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UTA economist: Bernanke's agenda is "huge"

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Federal Reserve Chairman Ben Bernanke has a plan for helping the United States and world economies reach a point of stabilization. Among the many assertions he made Monday, Bernanke said the U.S. must increase its savings rate and cut its federal deficit, and China must spend more money.

Roger Meiners, an economics professor at the [University of Texas at Arlington](#), says Bernanke is correct, "but what a huge agenda—and one he and his colleagues at the Fed have little control over."

Here are more of Meiners' thoughts on Bernanke's "to do" list:

On the federal deficit: *"There is nothing on the horizon that indicates control of the federal deficit. The Obama administration admits that deficits could average \$1 trillion dollars a year for a long time. Given that Congress and the administration are spending money like it was going out of style, there is little doubt the deficits will be of an unprecedented nature. We used to crab about \$400 billion a year deficits in some Bush years — the Obama deficits blow those away. Part of it can be blamed on the financial bailout/stimulus — but that was last year and this year. That was supposed to be a one shot deal. But we seem to be settling into permanent high spending."*

On funding the deficit: *"One option is to have a big hike in federal taxes. That will not be popular and would depress economic activity. If money is pulled out of the private sector and given to Congress to spend on pet projects, there will be less activity in the private sector. High taxes generally produce low growth rates. Europe is a good example; even in good economic times most EU countries have low growth rates. The work of Ed Prescott, who won the Nobel prize in economics a few years ago, showed this in detail. When government takes the majority of every extra dollar (or Euro) earned, people rationally respond by working less. In simple terms, may as well work on your car for yourself instead of working for the state. A related problem is that government spending is, in general, less valuable economically than private spending. Private sector spending has a bigger 'stimulus' effect than public sector spending."*

"The second option to fund the deficit is to borrow money — the government needs the cash to be able to spend it. If not there in tax revenues, then the Treasury (the federal government bank) must borrow cash. It sells Treasury bonds to foreign and domestic buyers. Savings rates went up in the past year in the U.S. as people drew back on spending to help pay their personal debt; that made more cash available for the Treasury to borrow to cover the current deficit. That was sensible behavior by people, but recent data indicate that savings are falling already. If so, U.S. citizens cannot be counted on to buy the debt."

On the declining value of the U.S. dollar: *"In recent years, foreigners, especially China, bought a lot of U.S. government debt. China and other foreigners are not sure they want to hold so much U.S. debt because the long-term value of the dollar is not looking good. So they are buying other currencies and commodities. That is, the dollar is losing ground in the world market as a 'reserve' currency because of its strength. The dollar has dropped rapidly against major foreign currencies. That is a market signal that people do not trust the value of the dollar as much as in the past."*

"People know there is no way for the public to buy \$1 trillion a year, year after year, in public debt. The government can always run interest rates up high to capture more money, but that kills the ability of the private sector to borrow for expansion in the private sector — the source of real wealth. So the option then is for the Treasury to borrow from the Fed — get new money in exchange for Treasury notes held by the Fed. That would mean inflation since we are talking about huge amounts of money. That prospect has many people very worried. Inflation is horrible, as those who remember the '70s can attest — and it is not easy to kill. It was the reason for the recession of the early '80s."

On the overall economic outlook: *"So there is no easy way out for the U.S. Well, tough. We lived beyond our means for a long time and the bill is coming due. There is no reason to point the finger at foreigners. China and other nations want the U.S. economy to be strong. A weak U.S. economy hurts our trading partners. It is time for Congress to admit that it has been spending too much and it should cut spending. But we all know they do not want to bear the bad news to voters who like the goodies. Indeed, everything points in the opposite direction — more budget (and debt) expanding programs such as health care, green jobs, and this and that and the other thing. My guess is that Mr. Bernanke is on the mark, but he cannot tell Congress or the administration what to do. He is just the hired help."*

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