

THE PROGRESS REPORT

Is There a New Economy?

By Fred E. Foldvary

No, there isn't any "new economy." There are new products and new technology. But the basics of economies have not changed ever since human beings have become aware of the concept of an economy.

The basics of the economy are its resources: land, labor, and capital goods. Human nature creates the premises for economic action: unlimited desires, economizing on resources, self-interest and sympathy with others. Government policy can either enhance voluntary human action or hamper it. None of these facts have change, and they cannot change.

There have been technological booms in the past, and they have all ended in a crash and depression. In the early 1800s it was canals, which led to speculation and a crash. Later, it was railroads, which boomed and crashed. In the 1920s it was the automobile, with a stock-market and land speculation which crashed. In the 1960s they thought new demand-side economics had eliminated the business cycles, but the economy fell again in 1973. The 1980s' boom ended in another recession in 1991.

We have experienced a technological boom, especially in internet companies. Many of the new companies are not making profits, but their stocks zoomed up on speculative expectations. On Friday, April 14, the markets crashed. They had started falling earlier with the government anti-trust action against Microsoft, and then as inflation heated up and the FED hiking up interest rates.

Is the economic boom finished? I warned in my editorial on the [Ozos decade](#) (2000 to 2009) in August 1999 that inflation would heat up in 2000. The money supply was growing rapidly, and either inflation would rise or the FED would stop it by hiking interest rates to slow down the economy and perhaps cause a recession. The FED is not likely to engineer a recession in an election year, so it looks like inflation is coming back.

The depression in East Asia, which gave us cheap imports, is ending. Oil prices have shot up, and gasoline prices have followed. Producer prices are increasing. Consumers have been spending madly, and household debt in \$6.5 trillion. There is also billions in financial debt spent to buy stocks.

What about the government - does it not have a surplus? No, the deficit is still there. The federal debt increased by \$113 billion in 1999. An increase in debt logically implies a deficit! The so-called "surplus" is just an accounting shift from funds, which should have their own separate budgets, into the federal budget. For example, the Social Security "trust fund" now has a cash surplus, but actually has future liabilities which should in honest accounting be subtracted from the superficial surplus, and the cash surplus should not just get added to the general federal budget.

The internet does give us new technology and better ways of communicating and doing business. It makes knowledge and texts much more widely available, including the Progress Report! But it does not change the fundamental principles of economics, such as supply and demand, profits and losses, and the universal truth that you can't create matter out of nothing.

One change from technology has been the reduction of inventory stocks, which has eliminated short inventory cycles, but the major cycles of the economy come from excessive rises in land prices, the over-expansion of money, and unsustainable investments in capital goods, especially, buildings, and these are still in place.

What would give us a truly new economy? It cannot be a change in economics or in human nature. It would not be just a change in technology, because we've been there, done that, and it does not change the plain truth that profits equals revenue minus costs. What can change fundamentally is policy. Government could shift from taxing production, to taxing bads such as pollution and taxing givens such as land rent.

The result of such new policy would be a reduction of gross inequalities, no more poverty, and the end of the boom and bust cycle. Yes, that would indeed be a new economy, but nothing like that is visible on the horizon because it's off the table of political dialogue.

What is on the horizon? There will be an economic crash, but I don't expect it until another few years. Market declines do not by themselves cause economic declines. The financial ups and downs are not gains or losses to the whole economy. Consider a person buying a stock at \$20. It goes up to \$50, and he sells. He gained \$30, but that is just a transfer of cash from the seller to the buyer. The buyer pays \$30 more than he would have. The real economy has not changed. If the stock falls back to \$20 and the new owner sells, again that is just cash changing hands. The total amount of money, land, machines, and labor has not changed.