Posted to the Gilder forum - January 16, 2000

Re: GG and Greenspan

GG and Greenspan are NOT speaking the same language. Of course, not even Greenspan can deny the information age but he is sticking 100% with the "ZERO sum economics" that GG denounces as a fallacy.

Here is an abbreviated [and edited by me] version of

> Remarks by Chairman Alan Greenspan
> Technology and the economy
> Before the Economic Club of New York, New York, New York
> January 13, 2000

INTRODUCTION:

...it has become increasingly difficult to deny that something profoundly different from the typical postwar business cycle has emerged.

But it is information technology that defines this special period.

THE PROBLEM:

Through the so-called "wealth effect," these gains have tended to foster increases in aggregate demand beyond the increases in supply [no evidence given by Greenspan in this speech to support this premise]. It is this imbalance between growth of supply and growth of demand that contains the potential seeds of rising inflationary and financial pressures that could undermine the current expansion [this statement is based on the previous and unsupported premise].

Such overall extra domestic demand can be met only with increased imports (net of exports) or with new domestic output produced by employing additional workers [the US produces more food now than in the last century because there are more farm workers now?]. The latter can come only from drawing down the pool of those seeking work or from increasing net immigration [this statement is based on a false premise as shown by farm employment-food production statistics].

The bottom line, however, is that, [snip] there are limits. [snip] Admittedly, we are groping to infer where those limits may be. But that there are limits cannot be open to question [George Gilder disagrees with this idea of "zero sum economics"].

Thus, if our objective of maximum sustainable economic growth is to be achieved, the pool of available workers cannot shrink indefinitely [this statement is, basically, irrelevant, as there will always be enough workers supplied by the law of supply and demand. According to Ray

Kurzweil, soon these workers will be robots].

THE SOLUTION:

For the equity wealth effect to be contained [not proven guilty but useful scapegoat in any case], either expected future earnings must decline, or the discount factor applied to those earnings must rise. There is little evidence of the former. [snip] However, real rates of interest on long-term BBB corporate debt, a good proxy for the average of all corporate debt, have already risen well over a full percentage point since late 1997, suggesting increased pressure on discount factors [Discount factors is a euphemism for real interest rates. Remember that the value of a stock is the present value of discounted cash flow. If Greenspan can raise the interest rate, this present value falls accordingly].

Thus, the rise in real rates should be viewed as a quite natural consequence of the pressures of heavier demands for investment capital, [snip] supported by a central bank intent on defusing the imbalances that would undermine the expansion [since we don't have a way of reducing earnings, we will raise interest rates to kill the economy as the only way to cure the economy].

Beware of the Ides of The Fed.

Denny

GILDER: But we don't focus on money. We focus on the creation of goods. And we think that the problem of too much money is best addressed by enhancing incentive to create more goods. Therefore, the way to respond to inflation is not to diminish the amount of money people have but, rather, to enhance the number of goods and services they produce. The best way to enhance their incentives to create more goods and services is to reduce the tax rates on traditional income. This is an excellent reason for supporting the Kemp/Roth concept.