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PART II

HOW MUCH TIME IS LEFT BEFORE THE NEXT ECONOMIC CRISIS ?
THE ROAD TO SUCCESS

A Strong US Economy Would Be Just The Ticket For The World

For some time, now, it has been a well-accepted fact that domestic consumption represents about 66 percent of the **G**ross **D**omestic **P**roduct (**GDP**) of the United States of America.

GDP is defined as being a country's income minus foreign investments:
The total value of all goods and services, produced within a country in a year,
minus net income from investments in other countries.

Consumption in the US has, by far, been outstripping production.

And that has been the situation for some years.

The resultant effect of this de facto, constructive economic policy, which has materialised more by accident than by design, is, inter alia, that the largest single economy of the world, today, is, also, the country with the largest external debt.

This huge debt load has placed the living standards of the entire human population of The Land of The Free and The Home of The Brave at grave risk.

The current situation is, without question, untenable.

It is quite obvious that the US has, unknowingly, planted the seeds for its next economic downturn.

In order to avert another social and economic cataclysm, the US must produce more than it can consume, leaving the door ajar to exports.

By achieving this, dependence of foreign capital – from the People's Republic of China (PRC) and Japan, especially – will wane and the living standards of the average US worker will rise.

Along with increasing exports, a policy of thrift must be encouraged among the populace.

The US is, today, a country with among the lowest levels of individual savings in the world.

<u>Dependence On Foreign Capital</u>

Low household savings rates and ever-increasing, US Government and private debt have made the largest, single economy of the world dependant on foreign capital.

As at December 31, 2008, the net debt of the US stood at about $US3.50 trillion.

That amount of money represented about 24 percent of GDP.

Increasing US exports appears to be the most-convenient and constructive way to ameliorate this present situation which, if allowed to continue, is likely to result in further economic problems, in due course.

The alternative to increasing US exports would be unacceptable because it would require deplorable sacrifices from the working man and his family; and, that could well lead to widespread dissatisfaction among the population of some 307 million people.

Such a situation could result in civil unrest, nationwide.

Since the middle of the 1970s, the level of consumption in the US, compared to the level of production in the US, has increased from about one percent of GDP to about 5 percent of GDP.

Between 2003 and 2008, the growth of consumption in the US grew about 3 times greater than the growth of production as a percentage of GDP – annually.

The US Current Account has been in deficit over the past 6 years, at about 5 percent of GDP – annually.

This deficit represents, inter alia, the increase in the amount of debt that the US must incur from the rest of the world.

It continues to this day.

The possible ways forward in order to improve the present economic situation so that the US becomes less dependent on foreign capital appear to be:

1. Encourage savings by households;

2. Encourage individuals to reduce their indebtedness;

3. Speed up the printing presses in order to churn out more dollar bills; and/or,

4. Reduce imports of goods and services while increasing exports of goods and services.

Option Number One seems a non-starter because it would require, among other things, the elimination of the US Government’s Budget Deficit.

At this time, the US Government has obligations on its outstanding debt, classified as mandatory spending, and these obligations are scheduled for repayment over the next decade, at least.

In addition, the US Government is committed to spending material sums of money on security concerns.

Option Number Two is, also, a non-starter because this would result in a devastating effect on the entire US economy.

Household debt in the US, today, is thought to be at least $US13.70 trillion.

That is just a smidgen less than the entire GDP.

Option Number Three is, also, a non-starter.

One is reminded of the situation in Germany in the 1920s, during the period of Adolf Hitler's rise to power when the entire German economy had failed and the Deutschemark became almost worthless.

Option Number Four: The Viable Option at this time.

In 2008, the US imported about $US2.50 trillion-worth of goods and services.

Those imports represented about 20 percent of total US consumption for that year.

If the US had not imported that amount of goods and services in 2008, inflationary pressures would have been just one of the many problems, facing the economy.

In addition, if the US had put on the brakes to importing that $US2.50 trillion-worth of goods and services in 2008, it would have caused a knock-on effect that would have been felt right round the world.

The economy of the PRC would, most likely, have been among the hardest hit, followed by the economy of Japan, both countries, in 2008, being, to a very large extent, dependent on exports to the US.

If the PRC had dared to retaliate by a government-imposed proscription of its goods or services, being exported to the US, during 2008, it would have meant that the US consumer would have had to pay higher prices for similar PRC-produced goods and those goods would, by necessity, have had to be produced elsewhere.

High inflation would have ensued, without question.

The standard of living in the US would have declined, very quickly.

Such a scenario is unthinkable, of course, and it would, most likely, have resulted in a great deal of unpleasantness, both on Capitol Hill and in The Great Hall of The People.

Thus, today, it is very obvious that the US must expand its export markets as a matter of absolute necessity.

In order to accomplish this, the US economy must produce more than it consumes.

And, in order to accomplish this task, there would need to be more public and private investment.

The US Government would have to come to that party, too, loosening its purse strings and utilising any and all other stimulus packages at its disposal.

US companies would require more financial support in order to purchase plant and equipment so that production could be increased.

As more production finds its way onto the world markets, more US workers could be given jobs.

This would lead to higher wages; and, higher incomes would result in US workers, having more disposable incomes, thus increasing domestic consumption – including, but not limited to, the purchases of imports.

With production, outstripping consumption, so the ratio of consumption to production would wane.

Such a situation would address, directly, the burden of the ever-expanding, US trade deficit.

It would also lighten the burden of some 31 million, unemployed people, pounding the streets of major cities of the US, looking for work.

While it is considered that the near 10-percent, unemployment rate in the US, today, was a natural result of the recession, actually, this is a lie.

Jobs in the US stagnated, in real terms, between 2001 and 2006.

It was not just the statistic of the decreased number of workers, filing for unemployment benefits, because, actually, it was the fact that the creation of new jobs in the US slowed almost to a standstill.

Once again, the logical fallacy prevailed and Wall Street gurus were quick to latch onto it: Statistics prove.

The cost of producing many goods and services in the US, today, cannot compete with the likes of the cost of production in the PRC and in most other parts of Asia.

That being the case, then, the US must take a page out of the books of certain European countries, such as Denmark.

Faced with a similar situation as the US is faced today, Denmark, more than 3 decades ago, embarked on a policy of producing up-market products, which came to be known as Danish Design.

But exporting US goods and services is imperative, it would appear.

Statistically, only about 4 percent of all US companies, today, export their goods and services.

Of all of the existing corporations in the US, today, about 500 of them account for about 60 percent of total exports.

Less than one half of one percent of all existing corporations in the US operate in more than one other country.

The importance of exports should be obvious to all business people, but American businesses appear to fail to realise that there are huge benefits in exporting goods and services, those benefits include, inter alia:

1. Enabling enterprises to sell their products other than just to the domestic marketplace;

2. Enterprises, engaged in the export trade, employ, on average, as many as twice the number of employees than those enterprises that only concentrate on the domestic market; and,

3. Enterprises, engaged in the export trade, tend to have much higher productivity, are more competitive, internationally, and, eventually, become much more prosperous than those enterprises that are not engaged in the export trade.

Yet, in spite of all of the many advantages in engaging in the export trade, enterprises in the US, engaged in this activity, contribute less than 10 percent of the GDP.

This contrasts, markedly, with the other great trading nations of the world:

1. Europe	40 percent of GDP
2. The PRC	40 percent of GDP
3. Canada	36 percent of GDP
4. India	22 percent of GDP
5. Japan	16 percent of GDP

With all of the above statistics, it is apparent that US businesses are very slow in learning of the benefits of exporting their goods and services.

If the US were to export high-value goods and services, such exports, requiring a high level of skill, then such exports could well be sustainable over the long term.

Acceptance of such, up-market products and services would result in improvements in the US economy: Living standards would rise as a direct consequence.

Up-market goods and services would, more than likely, include aerospace technology, airframes, jet engines, computer programmes, alternative energy plants, and so on.

What the US must not export are those goods and services that can be produced by the utilisation of non-skilled or semi-skilled workers.

To attempt to produce and export such goods would be a worthless enterprise as well as being a wasteful use of human capital.

The clear indication as to whether or not a proposed export could be successful on the international marketplace is to test such an export on the teeterboard of international competition: If it can fly, it works; if not, the export is of scrap value.

For the past century or so, the US has been a country whose wealth has been measured by how much it can consume.

In short, the US has encouraged a culture of consumerism.

An example of this culture of consumerism was that Detroit, year after year, produced motor vehicles that were aimed at being appealing to the US consumer: Big; gaudy; expensive to operate; and, most of all, the vehicles were designed to have a limited lifespan.

No consideration was given to Detroit, exporting its products in large numbers, because it thought that it had a stranglehold on the US consumer; a captive audience, if you will.

Forgotten, to a great extent, was how much could the country produce.

The culture of consumerism led to a build-up of individual debt: Among other things, buying goods and services on the never-never plan.

Sooner or later, the never-never plan fails: Ask American Express Company.

To counter this culture of consumerism, emphasis must be placed on the production of goods and services for export.

The US Government would be well advised to work, hand in glove, with private enterprise in order to accomplish the very important task of transforming the US economy.

Bottom Line: The US economy needs a complete make-over, from being a culture of consumerism to being a nation, intent on achieving higher productivity with its entrepreneurs and industrialists, willing and able to compete, internationally, in producing goods and services of a high value, leaving the low-value goods to continue to be manufactured by others regions of the world where manufacturing costs are less than those of the US and where it would be more practical so to do.

A new export strategy is required and the US Government could be instrumental in bringing that to fruition in the shortest possible timeframe.

A strong US economy would have positive repercussions to every corner of the world.

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