

Cutting Spending . . .

What will happen to our Economy when we do this ?

Background

There is very little question that our government's over-spending is a serious problem for our country ! Most all informed Americans know that cutting spending is an urgent matter. Most Americans, that is, other than the Democrats who seem to be oblivious to the seriousness of our nation's financial situation.

The seriousness of this issue tends to makes all concerned people pretty much focused on this subject. When this happens there is a possibility that we may have "one-solution" tunnel-vision. This is actually the case since most all of our economic thinking and discussions are focused on "cutting" spending.

Is it possible that there may be additional questions that need to be asked ? Questions like what will happen to our economy when we actually do make large cuts in spending ? Will our economy begin a healthy growth cycle, will it continue in its "going nowhere" condition continually needing more QE's, or will it become further depressed, and in greater need of more and larger QE's ?

The "Logic" of Cutting Spending

According to popular reasoning today, when we make large reductions in our deficit spending, our budget deficit should be reduced by that amount. Also such spending reductions would mean that we would be able to reduce the growth in our annual borrowing by that amount. This would mean that the growth rate of our Federal debt would be reduced. This should then let the world know that we have finally figured out a way to get on a "financial track" towards a balanced budget, and renew the world's faith in the U.S. Dollar. Also this should turn our economy around towards a real pro-growth economy.

Taking a Deeper Look

The above seems to be our Conservative leader's thinking . . . but . . . is this true ? The New Hope for America Foundation contends that the above reasoning is faulty, and would instead yield the opposite results, i.e. a further depressing of our economy. Also, we contend that the further depressing of our economy would put more people out of work, reduce income tax revenues, and increase demands for unemployment benefits. The likely results of this is that we would have little if any reduction in the Fed. deficit, and have no recovery for our economy in spite of all of the positive "cut the spending" talk.

Because of the job-multiplier effect on money that enters the economy, each \$1.00 entering a local economy circulates and becomes another \$3.00 in that local service and retail wage sectors. Thus the new \$1.00 actually becomes a total of \$4.00 spendable and taxable money. Take away the \$1.00 and we've lost \$4.00 of spendable and taxable money in the economy.

Because of this multiplier effect, the economic impact of "spending cuts" is magnified about four times. Thus the tax loss and the increase in unemployment costs are magnified and could easily cause there to be no reduction in the budget deficit even though Congress may have cut \$100 Billion or more from spending. In other words if Congress cuts \$100 Billion from spending, the loss in tax revenue and increase in unemployment costs could negate this spending reduction.

You can look at it this way: assume that you have a shortfall in your home budget of \$500 per month. You figure out a way to cut \$500 from your spending but then your boss calls you in and says that he has to cut your pay by \$500 per month. You may be spending less but your budget shortfall is still \$500 per month.

Another way to look at our economy is to look at it as a game of Monopoly. You're really enjoying the game but someone, off to the side, is taking money off the board every 5 minutes. This is like our trade deficit money being "drained" off to China every month.

It won't be too long before the game is over. Then someone else comes along (the Federal Reserve) and says; you guys really seem to be enjoying your game, why don't I just loan you the amount that that other guy is taking every 5 minutes. Of course I'll have to charge you principal and interest in real money on this "play money" loan I give you.

So we go on playing the game, every 5 minutes owing this guy more and more money. In the end we'll wish that we had never played the game. This is exactly what we're doing in our economy by allowing hundreds of billions of "trade-deficit" dollars to be drained out of our consumer-sector economy every year.

This lost money needs to be replaced by borrowing more OE's from the Federal Reserve every month. As long as we have trade deficits in the hundreds of billions of dollars each year we will continue needing larger and larger QE's every month to pay the ever-growing interest cost on the ever-growing national debt, and to replace the "trade-deficit" dollars lost each year.

Remember, as long as we keep borrowing more money every month, the cost for the interest keeps going up each month. This means we need to be borrowing more each month, which means interest costs go up every month. On and on we go towards that disastrous day of hyper-inflation. It is a Debt/Death spiral that our economy is in. We desperately need some creative new ideas to get us out of this economic death spiral.

Summary

In summary, looking back to the preceding part of this paper, we can see that all of our hopeful thinking about Spending Cuts, if implemented, would actually take our economy in the opposite or downward direction. If these negative results appear to be a real possibility, would it not be wise to look further into this new reasoning regarding "spending cuts". We need to do a more thorough evaluation of the impact of spending cuts before we "jump off the cliff" of massive spending cuts.

When you think about it, what is there about "spending cuts" that would reduce the cost of producing products in the U.S. enough that U.S. products would become competitive with products from China? Without the U.S. costs going down sufficiently, there would be no increase in "orders", since retailers would still be sending their "orders" to China. No increase in "orders" = no increase in "jobs" !!!

The New Hope for America Foundation believes that what needs to be done is to first bring the "orders" and "jobs" back to manufacturers in America. This would bring back the real "economic-fuel" of manufacturing payroll. When a sizable amount of manufacturing payroll has been brought back, we could then cut the deficit spending by that amount and we would have a true pro-growth solution for our hurting economy. **Phase "in"** manufacturing payroll . . . then . . . **phase "out"** that amount of deficit spending. In other words, *"go get one of those new jobs before we cut back on entitlement benefits"*.

Check out our website, "newhopeforamerica.org", to see three videos that explain our foundation's proposal for bringing the "orders" and "jobs" back home to manufacturers in America.