

## Should We Celebrate Consumption Profligacy?

Absolutely not...! Yet we commonly see economists commenting: "...*The consumer represents 2/3's of the economy. Therefore, we must ensure they keep spending as much or **more** to support the overall economy...*".

Let us draw an analogy to a human breathing. We know that inhaling is approximately half of the breathing function to sustain life. Further, we know it is equally important to exhale approximately an equal volume of air. If we simply focused upon the importance of the inhaling function, and declared that it is good and healthy, then why wouldn't more be better? Could we inhale more air to make up for exhaling less air? Could we inhale a little more air with each breath without exhaling more air? What is likely to occur?

Consumer spending is a critical **component** of any capitalistic system as is inhaling within a human biological system. However, there must be a **balance** in the system such that one component does not consume a proportionally greater share of resources than it would otherwise in a free-market state. If we are in a condition where the consumer is "holding up the economy" by spending more, then there is **quadruple danger**:

1. Resources are drawn away from capital goods, R&D, or infrastructure investment, and devoted to producing and retailing consumer goods. Ultimately those resources will need to be fired and return to the aforementioned areas. Otherwise, future productivity will be stifled, and capital equipment investment and infrastructure refurbishment or expansion will fall behind.
2. The consumers are enticed into this higher proportion of spending (rather than saving) by artificially suppressed interest rates and "easy money policies". This enticement encourages higher unsustainable debt levels, which will unlikely be repaid in real terms. Eventually, rebalancing will occur via default, bankruptcy, or inflation. Creditors, and holders of dollars and dollar-based assets will become the losers.
3. Companies responding to the noted "easy money policies" will invest in ventures that would normally not be justified, which Austrian economists identify as "malinvestment". Further, new companies are formed for the same "non market-justified" reason. Once the "easy money" conditions return to "natural market" conditions, most all of these "malinvestments" will go bust.
4. We further exacerbate the foreign trade imbalance. When consumers disproportionately consume rather than save, it encourages increased consumption of all goods including foreign. The longer this economically imbalanced state exists, the further the U.S. will fall behind on the vital productivity investments into "market justified" businesses. We also create a near impossible obligation to repay our trading partners in real terms.

The most important contribution our Central Bank and government could make in this regard is to refrain from policy incentives that discourage the necessary free-market adjustments, which maintain balance in our capitalistic economy. If we're not inhaling enough air, then we must exhale a bit less, until that which is out of alignment becomes adjusted, then resume to normal breathing.

Unfortunately, our *Central Bank in concert with financial institutions have embarked upon the greatest "easy money policies" during the past ten years than any equivalent time period in the history of our Republic.* The resulting imbalances are equally as extreme. I anticipate the rebalancing correction will occur during the 2008-10 time frame when the Boomers begin retiring en mass... or sooner.... Fasten your seat belts...!

by Russell Randall; 9-28-2005