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## **Economic Solutions**

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# ECONOMIC SOLUTIONS

By Joshua D. Zambrano

To solve the current economic crisis, America needs to get to the underlying root issues which have led us into this mess - namely, outsourcing, expensive and ill-conceived wars in the Middle East, and the loss of homes by hardworking Americans to a predatory lending industry which has gone largely unchecked.

After explaining why Obama's current policies are doomed to fail, I will present in greater depth my own solutions for fixing the U.S. economy - namely the replacement of free trade agreements with a tariff that taxes imports by 90% of the difference in national minimum wages, ending Middle Eastern military occupation as well as creation of a public works program for returning soldiers that wish to remain employed, and increased regulation of the housing industry.

## 'SOLUTIONS' THAT WILL NOT WORK

Barack Obama, like his predecessor, is trying to blindly spend his way out of the current economic crisis. However, throwing money at consumers or businesses in the form of tax cuts or stimulus bills will not necessarily prove effective. If consumers have a few hundred or even thousand dollars more, but no jobs, what good does it do them? Will they not simply hoard that money as long as possible to pay off bills and buy necessities; trying to make it last as long as possible?

Without jobs, and job security, we cannot reasonably expect the thrifless, free-spending American consumer to once more return. Franklin Delano Roosevelt, in guiding us out of the Great Depression, did not simply throw money around. He got to the root issues of lost jobs and the need for further industry regulations and price controls. While Barack Obama's current stimulus package does a lot of spending, a third of it consists of tax cuts; tax cuts that will prove only a temporary reprieve for homeowners and a waste of the federal government's rapidly dwindling funds.

Furthermore, we need to create jobs efficiently for the money spent. For example, money spent on high-technology industries may mean more money spent on materials than on workers. And while workers are required to produce the materials, it will prove ultimately less effective in terms of job creation than putting that money towards a lower-cost industry.

## THE CORE PROBLEMS

There are 3 primary components driving this economic crisis which I see at work: (1) the massive drains on our federal budget which are our Middle Eastern military campaigns, (2) the steady losses of U.S. jobs due to outsourcing because of cheap foreign labor, and

(3) the foreclosure of homes by unregulated predatory lenders using Adjustable Rate Mortgages.

**(1)** By and large, Americans now agree that our Iraq occupation needs to end.<sup>1</sup> In 2007, the Department of Defense cost the U.S. government over \$600 billion, the single largest expense in the U.S. budget.<sup>2</sup> However, only \$129 billion of that went to military personnel, the rest of it went towards 'Operation and Maintenance', 'Procurement', 'Research, development, test, and evaluation', 'Military construction', 'Family housing', and 'Revolving, management and trust funds, and other'. If we end our Middle East occupations, we would trim our federal deficit by hundreds of billions of dollars each year - even if we continued to keep those troops employed.

Now, President-elect Barack Obama supports withdrawing those troops from Iraq. However, if we withdraw them and they have no jobs to return to, they will simply inflate an already high 8.1% unemployment rate.<sup>3</sup> We would be better served to continue paying them their salaries, which cost only \$129 billion a year anyway, and employ them in a public works program - possibly building roads, renovating public buildings, providing border security against terrorist attacks and drug smuggling, etc. This would of course be only for those choosing to remain employed in the program.

This way, we would cut the other exorbitant military costs associated with the construction of billion dollar fighter jets, overseas quartering costs, ammunition, etc. However, military personnel would now be within our own borders, free to spend their hard-earned salaries within our own country rather than overseas - and all that money we've been paying soldiers for their time in the Middle East would suddenly be opened up from their bank accounts to replenish a shaken U.S. economy as they spend in markets for which such spending is desperately needed.

Furthermore, we should also formally apologize for our exclusion of the U.N. in the governing process of Iraq, and leave the door open for them to intervene in the democratic process of Iraq and Afghanistan should they ever be willing upon our departure. After leaving, we might well take the wind out of the terrorists' sails, so to speak, since the intruders some Iraqis may well have viewed in the same way colonists viewed the 18th century English monarchy, will no longer be around. In short, the cause that militants used for recruitment purposes will have been resolved.

**(2)** Free trade is not the established and necessary component of American democracy that it is commonly portrayed to be. Former presidents Franklin Delano Roosevelt and Abraham Lincoln (yes, Republicans were originally opposed to free trade), as well as first Secretary of the Treasury Alexander Hamilton, are among those who helped protect our nation from the evils of global free trade.<sup>4</sup> From the days of Lincoln until the 1960s, protectionism and tariffs prevailed<sup>5</sup>, when the Kennedy Round of Trade Talks finally

<sup>1</sup> [www.pollingreport.com/iraq.htm](http://www.pollingreport.com/iraq.htm)

<sup>2</sup> [www.gpoaccess.gov/usbudget/fy09/fct.html](http://www.gpoaccess.gov/usbudget/fy09/fct.html)

<sup>3</sup> [www.bls.gov/CPS/](http://www.bls.gov/CPS/)

<sup>4</sup> [www.nytimes.com/2008/03/06/opinion/06lighthizer.html](http://www.nytimes.com/2008/03/06/opinion/06lighthizer.html)

<sup>5</sup> [www.time.com/time/magazine/article/0,9171,938497,00.html](http://www.time.com/time/magazine/article/0,9171,938497,00.html)

eliminated trade barriers – and quite possibly marked the end of America's reign as 'the' world superpower.

Free trade does result in increased commerce, but has several downsides which are rarely discussed: (1) While free trade does result in the strengthening of countries with the lowest-paid workers, these are not necessarily the poorest countries, and results in the empowerment of immoral nations who provide low minimum wages so that they then can reap the benefits from increased industry coming for the cheap labor; (2) The large worker market in a global free market system makes it impossible to empower workers so that they can be paid well, thus resulting in a lower global proportion of monies going to workers and a higher global proportion landing in corporate coffers instead; and (3) Free trade sets the stage for a surplus of cheap, devalued goods, since competition becomes so fierce with such cheap labor costs that a multitude of cheap goods rapidly floods the world, driving down demand, and thus prices, and thus potentially putting the world at risk of a recession.

In 2008, the U.S. Census Bureau reported that the U.S. had unfavorable trade balances with all ten nations whom it most frequently trades with.<sup>6</sup> Three of those nations have no national minimum wages while three more have significantly lower minimum wages than the U.S. It should be alarming that our current trade policies are resulting in us buying more than we are selling, resulting in the cycle of debt which had us paying \$429.9 billion solely as interest on Treasury debt securities in 2007.

In the United States, the service sector is expanding, while the manufacturing sector has seen steady decline. However, as Lester Thurow in Ray F. Marshall's book, Back to Shared Prosperity, points out, service sector jobs are more often part-time, and thus have lower wages, less benefits, reduced training, and decreased job security.<sup>7</sup>

My proposal for fixing all this is a simple one, but one that I am confident will prove effective. We can resolve the dilemma of outsourcing by instituting a tariff on all imports, taxing goods from nations with lower minimum wages by 90% of the difference in national minimum wages. For example, Mexico's minimum wage in U.S. dollars is approximately \$3.50 – \$3.00 less than the U.S. minimum wage of \$6.50. Under my policy, all goods would be taxed 90% of that \$3.00 difference, or \$2.70. Those nations who have no minimum wage would be esteemed as having minimum wages of \$0.00.

This simple tariff would have far-reaching effects in resolving the current economic crisis, the equalization of country minimum wages, and 'leveling the playing field' when it comes to worker wages. Naturally it would reduce the incentive U.S. companies have to outsource U.S. jobs, since they would no longer be able to bring goods back to the U.S. for reduced cost. However, it would also provide incentive for other nations to provide better minimum wages, so that workers cannot be paid slave wages (as happens in China to Wal-Mart employees<sup>8</sup>). In short, workers worldwide would be empowered.

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<sup>6</sup> [www.census.gov/foreign-trade/statistics/highlights/top/top0812yr.html](http://www.census.gov/foreign-trade/statistics/highlights/top/top0812yr.html)

<sup>7</sup> <http://books.google.com/books?id...>

<sup>8</sup> [www.walmartmovie.com/](http://www.walmartmovie.com/)

However, the tariff would also provide the sort of price regulation needed to prevent the surplus of cheap goods which is driving down prices that I alluded to earlier, restore favorable U.S. trade balances, reduce the growing worldwide income disparity, and stop the current rewarding of communist dictatorships who use the free market system to their advantage by providing low or no minimum wages.

Furthermore, this is an utterly defensible policy – unlike Barack Obama's recent 'Buy American' proposal.<sup>9</sup> Rather than resorting to protectionism and preventing trade, it seeks only to equate commerce in one area – worker wages. One can always point out that other nations ought to be providing better minimum wages as protection to workers in the first place, and that we are leaving off 10% of the difference to cover transportation costs.

Moreover, this is policy that will little affect many of America's closest allies. Those nations who will be angered are those who already dislike the United States to begin with. Out of 196 world nations, the U.S.A. ranks 15<sup>th</sup> in minimum wage.<sup>10</sup> However, many of its closest allies are ranked nearby. The top 25 nations, ranked by minimum wage, and with wages shown in international dollars, are as follows:

- (1) Australia (22363)
- (2) United Kingdom (21262)
- (3) Luxembourg (19856)
- (4) Netherlands (18267)
- (5) Belgium (18215)
- (6) France (17363)
- (7) Ireland (17317)
- (8) New Zealand (16021)
- (9) San Marino (15895)
- (10) Switzerland (15584)
- (11) Austria (13986)
- (12) Greece (13477)
- (13) Canada (13322)
- (14) Israel (12920)
- (15) United States of America (12168)
- (16) Kiribati (11827)
- (17) Taiwan (11455)
- (18) Slovenia (11054)
- (19) Spain (10811)
- (20) Japan (10692)
- (21) Bahamas (10532)
- (22) Kuwait (10000)
- (23) Portugal (9307)
- (24) Poland (8188)

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<sup>9</sup> <http://business.timesonline.co.uk/tol/business/economics/article5622438.ece>

<sup>10</sup> [www.en.wikipedia.org/wiki/List\\_of\\_minimum\\_wages\\_by\\_country](http://www.en.wikipedia.org/wiki/List_of_minimum_wages_by_country)

(25) Seychelles (8075)

Those world powers who can be expected to make an outcry are those who have been taking advantage of the system with low minimum wages, and include many of the foremost fascist dictatorships renowned for human rights abuses. These, shown here with their minimum wages in international dollars, include China (0), Russia (1747), Iran (0), North Korea (0), Venezuela (4468), and Cuba (0). Instituting such a trade policy would anger primarily only those world powers that already dislike the United States. And, given the current economic crisis, they might be more willing now than at any other time to compromise on this issue.

**(3)** As Simon Greenspan recently conceded, his 'lifetime of economic thinking' was flawed.<sup>11</sup> Now admitting that he was wrong in endorsing Adjustable Rate Mortgages (ARMs), the former Secretary of the Treasury has done an about face, and acknowledges a need for increased industry regulation.

The 'Invisible Hand' theory has proven increasingly flawed. Corporations do not, by acting in their own selfish best interests, end up doing what is best for their constituents and the industry. Increased competition does not lead to better oversight and self-regulation. Without controls and external regulations, what results are corrupted CEOs with unchecked power swindling the masses, predatory lending via adjustable rates and hidden clauses, and companies so greedy for the mighty dollar that they put their whole industry at risk by foreclosing on hardworking families at every possible turn.

Simply trying to control all of the specific predatory lending practices will result in more and more bureaucracy, as the increased complication obscures the issue for watchdog groups and homeowners. We need to get to the root issue in a simple way by stopping the adjustable rates that most of all make predatory lending possible.

Ways in which we could do this include: (1) Cap all home interest rates at 15%, (2) Cap home interest rates so they can not go 5% above their original rates, (3) Outlaw all ARMs, or (4) Sponsor government conversion from Adjustable Rate Mortgages to Fixed Rate Mortgages.

## ADDITIONAL FACTORS

While the United States does at some point need to reform its policies on Social Security, Medicaid, and Medicare, such pursuit is not the most cost effective use of our monetary resources at this time. In 2007, total Social Security expenses were \$589 billion, Medicare costs were \$385 billion, and Medicaid grants amounted to \$168.3 billion. While reform of these policies might defray some of the costs, these savings would likely not be realized for years to come, and whatever benefit realized from the reduced yearly costs offset by the expense needed to create said reform.

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<sup>11</sup> [www.msnbc.msn.com/id/27335454/](http://www.msnbc.msn.com/id/27335454/)

The money required for a massive buyout of Social Security recipients and subsequent disruption of the Social Security program (assuming we don't want to annul benefits and anger all those who've been putting their money in) is particularly needed right now to turn around the sluggish economy and create jobs. Furthermore, even if we resolve the Social Security dilemma, we will then have many aging consumers with no income, further compounding the unemployment crisis, and while we will have cut the \$500+ billion of Social Security expenses from the federal deficit, the cost will prove so great that it will deprive our government of the monetary resources more importantly needed right now to create jobs and stimulate the economy.

If Medicaid and Medicare are to be reformed, they also should likewise be done without too much additional government spending – at least for now. However, when we do have the fiscal resources available to concentrate on reform, I would like to suggest a potential path for us to take – which will have the benefits of free market competition without the drop in quality care associated with socialism.

My recommendation is that the United States use project block grants to grant money to hospitals for providing a basic level of health care (possibly only certain services, or else with a maximum yearly consumer spending limit), but condition these upon feedback from those receiving the services. Such feedback could consist of a rating/voting system either based on hospital grounds or online – if online, patients could receive ticket cards upon sign-in that would allow them to vote about their experience with the hospital. Those hospitals that maintain the best ratings could then be awarded more and more services via the grants. In this way, competition would be preserved while still providing the socialist services that a moral nation is expected to provide to its weakest and poorest.

The United States should also be seeking to improve training, accessibility, and desirability for those industries most desperate for workers. For example, state public defenders and prosecutors right now are underpaid and overworked, even as their caseloads are steadily increasing.<sup>12</sup>

The disparity in earning potential between government-employed lawyers and those in private practice is vast enough to be troubling. According to the Bureau of Labor Statistics, the median salary of a lawyer 9 months after graduation is \$60,000 on average, \$85,000 for those in private practice, and only \$46,158 for those employed by the government.<sup>13</sup> To attract and retain the best legal counsel for the impoverished, it is imperative that the U.S. begins improving salaries for public defenders and prosecutors.

Likewise, the healthcare industry suffers from a dearth of qualified applicants because even though there is no shortage of interest, there is a shortage of willing instructors – since those with the additional education necessary to both teach and work in the medical field can often make more money in the medical profession than they can as an instructor.<sup>14</sup>

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<sup>12</sup> <http://www.nacdl.org/public.nsf/mediasources/20070327a?opendocument>

<sup>13</sup> [www.bls.gov/oco/ocos053.htm](http://www.bls.gov/oco/ocos053.htm)

<sup>14</sup> [www.chronicle.com/news/article/2950/growing-shortage-of-nursing-instructors...](http://www.chronicle.com/news/article/2950/growing-shortage-of-nursing-instructors...)

I continue to advocate for imposed conditions upon bailed out companies. Capping executive salaries, which I have suggested for months be done at 300 times the average worker's salary, is an ideal way not only to make sure that bailed out companies use their money efficiently, but also to ensure that CEOs of banks do not profit from the predatory lending practices of their institutions. With their potential personal profits from homeowner swindling limited, how much incentive will CEOs have to sponsor such practices? However, it is credit unions which have been proving the most fiscally and ethically responsible of late, and the United States government should take care that in propping up the major banking establishments, it does not neglect these who, under a truly competitive and effective free market system, ought to be coming out on top.<sup>15</sup>

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<sup>15</sup> [www.msnbc.msn.com/id/29812143/](http://www.msnbc.msn.com/id/29812143/)