Deficits Created by Under-exploited Resources

We thus find ourselves today in a world of reversed values in which the majority of the specialists prevent the state from undertaking new spending while at the same time being aware that only these injections of cash can save the economy. For these champions of budgetary economies, it is unthinkable to further widen public deficits to save our economies whilst at the same time the recession can only be fought off by stimulating activity by the agency of an increase in public spending. This is why an almost generalized consensus prevails according to which the Western States, already virtually bankrupt, wouldn’t know how to face any more spending. This is at the same time as the latter offers the only exit door out of the recession and stagnation. This tyranny of rigor – this dictum of frugality of public action – further disguises itself as moralistic with the opinion that future generations shouldn’t have to pay the price for today’s excesses. Deceitful reasoning according to which the loans taken out today will mortgage the future, which is unacceptable for the citizen to live in and for the state to spend beyond their respective means. And which justifies this collective suicide by a strange argument according to which the stimuli applied today would in reality be the loans to pay back tomorrow. However, the arguments on public spending allow the immediate use of all resources and all production tools at our disposal. It stands to reason that the intensive exploitation of resources creates wealth and that the cash injections from the state generate revenue. The stimuli and public spending are a self-fulfilling prophecy that mobilizes the economy’s production capacity whilst allowing new employment. Public spending exudes therefore wealth and material comfort because it is the utilization of our production capacities and all of our resources – including human resources – that galvanizes our economies. The stimuli are not thus a responsibility that must be assumed by future generations and they do not steal tomorrow’s jobs. On the contrary, they allow current activity to develop via the exploitation of resources that couldn’t be built on without this public spending. Public deficits are an authentic instrument to resurrect the economy which efficiently replaces private investment in times of crisis. Indeed, public spending also creates wealth and revenue. And this is why with the only perspective of private companies being profit, they are completely indifferent to the exploitation of resources.
and to the increase in national wealth. The company and the system cannot thus bank on a private sector in times of crisis that will certainly not pay out with the goal of creating revenue for others.

To increase loans today in no way clouds the perspectives of solvency of future generations. In fact, the loans initiated today create the wealth of tomorrow! The debts taken out today, together with the stimuli injected bring back a transfer of resources. It is in effect in the future, within the framework of repayments, that the debtor clears all or part of its debt to the creditor. This debt service constitutes therefore an intra-generational transfer – not intergenerational – of wealth. To take out new debt today will not clear a net expense and pay all the bills of future generations. To support this reverse theory – that is to claim that loans mortgage the future – goes back to implicitly recognize that today’s production prevents and damages tomorrow’s production. This is evidently not the case as it is not because we produce more vehicles, more computers or because we modernize such industry or such company today that we will stop producing or working in this way tomorrow. According to this same intra-generational transfer logic, the agents that have to pay our debts will form an integral part of a cycle – by nature a closed circuit one – where they will be the carriers of a redistribution of resources in favor of creditors who will be their contemporaries. This circuit is purely intra-generational therefore, following the example of the current public deficit which will have to be offset by taxes (and other payments such as VAT) which the future generations will have to pay off because of the debts taken out today by the state. These liquid assets will thus return tomorrow to the state. This analysis of current debt which does not represent a handicap for the future is moreover implicitly accepted by the traditional economists who recognize that public debts are not an inextricable problem or even an unbearable burden on growth. The only proviso rightly issued with public deficits is that they lead to an increase of interest rates that evidently has repercussions on the private sector, which in turn decreases or even cancels its investments.

Whatever it may be, the solution exists in order to keep these interest rates low, even within the framework of major public deficits. The key to controlling costs linked to financing debts consists in the optimal utilization of all resources and an intensification of the production of the economy’s acting companies. Indeed, it is nonsensical that interest rates increase – that is that the money’s rent is more expensive or that there is a scarcity of capital, so long as the situation in which resources are not exploited lasts, production still hasn’t reached its limits and under-employment persists. The extent of resources still available, maintaining unemployment and the amount of services to assure and products to
manufacture that is still physically possible to pour into the economic circuits should, on the contrary, mechanically implement tax decreases, whatever may be the background of the public deficits, which or no more than an epiphenomenon. In order to corroborate these assertions, we must try to understand the cause and effect relationship between the unexploited resources, unemployment and revenue. It is undeniable that the additional demand in capital (that is, the injection of stimuli or the acceleration of credit) favors spending which, in turn, stimulates revenue so long as the original shortage in which resources are unexploited exists, factories do not operate at full capacity and unemployment persists. Indeed, so long as the consumer – whatever the commodity or service required may be – won’t be satisfied, its demand will automatically create an increase in revenue and savings on the other side of the chain. Revenues will only cease to be influenced by this law of offer and demand whenever a balanced situation is established and all capacities of the economy are built on. It is at this stage that credit will no longer be necessary or even useful and the revenues will logically be able to stagnate because the gap between unexploited resources and the demands of economic actors will have been filled. The variable of revenues is in this way like mercury that reaches its point of equilibrium. It is crucial to understand and accept the fact that these unexploited resources (which reflect the deficiencies of an economy) must be translated as an increase in revenues, essential to fill this gap. The equilibrium between loans and credits materializes when it is no longer essential to take out new loans, that is from the moment where all of these resources are taken advantage of and as soon as full employment is established. This likewise signifies that it is not the interest rates that must increase when the situation is unbalanced and that the economy shows malfunctions as it is at this point that it most needs capital.

Rather, it is the salaries and revenues that must be increased in order to play their domino effect on the economy, in the knowledge that, additionally, the rent of the money benefits only a miniscule number of actors. Let us inform our Finance Ministers and CEOs that the salary variable is fundamental in relative strength of the economies. Our lessors (who of course are keen to lend at a higher rate) must accept that our economic activity – and thus our public deficits – will greatly improve by increasing the salaries variable rather than the incidental interest rates variable. It is wrong to think that interest rates increase because of an increased demand in loans and capital. Indeed, more credits lead to more spending and thus to more revenues and more savings. It is consequently this new savings that becomes new finances. These new available liquid assets will meet the new needs of creditors, in such a way as an increase in interest rates will not be necessary given that it is the initial credit that in part feeds the savings, which in turn
becomes new loans. Furthering the knowledge that the proportion of credit not turned into savings profits the economy by having a positive influence on revenue through the famous multiplier effect anyway, this great benefactor of economic activity single-handedly justifies the spending and credit. It is in this way that 100 Euros spent in Shop A accordingly increases the revenue of A knowing that this process is quickly stopped if A chooses to save all of this sum, which will nonetheless be used for new credits and will benefit the system, in any case in an optimal world and cycle managed entirely to benefit the cycle. If A only saves 50 Euros and spends 50 Euros in B, it is thus B’s turn to benefit from an increase of its revenues, which will in turn benefit one or several others if B decides to thus extend the process. The multiplier effect continues until all of the initial 100 Euros is placed into savings, or to put it otherwise, until what no longer becomes spending for one and savings for the other is completely placed in savings. It should be noted that, if only this circle is dedicated to the good operation of the economy, that is provided that all the stakeholders “play the game”, the credit, the stimuli and the spending benefits either the revenues or the savings, shall be recycled into credit.

The consequence being that the interest rates variable really is nothing more than an epiphenomenon, a sort of useless parasite that only benefits those who refuse to ensure the economy’s liquidity, those who continually increase the stakes for their own personal profit all the while looking down on the rest. It is this same logic that allows us to conclude that public deficits – however high they may be – are not prevented from affecting the interest rate and, moreover, there is no lacking in examples to illustrate this point. It goes without saying that this lack of correlation between massive public deficits and the soaring of the fees to finance this debt by way of punishment by the markets is evident in the United States – a fine example of great financial clout and an undeniable government. How do you explain the rise in interest rates since the end of the nineties to the end of Clinton’s Presidency, at the same time as the American Federal State’s budget was exceeded for the first time in decades? And how can we understand their decrease since the accession of his successor, George W. Bush, given that the latter had to irreparably increase the deficits? The best example however is that of our current crisis – strongly marked by debts – and which is nonetheless characterized by practically zero American interest rates! Interest rates are not therefore exuded by high deficits, but they are what results from an inadequate monetary policy or from investors having unilaterally decreed a punitive raid against a country, that is to say and in all cases, from an arbitrary decision to increase interest rates.