

What if we “Do” . . . What if we “Don’t”, Cut Spending ?

We all know that our economy is in trouble, we just can't decide what is the best course of action to take to bring about a recovery. Lets take a look at the two main choices we have related to spending cuts.

What if we Don't Make the Spending Cuts ?

If we “don't” make the needed spending cuts we do know that the following serious problems will occur:

We will have to have continuing QE's to make up the difference between money “in” and money “out”.

These on-going QE's will drive up our national debt to astronomical, and unsustainable levels.

The resulting lack of international trust in the U.S. Dollar will force up the interest rate needed to obtain future QE's, and would soon cause the U.S. Dollar to lose it's “World Reserve Currency” (WRC) status.

Loss of the WRC status would cause all imports, including oil, to rise rapidly in price, causing a serious collapse of our economy, and the U.S. Dollar.

As interest rates double or triple from today's “near zero” rates, the net interest cost would rise from today's 7% of total spending to near 21% of total spending. This would raise the total for mandatory spending and net interest cost to near 80% of total spending. This is just for today's \$16 Trillion debt. Can you imagine what the net interest cost will eventually be after we add trillions of more annual deficits to our national debt.

Obviously the above scenario is something that we must avoid. If we think things are bad today, just wait for the collapse of our economy and the U.S. Dollar. We haven't seen anything yet !

As we know, most politicians do not want to face their constituents after making such large spending cuts, so they just go on “kicking the can down the road”.

What if we Do Make the Spending Cuts ?

Lets take a look at what will likely happen when we “do” make the big spending cuts that are so badly needed.

We think that it is common sense that when we reduce spending by \$100 Billion, that the budget deficit and need for QE's will go down by that amount. Keep cutting and eventually we will have a balanced budget, needing no more QE's

This thinking is just “surface” thinking, and is missing some very important financial facts that will essentially reverse the results from what the GOP is anticipating.

Some important Financial Facts

Manufacturers ship most of their product “out” of town and their customers send money “in” to pay for the products they received. A significant part of this incoming money becomes manufacturing payroll which thus becomes the basic “economic-fuel” for our economy.

Our “Government-Funded” Economy

Today, since we have lost around 10 million manufacturing jobs since President Reagan’s days in office, government deficit spending has replaced the lost manufacturing payroll, and become the new “counterfeit” economic-fuel for our economy. Cutting spending, (other than cutting money going to big banks, foreign aid, and big business bailouts, and start-ups), will further depress our economy.

With millions of more people out of work, drawing unemployment benefits, and not paying taxes, the budget deficit will most likely not go down and could even actually increase.

With the budget deficit likely remaining the same, we will still need to continue with QE’s.

Each year we would have to take out bigger QE’s to pay for the larger debt the previous year’s QE’s gave us. Of course the net interest costs on our debt, and need for QE’s would go up astronomically when the U.S. Dollar loses it’s “world reserve currency” status.

Ever larger QE’s and national debt will soon cause our economy and the U.S. Dollar to collapse.

The electorate will discover that the GOP, while it talked a good “talk” during the campaign, really didn’t know what was needed to revive our economy. The GOP was also unaware of the damage that would occur if they made their spending cuts *before* they brought the real “economic-fuel” of manufacturing payroll back to our economy.

Summary

Looking back over the “what if we do” and “what if we don’t” scenarios above should make us realize that we are facing a real “lose/lose” situation. Either way, i.e. cut spending or don’t cut spending, we face the same disastrous economic situation that we are trying to avoid.

With over-spending being such a serious problem, it seems that we are trapped with no where to turn. Could there be another approach to solving this problem, perhaps coming at it from another direction, that would give us the revival of our economy that we are seeking ? An approach where we are dealing with the core problem, not with the over-spending problem which could be a secondary problem.

The New Hope for America Foundation does have another approach for solving our over-spending problem which is based on the basic principles of a domestically-based manufacturing economy. As we’ve seen above, manufacturing payroll is the basic economic-fuel for our economy. Thus the solution we desire must be first focused on bringing the “orders” and “jobs” back to the manufacturers in America.

Once we again have this important economic-fuel coming back into our communities, we would no longer have any need for the “counterfeit” economic-fuel of government deficit spending. For every \$100 billion of payroll coming back “in” we could cut an equivalent amount of deficit spending. Here we would have a true pro-growth solution to our nation’s economic woes.

What needs to be done is to ***first*** bring the “orders” and “jobs” back to the manufacturers in America . . . ***then*** . . . we can begin cutting the same amount in deficit spending. Without this new rearranging of priorities, we will be trapped in the debt/death spiral of more and bigger QE’s to cover the ever-increasing national debt.

See the videos on our website, “newhopeforamerica.org” for a proven and effective solution.