

Thelma and Louise Economics

In 1991, the plot of a well known motion picture told the story of two friends from Arkansas, Thelma Dickenson and Louise Sawyer, played by Geena Davis and Susan Sarandon, who began an ill fated road trip together.

Disappointed and discouraged in their relationships with the men in their life, they headed west in a 1966 blue Ford Thunderbird convertible. "Let's get away. Let's have fun", they said, and off they went.

After a series of very poor decisions, it was not long before their Girls' Trip Away had taken them through a murder, a robbery, and a very entertaining encounter with a hapless trucker which resulted in the complete destruction of his tractor trailer rig. They knew where they were and they knew how they had gotten there, and they saw that it was not good.

As federal authorities and police from several jurisdictions began to pursue them, it became clear that "going back" was going to be very painful and not very much "fun". They decided to keep going forward, even though it was not clear to them where they were going or what it would look like when they got there. We know how that ended.

In 2009, we are in a similar situation with respect to our economy and in our ability to see the way forward.

From both history and economics, we begin to see how we have gotten to where we are now. It is not about whether the stimulus and unprecedented deficits will work or whether they will not work. (It don't look good, Rocky.) It is not about whether the Republicans lost their way (they did) or whether the Democrats are using this crisis to advance their causes (they are).

In order to better understand our present deep recession and free falling global economy, we have to look at the history of credit and fiat currency, that is, paper money created by government authority, or fiat.

The idea of extending credit made it possible to accelerate commerce, creating wealth and "prosperity" by improving the access goods and services, while not having to pay for them in full when they were purchased. Credit and debt can work well and to advantage as long as it is used to increase production, leverage investment and produce

profits to be reinvested again. And, it also works well when debt and investors are repaid along the way. For some time, we have “paid off” debt by rolling old debt forward, wrapping it into new debt, both as a nation and as consumers. The bills are coming due, and we do not have enough to make even the minimum payments that are required.

As the Romans discovered, and later the French in the 1700’s, credit and debt, taken to excess, brings “bubbles” into the economy where the currency is debased and no longer has value. It took the Romans almost 500 years to reduce the solid gold content of their aureus to a coin that was 10% gold and 90% lead. The United States has devalued its dollar in similar fashion in less than half that time by not having something of value that backs its currency, after abandoning the gold standard in 1971. Other countries in more recent history have experienced periods of depression, and then rapid inflation as their governments print money without backing it until it becomes worthless. Germany, Argentina, and Zimbabwe come to mind.

It is difficult for us to accept that we are racing toward bankruptcy as a nation, after we have enjoyed having the U.S. Dollar being the world’s reserve currency for such a long period of time. Our dollar appears stronger now in the global market only because it is stronger relative to several other currencies, which are in worse condition than ours. We think that we can solve the problem of accumulating incredibly high amounts of debt over several decades by creating even more incredibly high amounts of new debt. When foreign governments stop buying our debt, interest rates will rise and then the inflating of our currency will accelerate even more.

The Austrian School of Economics gives us an alternative view of economics that is somewhat different from the Keynesian School.

Consider, if you will, the ideas of Dr. Ludwig Von Mises:

- **No government in history has yet to recover from a downward spiral of currency debasement, once it is set in motion.** This does not mean that the country does not survive, although some do not. It does mean a very rough ride to the bottom and it will require discipline and courage as leaders rebuild a new economy with a new currency.
- **No government will ever vote for recession.** It is too painful, in the short term, or so it is believed. Most politicians will vote for continued spending of “free money” when dollars are printed and injected into the economy. There

is no pain. It feels like the cure, for a while. It is a vote for inflation, every time.

- **The longer the problem is delayed, the longer and more severe the effects will be.** Government intervention into the economy only prolongs the inevitable. The pattern through history is that an economy out of balance will decline through recession to depression, then to rampant inflation until the currency loses all value in the market place. It is only the global confidence in our currency that has allowed the United States to repeatedly monetize and roll over our debt. Many believe that this is going to end soon.
- **Economies recover when debt is paid down and people begin to save again, creating the capital for investment, production, and sustainable jobs.** There are only two ways that debt can be reduced. Either it is paid off or written off, not moved around, restructured, or otherwise deferred. This means less consumption, in the short and medium term, during which time some people will lose their jobs, their homes, and possessions as others reduce their spending and debt and begin to save again.

Here are some of things that we can look forward to in our country this year and next:

- **The Financial Services** industry will continue to shake. AIG, Bank of America and CitiCorp will most likely not recover even with billions and billions of bailout money. "Too Big To Fail" will prove to be an unwise assumption. Also, we are beginning to hear about the next wave of deleveraging of trillions and trillions of dollars in Credit Default Swaps (CDS) instruments. Most people have no idea what they are and what it will mean when they begin to "unwind". We know, however, it will further damage our present fragile condition.
- **Residential Real Estate** will continue to drift downward, some believe to even lower valuations. An over supply of new homes and a rising number of foreclosures will make it difficult to put a "floor" on that market. Many analysts do not see unemployment peaking until well into 2010.
- **The Automobile industry** will go forward without a GM or Chrysler as we have known them in the past. Automobile dealers are in dire straights and could be reduced by 20%, or more in number.
- **The Retail industry** will continue to suffer significant losses and this will roll back on commercial property developers and owners. "Mom and Pop" shops will be hit very hard this year and there will be malls that are forced to fold in

- the face of reduced consumer spending, especially for “nice to have” products and services.
- **Not for Profit Organizations** will be caught in the dual crunch of reduced revenues and dramatically rising expenses. Churches and educational institutions are especially vulnerable because they have people costs that consume 55% - 70% of revenues, making it very difficult to significantly reduce costs, without reducing staffing levels.
 - **Food and energy costs** will continue to rise, leaving less disposable income for the things we have taken for granted as needed and expected.
 - **Taxes** will increase over time as federal, state and local governments struggle to balance budgets with falling revenues and rising expenses. Most all of the new taxes will anger taxpayers in response to government attempts to maintain burgeoning entitlement programs. Its expanding role and control in our society will not be popular, either.

In our movie’s final scene, Thelma and Louise, and their 1966 blue Ford Thunderbird, are blocked from behind by police who have now caught up to them, and by the rim of the Grand Canyon in front of them.

“Let’s not get caught, let’s keep going”, Thelma said.

“You sure? “, Louise asked, after looking briefly over the cliff and knowing what their joint decision will mean.

“Yeah!”, said Thelma, and off they went, holding hands, enjoying adventure to the end.

The police watched in surprise, horror and disbelief.

We, the movie viewers, watched with detached bemusement as the women, and their car, went airborne off the cliff and into the canyon. (Fade to credits)

In this story about the movie and economics, what if our economy is the 1966 blue Ford Thunderbird?

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