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A Managed-Demand Economy

The 1980's demonstrated that the Soviet model of a Managed Economy failed. In that model, the political process, meaning the Government, meaning whatever group controlled the military power of a nation state, dictated to the means of production what goods and services should be produced. After about seventy years of experiment, Managed Production failed spectacularly.

Now 2007-2008 has demonstrated that unsupervised financial activity has also failed spectacularly. In Russia, the group that had controlled the former Soviet military took advantage to acquire the means of production in the 1990's, exploited those assets without any oversight so as to pocket billions of dollars and later euros, while the price of energy resources skyrocketed. The members of that group are now retiring to their concealed personal fortunes while the economic structure of Russia crashes again.

In the United States, folks who had industriously earned and prudently saved for many years, looked covetously on lavish lifestyles of flamboyant financiers. Those FF's seemed to effortlessly create excessive wealth in "hedge funds". Hedge funds are gambling entities carefully constructed to avoid oversight by the various regulatory agencies that limited the ability of entities that held other people's money to place that money in high-risk activities. Otherwise-prudent folks took their savings out of regulated-and-insured financial institution and placed that money with unregulated hedge funds. Some of the hedge funds did what they said they would and gambled with their money. Some of the "hedge funds" were frauds and just stole their money. Almost all of the hedge funds lost their money.

Incredibly, but predictably, these formerly-prudent folks who had decided to gamble in the unregulated arena without paying attention to anything other than the anticipated rate of return, now demand that The Government Do Something to recover the money that they had deliberately taken out of the financial institutions over which The Government did in fact keep watch. This writer is offended. The United States Attorney is overburdened enough investigating criminals who broke the law to steal from savers in regulated financial institutions. Don't waste taxpayer money or divert law enforcement time to chasing con men to whom greedy citizens voluntarily handed their money.

But I digress. In the post-Boomer economic disaster, since Managed Production has failed, and Unregulated Greed has failed, a combination of current technology and an evolving concept of "money" suggest that Managed Demand will lead to economic stability. Reduced expectations offer no illusions about "prosperity".

Boomer governments clung to pre-Globalization generations' theory that an increase in demand led to an increase in production leading to an increase in employment which led to an increase in demand, wherefore a government-financed stimulus to demand for a limited time might initiate a cycle of economic recovery that would shortly sustain itself by increasing employment and thereafter generate tax revenues to repay the funds borrowed to initiate the stimulus. In a Globalized economy, a stimulus in the United States causes an increase in demand for goods that are produced in other countries, and possibly an increase in employment in the locations where those goods are produced. Since the January 2005 end of the last restrictions on import of clothing, no consumer goods of significance are produced in the United States other than food. Of personal capital assets, housing by its nature must be produced on site, and some automobiles are produced in the United States. Any increase in demand for housing is likely to be met by existing inventory for the foreseeable future. Automobile models with currently-desirable characteristics may be produced in the United States in the near future. But right now, in 2009, there is no structure in place to produce any product in the United States for which any amount of money disbursed to consumers is likely to increase nonfarm employment. This is why the “economic stimulus” checks handed out in 2008 with the refunds of 2007 Federal income taxes, had no effect on avoiding the current economic crisis.

Possible areas of economic activity where disbursing Federal dollars might quickly increase both professional and less-skilled employment within the United States, are medical services and educational services. A massive increase in Pell Grants would increase enrollment at colleges and universities, which would stabilize employment at those institutions and possibly increase employment for graduate students and maintenance workers. Passing and funding S-CHIP, and substantial Federal distributions to State governments for Medicaid, will stabilize or increase employment of hospital personnel. Increasing payrolls at hospitals and universities will have some ripple effects on retail employment in adjacent neighborhoods; these dollars are likely to be circulated through several sets of American hands before ultimately buying clothing or electronics manufactured in China.

In Ohio, Governor Strickland and the General Assembly might support some remaining Ohio manufacturing jobs, by piggybacking additional funding to “food stamps“. The Ohio Department of Job and Family Services distributes to qualified economically-distressed families a debit card which is restricted to the purchase of food items and is refilled monthly. The subject families are not able to buy non-food items, like shampoo, toothpaste, or first aid, with this food card. This occasionally leads to unpleasantness and even unhealthiness in schools in economically-disadvantaged areas. Ohio might issue a separate card with a modest $50.00 per month budget to allow the purchase of Sanitary, Odor, and Antiseptic Products. The SOAP card might be appreciated both by elementary school teachers and by iconic Ohio employer Procter and Gamble.

The Hon. John A. Boehner, member of Congress from Ohio and House Minority Leader, presented what can only be described as a *pro forma* critique of the economic recovery bill currently pending in the House, reciting the Same Old Boomer mantra that Small Business creates the jobs in America, so the economic recovery bill should provide more tax incentives for Small Business. The concept of trying to keep Ohio’s small-shop machine tool industry viable until some manufacturing industry expands production somewhere, is important, BUT. Congressman Boehner is thirteen months older than this writer, so I presume to address him with familiarity, “John, tax incentives only make a difference if the business has revenues to tax. The SOB approach is ineffective without demand for the product.” Targeted incentives for alternative energy ARE in the economic recovery bill.

Reducing the overall tax rate for Small Business, even to zero, doesn't help if there are no sales. This economy needs direct Federal funding of projects (read "wind generators on the Lake Erie shoreline") that create a demand for machine tools to make the components from which those projects are built. If that demand creates enough sales that the machine shops have net income to be taxed, THEN the SOB tax theory may apply.

Strategically, Federal stimulus funding should be targeted to research and engineering. Until the value of the dollar deteriorates relative to the rupee so that wages within the United States are comparable to wages in India, the only manufacturing jobs likely to be created within the United States will be for newly-invented products that are not yet copied to India. An example is the Roomba robotic vacuum cleaning device and its related military application remote land mine deactivators produced by iRobot Corp. in Massachusetts. And windmill components famously produced by Cardinal Fasteners in Bedford Heights.

I cannot resist closing with a nod and a wink to Garrison Kiellor on the Federal Reserve January 27 announcement that it will now require active renegotiation of $73 billion of securitized mortgage loans that the Fed acquired in financing Citigroup's notorious 2008 purchase of its former competitor, so as to extend a TARP to cover Bear Stearns.

- Christopher J. Mallln, Old Country Lawyer