding to the economies productive capacity. Sometimes the government does build a bridge or a highway, and that is an addition to productive capacity kind of, but your stuck with this problem when the government does it-it costs five times as much, and takes ten times as long as it would have done if done by a private profit making business. So how do you interpret that? Is that really an addition to capacity? I mean I find that very puzzling. In any case it’s marginal. According to Buechner ninety five percent of what the government does is consumption. (Recording) Well that’s one way to redirect productive capacity away from producing capacity to producing consumer goods. Here is another method, phantom goods. Anything that can be done to require and, or generate the production demand for phantom goods. According to Buechner the definition of a phantom good: is a good that makes no objective contribution to human life but is required by law. (Recording) For example: Suppose the census every 10 years required you fill out forms of an approximate book length. Suppose that in the process you were required to make complex calculations required in differential calculus. Suppose you had to assemble and reassemble multi-different kinds of facts. Suppose that it was so complicated that you couldn’t do it; you could imagine that a whole profession would spring up that is was dedicated to nothing but helping you fill out the census. Now imagine you had to do that every year and that’s of course the income tax. That is exactly what the income tax does there are millions of people who make there living helping people with there taxes. They help them file their taxes in the spring of every year, and help them manage their affairs throughout the year. Pollution controls also fall under the heading of phantom goods. Phantom labor has basically the same definition as a phantom good. According to Buechner phantom labor is defined as labor that makes no objective contribution to human life, but is required to comply with laws or get around laws. (Recording) The time, energy, and money that is spent in this economy by people complying with the endless stream of regulations, and controls in an effort to comply, get around, or defeat them it’s inestimable. I’m trying to understand why the growth rate today is half of what it was a hundred years ago; that’s not an insignificant fact. All of this is under the general heading of diverting productive capacity from adding capacity to producing consumer goods.

Now there are two other ways that are less direct, which accomplish that same result. According to Hazlitt one is to reduce total savings because we have seen the role savings has. Anything that can done to discourage saving, reduce saving, or make it impossible for people to save by force will cause them to save less, and this is going to reduce the rate of growth. (183) First reduce the amount that can be saved. How can you reduce the amount that people are able to save? Well just take away some of their money. “Seize some of their income” they’ll save less. (Rand 978) Personal income taxes are ideal for this purpose. First I will address the proportional tax. The proportional income tax is what is known as the flat tax. Proportional tax takes the same percentage of everybody’s income it means that you have a single tax rate. Say 10% so if your income is $10,000 you pay a $1,000. If your income is $100,000 you pay $10,000. Now this is the least unjust income tax. It means that the tax burden increases in proportion to your income. Your income is 10 times as large your tax is 10 times as high $1000 for $10,000 $10,000 for $100,000. On the diagram there are two mutually exclusive scenarios.

Table 8

A and B will demonstrate what happens with the effect of governments taxes. A will demonstrate what happens if households earn and keep a 100 billion; then, B what happens if the government collects a 100 billion with a proportional income tax, and spends it. There is no significance to the shapes, and, or designs of these charts. So over on the left hand side is the government, on the right is financial markets, on the bottom is consumer goods and services, and in the middle is households; that rectangle inside of households represents $100 billion in household income. The two alternatives I want to consider is that (A) households get to keep it, and spend it, or (B) the government takes it and spend it. Now the average saving rate in the United States today is about 5% according to Buechner so across the entire population people save about 5% of their personal income. (Recording) So that means for every $100 dollars income on average people save $5, and that means since I’m taking the same percentage of everybody’s income; that percentage should be reflected in this $100 billion. So I’m going to leave this in the peoples hands-$5 billion will be saved, and $95 billion would be spent on consumption. And that is the way I have indicated here. The $5 billion is saved all the arrows represent flows of money. The $5 billion in saving is going into the financial markets, and $95 billion in household income is spent on consumer goods and services. If instead the government collects the $100 billion via a proportional income tax the whole thing flows to the government $100 billion in taxes, and government spends that $100 billion on consumer goods and services. So the effect here is of this collection of $100 billion by the government is to reduce saving by $5 billion dollars. Reducing saving by $5 billion is a net increase in consumption spending in the economy. Although this is not good I think an argument can be made that the effect on economic growth will be relatively small assuming the tax rate is kept within reasonable limits. Now what people think is reasonable changes over time, but obviously if the government uses a proportional tax to take 90% of peoples income that’s going to be a disaster. If it stays around 20 or 30% which is what people are finding acceptable today. I think best the way to describe this is as follows. According to Buechner what we end up with is a substitution of consumer spending by government for consumer spending by households. (Recording) Essentially that is what this tax does. Instead of the people buying the consumer goods they want there money is used to buy consumer goods the government wants, and the net affect on the allocation of capacity between adding capacity and consumer goods I think would be relatively minor.

Now looking at a progressive tax it’s worse.

Table 9

Now everything here is the same except the saving. I’m now assuming the $100 billion is left in household’s hands this saving is $10 billion. Now why is it higher? This is because a progressive tax takes a larger percentage of higher incomes. A progressive tax going back to the example I was using before maybe the rate is 10% for a $10,000 so you pay a $1000 if your income $10,000, but if you’re making a $100,000 your rate maybe is 40% so you pay $40,000 in taxes. Your income is 10 times higher, but your tax burden is 40 times higher. Now this system is an outrage on its face, and according to Rand it has never been justified in anything short of total egalitarian level down and destroy the rich. (622) The effect is also bad for economic growth because a progressive tax takes more money from people with higher incomes. People with higher incomes save more, and that means that the amount of money that is diverted from savings to consumption through the government is going to be greater with a progressive tax. That’s what this represents. Whatever the numbers the progressive tax is worse for saving than a proportional tax. I should make it clear I made this number up, I don’t know what the right number would be here, I don’t think anybody knows, I don’t know how it would be possible to find out. “It would be impossible for even the cleverest statistician to know”(Hazlitt 78) All I can say is that clearly a progressive tax is worse for economic growth than a proportional tax.

The corporate profits tax.

Table 10

The corporate tax structure in the United States is more complicated than the individual tax structure. It goes up to from 15% to 39% as a top bracket; then, after that it goes down again to 35% on any profits over approximately 18 million dollars. Now corporate profits are divided into two parts. One part is retained earnings and the other part is dividends. So those are the two things a corporation can do with its profits. The corporation can either retain the profit, or reinvest in the business or it can pay all or a portion of the profit out as dividend to its stockholders. If the corporation pays does decide to pay out profits as a dividend to its stockholders those stockholders are typically among the more wealthy individuals of the population; they’ll save some portion of the dividends they receive. I’m assuming the division is fifty-fifty so on a $100 billion in corporate profits $50 billion is retained earnings, and $50 billion goes to dividends. Of the $50 billion in dividends $10 billion is saved $40 billion is spend on consumption. So the total savings here is the $50 billion in retained earnings that the corporation reinvests in its business plus the $10 billion in savings that the stockholders would save. So $10 billion plus $50 billion equals $60 billion that will go into the financial markets as long as it is not collected in taxes. The remaining $40 billion in consumption spending by the stockholders would go into the consumer goods market. Now if the government collects it in taxes by means of a corporate tax of course it take the whole thing and spends all it on consumers goods and services. I think this a significantly more destructive tax even than the progressive income tax for economic growth because these retained earnings are the most powerful source of potential increases in capacity. These are funds that the business keeps, and can put directly back into the business. Actually this use to be worse than it is today back in 1960 23% of the federal governments revenues came from the corporate profits tax; today it’s down around 9%. According to the United States Department of Treasury in 1960 the corporate rate was 48% and for all practical purposes that’s like 50% percent of all corporate taxes went to the government; today it averages something like 35% percent. (Online) That’s a very bad tax for economic growth it’s bad for a long list for other reasons not the least of which, no body knows who pays this tax, nobody knows where the burden of this tax falls. Now all this was under the heading of reducing the amount that people are able to save.

It also very helpful if you can reduce the amount they want to save that is if you want to reduce economic growth. How can you reduce the amount they want to save? Well why do people save? Or why did they save? In the 19th century the primary motive for saving by people up until the 1930’s the reason people saved fundamentally was for there retirement for there old age, so they would not be destitute in there old age, so they wouldn’t be a burden on there children they saved. They don’t do that today, or they certainly don’t do it the way they did 100 years ago. Why not? Well today the government is saving for you. That system is called social security according to Franklin D. Roosevelt the government will provide for your old age you don’t need to worry about it anymore. (Online) Now if in fact the government were saving it wouldn’t be so bad, but the governing is not saving; the social security system is a simple “transfer system from the young to the old” there is no saving going on. (Hazlitt 53) This totally undermines the fundamental personal motive that people have to save in the absence of a welfare state. What is the second motive for saving? The secondary most important personal motive people would have to save used to be called saving for a rainy day. Saving for hard times, saving in case of loss of employment, saving for in case somebody gets sick, saving for a rainy day; I don’t know whether young people are even familiar with that expression anymore. Well what happens on a rainy day? Well there is a safety net a whole welfare system of constructing a safety net. On a rainy day you just fall into the net you don’t need to provide for yourself anymore the government will pick it up. Again the personal motive is destroyed or at least is seriously undermined by the whole welfare system, and in the case of the safety net there is not even the pretence of safety. Reduce the amount people want to save – inflation is great for this. Inflation reduces the real return on savings. The reward you get for savings is the interest that you are paid if you invest a $1000 dollars at 5% interest at the end of the year you will have $1050; that $50 dollars is your reward for saving, for making those funds available for productive purposes. What if the inflation rate is also 5%? If the inflation rate is 5%; then, at the end of that year you will need $1050 to buy what you could have of bought at the beginning of the year with a $1000. So the 5% interest return in real terms is 0% you need a $1050 to purchase the same amount you could buy with a $1000 at the beginning of the year. If the interest rate and the savings rate are the same percentage you are making no interest. Without real interest your money is just retaining its value. What happens if the inflation rate goes above the interest rate? You’ll end up having negative interest, therefore the value of your savings are shrinking over time-you can buy less. Suppose inflation rate is 7% is, and the interest return on your savings is 5%. That means at the end of the year you need $1070 to buy the same things you could have bought with a $1000 at the beginning of the year, but the with the interest return you have $1050 your $20 dollars short you can buy less with the additional money. This is depressing. From roughly 1978 to 1981 when the inflation rate was the highest in this country there was three years of almost continuous negative interest where everybody’s saving became less and less valuable over time. According to Buechner this lead to a near permanent decline in the savings rate in the United States before that period the saving rate in the United States was around 7 or 8% which, is half of what it was in Japan, but at the end of the period around 1982 the saving rate was around 3%. (Recording) It takes people a while to learn but eventually they get the idea you know this is not a good deal. Now it’s crept up since then very slowly according to Angel were up around 5%, which is still a pathetic savings rate. (Online)

Even better you combine inflation with a tax on your interest income. You know a tax which, doesn’t recognize that most of that interest income is necessary to just to stay even, and to make up for the inflation rate. That’s what the government does for the people. I used to live in New York City, and I can personally testify the total tax rate if you add up the federal rate of almost 40%, and the income tax rate of the city, and the state tax it’s over 50%. In New York City the income tax rate over 50%! Suppose that your making an interest return of 5% on your savings. The government takes more than half of that. Lets say they take only half that reduces your interest return to 2.5% the according to Angel consumer prices for the last half year have been running around 3% (Online) so you got a 2.5% percent rate of return after you pay taxes. The prices you’re paying are increasing at a 3% rate. What is your real interest return? Minus .5% it’s a negative real return. Now I think this is worth doing everybody should do this. When you take account of the inflation rate, and taxes you pay the odds are pretty good that you will find yourself very close if not in the negative range. You may be asking yourself why should I save. The point of this is not that you shouldn’t save; there are reasons to save even if the value of your saving is slowly shrinking over time. You can still increase you wealth by savings, but talk about discouraging you get nothing out of the interest.

The third way of reducing the rate of economic growth is “divert savings from financing production to financing consumption”. (Buechner Recording) Anything that can be done which, can divert savings away from financing, investment, production, additions to productive capacity-anything at all along those lines of taking savings, and instead giving them to people to finance consumption purchases will reduce the rate of economic growth. In an effort to further clarify a subheading anything that you can to do that will increase borrowing for consumption, and anything that you could do to encourage people to borrow for consumption purposes. Now suppose you really wanted to do that one really good way might be to give people a tax break on the funds that they borrow for consumption we could let them say deduct the interest they pay on there consumer debt. Now up until fairly recently in fact you could do that with credit card interest run up a huge credit card bill the interest was horrifying on credit cards but all the interest payments you paid on your credit card installment debt were deductible from your taxable income. So you got a little plus going along with that debt. Now that has been eliminated and that is one small step in the right direction but there is still a huge factor that is still working in a huge way. That is called mortgage interest. You can deduct all the interest you pay on your mortgage from your taxable income. A house is a consumer good it’s not a part of the economies productive capacity, and by this tax deduction for the interest you pay on your mortgage debt the government encourages people to incur that debt, and increases the demand for the particular type of consumption item. All of the labor, and the materials that go to build houses lumber, bricks, motor, concrete, pipes, all of it, that labor could all be used to add productive capacity in the economy instead it is being used to build houses. Now is that necessarily terrible? No it’s not necessarily terrible. But it does reduce the rate of economic growth. Another move in this direction the opposite not a plus is you reduce the penalties for bankruptcy. In the last five years the laws past significantly reduce the penalties for bankruptcy. So you declare yourself bankrupt you can keep your house, car, furniture, pool, and, the other house in Florida. What do you lose? I have family member that has just went through bankruptcy as far as I can tell nothing has changed in her life.

But in terms of diverting saving this is the champion government deficit financing. The deficit is: the deficit is the “difference between what the government spends, and what the government collects in tax revenues”. (Buechner Recording) If the government spends $900 billion, and it collects $800 billion in taxes the deficit is $100 billion the government is spending $900 billion, and only has tax revenues of $800 billion. It’s important to grasp this the government is actually spending $900 billion. The government only got $800 in tax revenues where is it getting that extra $100 billion since is really spending $900 billion. There really only two alternative places the government can get that extra $100 billion. One-way is to print the money. Print the money and spend it. Now if the government does that- that takes goes back to the first thing I discussed under the heading of how to reduce economic growth, and you have the government spending new money on consumer goods. I showed how that reduced economic growth. The other alternative is for the government to sell debt in the financial markets. For government to print up government securities, promises to pay-promising a certain interest return the principal due at a certain date, and sell these to people. These are very eagerly sought in the financial markets. This is a little different from the other three diagrams I have shown.

Table 11

As you can see I have added in producer goods and services. I have included again these two mutually exclusive alternatives A is the financial intermediaries loan out $100 billion in savings accumulated from all the savers. There are two possible ways these loans can go. They can be loaned for productive purposes to business, or they can be loaned to consumers I have divided this up ? goings to production increases in capacity ? going to consumers to finance consumption purposes. I have no idea what proper division is according to Buechner I am pretty sure that as a rule more of it goes for production. (Recording) The alternative however is that all it-the whole $100 billion goes to the government, and all of it is spend on consumer goods and services. This is a giant net sucking of wealth out of financial markets funds, which could and would be used to finance additions to productive capacity in the economy, but instead it goes to finance government purchases of consumer items. Now the statistics are very confused on this general subject of what’s been happening but the in general there seems to be a consensus that the real wage rate in the United States hasn’t risen since about 1974 the real wage rate. That doesn’t mean that households standard of living hasn’t risen because since that time we have had a massive movement into the labor force by the female population. The prosperity of the 1980’s which is attributed to Reagan statistically does not seem to be meaningful, and I think that has to be understood at least in part because according to Buechner Reagan multiplied the federal deficit by a factor of three or four, and we went from a $1 trillion dollar national debt- the national debt is a summation of all the deficits in the past added onto each other to where we are now approaching $6 trillion dollars. (Recording) This is pretty horrifying, but nonetheless the other side of this is anything you can do to discourage borrowing for production. The government’s regulations and controls in the economy are “extremely discouraging for people to borrow for productive purposes” or for people to produce anything. (Hazlitt 687) The whole environmental movement has not just increased regulations it has erected absolute prohibitions all over the place in the economy. Among other things for example it’s illegal to drill for oil wells in what the oil companies have identified, as the best locations where they might find oil you just can’t do it. In addition the “government has done many things to increase the risk of loss which also discourages borrowing for production” inflation makes the whole economy more uncertain, thus; increasing risk, together with the possibility of new regulations, and controls descending on you at anytime to destroy the product of your effort is also very discouraging. (Buechner Recording)

Conclusion

None of these methods none of the things I have discussed not one existed in the 19th century. There was no government spending out of new money in 19th century. Money was gold, and it was limited by the gold supply. There were no phantom goods in the 19th century. There was no phantom labor in the 19th century. There was no income tax in the 19th century. There was no corporate profits tax, or at least at the federal level. There was no social security. There was no inflation in fact Buechner points to a period which I would like to emphasize when the United States had 30 years out of this 40 plus year period when we were growing over 5% a year when the economy was actually deflating – that’s when the average price level was falling 1 or 2% a year. (Recording) There were no taxes on interest income, there were no tax breaks on consumption debt because there was no income tax, there was no safety net you had to build your own net. Bankruptcy was a disaster to go bankrupt was a true horror at that time. There was no federal deficit, there were no federal government regulations and controls, and very little on the state level. So if you want to increase economic growth I believe we need to move in that direction. I believe as a matter of political realism there is very little that is possible politically today. There is some significant concern about the deficit, and if the deficit could really be eliminated I think that would positive move. For today I believe it is much more important to fight for the philosophic preconditions which I have mentioned in the beginning on the paper which we are also losing, and if we lose those philosophical preconditions nothing originating in economics will make any difference at all. As Henry Hazlitt so aptly puts it “only minds corrupted by generations of misleading propaganda can regard this conclusion paradoxical.” (80)

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