Re: Democrats destroying America ...

Source: http://unix.derkeiler.com/Newsgroups/comp.os.vms/2007–04/msg01313.html

- *From*: Bill Todd <billtodd@xxxxxxxxxxxxx>
- *Date*: Sun, 22 Apr 2007 04:22:41 –0400

George Cook wrote:

> In article <KsOdnY9oQacn5LTbnZ2dnUVZ_hOdnZ2d@xxxxxxxxxxxxxxxxxxxxxxxx>,
> Bill Todd <billtodd@xxxxxxxxxxxxx> writes:

....

I've already proved (using the OMB figures that you don't appear to

dispute) that many of yours were.

> You proved nothing of the sort. You gave figures which supported my point,
> while claiming they didn't because they came from the OMB and therefore
> were bogus.

That pretty well settles it: you're either an out–right moron or a bald–faced liar. Given your political bent, quite possibly both.

1. You claimed "the US government's budget deficit is actually rapidly falling" and then again "The annual budget deficit is rapidly falling". My response (which I guess I should repeat, since your reading comprehension appears to be as incompetent as much of the rest of your cognitive ability) observed that a) the OMB deficit figures up through last year *did not support that assertion at all* (the observed deficit was bouncing around the $300+ to $400+ billion range with *no* clear downward trend), b) the OMB *projection* last year was that the next year's deficit would again exceed $400 billion (i.e., that projection for the present did not support your assertion about the present either), and c) that this projection just one year ago was so far out of line with the alleged actual 2006 deficit that either someone was playing fast and loose with the 2006 numbers (understating the actual deficit) or there was little reason to expect this year's future projections to be any more reliable than last year's projection was. Either way, your claim was hardly solid.

Perhaps you are legitimately confused about what the meaning of the word 'is' is. When you say (and even then repeat) "the US government's budget deficit *is* actually rapidly falling", that is *not at all* the same thing as saying "the US government's budget deficit is *projected* to fall rapidly": the former is a assertion of *current fact* and must be justified by *current measurements* (rather than 'projections'), and that was most of the objection that I raised to it.

2. You babbled generically about how good the job market is ("Unemployment is below 5% (usually

considered full employment)"; "All the doom and gloom which occurs everytime a new industry is hit is silly"). I responded with numbers demonstrating that personal income for at least the bottom 40% of the work force is *declining* (in fact, has been since the early Reagan years) and is doing so now at an accelerating rate, though didn't include the specific numbers that back up that last point (including the rise in *unpaid* workers in family–owned businesses who are still counted as 'employed' and the rise in people who have given up seeking employment who are not counted as 'unemployed') – demonstrating that 'full employment' doesn't mean much if the jobs are on average getting so much worse that real personal income is going down for that large a percentage of the population (even the middle fifth isn't enjoying much benefit from this 'full employment' economy: the top fifth is getting most of it, and the next fifth a modest amount).

3. You bloviated "The budget deficit as a percentage of GDP is not a major concern" to which I simply responded "Horseshit", as my later examination of your comments regarding the national debt should have made clear (well, to anyone with even half a brain – I'll get to that again now, since you apparently need additional help here).

4. You asserted that "The total debt as part of GDP is not significantly out of line historically", and this was such obviously utter crap that I spent a fair amount of time here, because even a complete dolt should have been able to follow the discussion.

Since the end of WWII the historical trend of national debt as a percentage of GDP has been *uniformly downward*, during administrations Republican and Democratic alike, during the Cold War, the Korean War, and the Vietnam war, with only two glaring exceptions: the Reagan/Bush I administration, and the current administration.

In the 12 years between 1981 and 1993 Reagan and Bush I wiped out more than the previous 25 years in gains in this metric, returning the debt as a percentage of GDP to a higher level than it had been at while still recovering from the debt accumulations of WWII and the Korean War in 1956: that was the *first* case where the debt was very much "out of line historically".

Clinton's administration suffered from the inevitable overshoot of that 12 years of mismanagement, but managed to turn the tide around and get the percentage moving back downward again briskly (to a level well below the level he had inherited) through the end of 2001.

Then Dubya began the *second* period of seriously "out of line historically" debt management, and sent the percentage briskly back upward again – to a percentage level not expected to peak (even with the current relatively optimistic deficit projections) until 2008, and not expected *ever* to decline significantly thereafter (at least right through the last projection made – for 2012).

Just to make it crystal–clear what the effects of Reagan/Bush I and Bush II have been on national debt as a percentage of GDP, if that percentage had continued to decline for the 31 years *after* 1981 at the same rate it had declined for the 25 years *before* 1981 (I'm excluding the 1945–1955 period because of the after–effects of WWII: the rate of decline was much *higher* during that period, because the WWII debt peak had been so high, and I wouldn't want to let that bias this computation in my favor), then if we continue that 1956 – 1981 decline geometrically we'd anticipate the national debt in 2012 to be about 14.5% of GDP.

Now, extrapolating this trend geometrically is actually a very conservative approach which assumes that in an expanding economy we'd *never* actually see anything approaching a surplus – whereas Clinton's policies actually *did* generate surpluses in 1998 – 2001, which helped to turn things around then so dramatically.

So if we take the more reasonable attitude that surpluses actually *can* (and even sometimes *do*) occur, and continue the 1956 – 1981 trend arithmetically, we'd anticipate having wiped out our debt *entirely* around

2009, and holding a cash surplus of around 6% of GDP in 2012.

However, those OMB projections in which you place such great faith project that the debt in 2012, instead of being that pessimistic 14.5% of GDP or (more likely) wiped out entirely, will be about 64.6% of GDP: just as Reagan/Bush I ripped us out of the '80s and took us back to the mid–'50s in terms of this otherwise uniformly–declining metric, so now Dubya has not only ripped us out of the '90s and again returned us to the mid–'50s, but furthermore ensured that we'll *stay* there for the foreseeable future.

So your assertion that "The total debt as part of GDP is not significantly out of line historically" was indeed utter crap, and so was your assertion that in the face of such an unusually high percentage (and of course absolute) level of debt we can just laugh off its continuing increase in both absolute (forever) and percentage (at least through 2009) terms – even if we *do* believe the somewhat–reduced deficit levels that have been only *very* recently (and therefore perhaps over–optimistically) projected by the OMB.

Whoops – that last paragraph (returning as I promised I would to the question of the deficit referred to in item 3 above) may have exceeded your reading–comprehension level again, so I'll simplify it:

IT'S THE DEBT, STUPID.

High levels of debt *already* constrain our country's ability to explore fruitful development and quality–of–life options. If the debt were low, we could run the reduced but still substantial projected deficits without breaking a sweat. But with the debt (and the interest on it) so high as a percentage of GDP (and revenues), having *any substantial deficit* is a continuing problem – and even by the optimistic OMB projections that you embrace, with current policies the deficit is not projected to become insubstantial any time in the foreseeable future, and the debt is not projected to decrease to any more reasonable a percentage of GDP.

That's why the deficit level (however you care to measure it) *is* a concern, even though under different circumstances (i.e., without such high levels of debt) it might not be.

5. Oh, yes: you made a similar fool of yourself with your assertion that "Even with the current huge war expenses, the defense budget as a percentage of the total budget has been falling since before the war." Again, I drew the numbers that directly refuted that assertion (for each and every year to which it applied) from your own beloved OMB figures.

Not content with having been caught red–handed in such a blatant fabrication, you then – with OMB numbers *right in front of you* demonstrating that defense expenditures had *increased substantially* as a percentage of GDP during the war – attempted to get away with responding that the defense budget (which you had previously defined as including war appropriations) "has remained comparatively stable relative to the budget at large." Quite reminded me of your similar attempted white–wash when confronted with figures directly refuting your crap about the 'historical' insignificance of the size of the debt (see above): "So your basic point is that its peaks and valleys have stayed within an historical range."

Clueless conservative dupe, or duplicitous neocon weasel? You decide.

6. I already said that I would not further discuss your laughable juxtaposition of the assertion that "the US has had some bad runs of inflation since 1970, but none of them had anything to do with whether or not we were at war" with your *immediately–following* sentence "The inflation of the early 70s was mainly due to trying to fund the failed "Great Society" while the country was at war." But since the question of your competence does keep coming up, it seems appropriate to remind readers of it just in case they have any remaining doubts about the matter.

....

> > Computing a country's GDP growth in any currency other
> >
> > > than it's own is virtually meaningless.
> >
> > While it is *possible* that your statement is correct, I'm afraid that you'll really have to do considerably more than simply assert it.
>
> Do I have to get out the crayons and draw you a damn picture?

Absolutely: *you* were the one who chose constant prices as the basis for the comparison that *you* requested, and deciding after the fact that this didn't make things come out the way you wanted, while predictably intellectually dishonest on your part, doesn't relieve you of the responsibility to provide adequate substantiating detail if you want to worm your way out of the frame that *you* chose for *your* question.

Had you chosen a constant–price comparison, I would have gone along willingly: I had no idea what I'd find doing things less obviously but am very glad that I did so, because the results raise questions that need answers.

> > I explained why I normalized the numbers to the U.S. dollar: to factor out differences in exchange–rate and relative inflation and attempt to achieve an apples–to–apples comparison. Now you need to explain in adequate detail why this is *not* an appropriate measure of relative *real* comparative growth.
>
> Moron, you can't normalize to U.S dollars that way because the value of the dollar is not the same in each of the six years in relation to the various national currencies.

And you can't *not* normalize to U.S. dollars but still use the *current* prices that your challenge used without completely ignoring the effects of differing relative inflation – effects which normalizing to a single currency helps factor out.

What you have is a donkey–to–rock

> comparison. It is no where near an apples–to–apples comparison. An apples–to–apples would be the calculations I did below using constant prices.

But you chose to frame your challenge in current prices, not constant prices. So that's how I responded to it. If anyone was a moron for choosing this frame, it would seem to have been you.

The previous calculations I did were an apples–to–oranges

> comparison because they used current prices (i.e, the differing inflation
> rates in each nation was not taken into account).

Exactly.

Your way *DOES NOT*

> take into account exchange–rate and relative inflation differences;
> instead they cause radical distortions in the values.

So say you, but you've yet to *substantiate* those assertions.

Your figures

> would be radically different by varying amounts per nation if the exchange
> rates for the USD had been significantly different during that period,
> yet nothing actually would have chanced in regard to each nation's GDP
> (actually if the exchange rates changed, then those changes might have
> economic impacts on the various GDPs, but those changes would show up
> in unpredictable ways in the GDP data (i.e, the distortions would simply
> vary)).

Are you suggesting that exchange rates are completely arbitrary? I realize that they used to be in unusual cases, and even may still be in a very few, but my impression was that well before the turn of this century *most* exchange rates came pretty close to reflecting actual relative currency value (if they didn't, they'd provide awfully easy ways for large numbers of people to generate large amounts of income, just playing the significant differences in real value – not just very short–term ones, either).

> Your normalizing concept is only valid for a single static point in time
> such as when all countrys produce their annual GDP figure. The figures
> can then be reasonably accurately converted to USD at the USD exchange
> rates (I don't have the time now to investigate which exact exchange
> rates are used (i.e., the current one, a median or average one for the GDP
> time period, or some other method)).

So you *do* believe that it's a valid mechanism for comparing relative GDPs at a single point in time: that's a start.

> But you simply cannot take a USD GDP converted using one exchange rate
> and divide it by another USD GDP converted with some other exchange rate,

> and expect to have a value with any useful meaning.

That, you're going to have to substantiate. Because if this approach is valid as a way to compare relative GDPs at time A, and it's also a valid way to compare them at time B, then it's a valid way to compare their relative GDP growth *between* time A and time B.

That's what I was attempting to arrive at: a mechanism that would order countries by their relative GDP growth between 2001 and 2007 while still using your 'current price' basis. However, this discussion has unearthed the observation that while the *ordering* obtained by such an analysis should be valid, the *quantitative differences* may need correction.

The is that the mechanism does not factor out inflation completely, it only factors out *relative* inflation. If country 1 had greater inflation between time A and time B than country 2 did, then in most cases of real−world value−based exchange rates the change in exchange rates will take this into account to some reasonable degree − so if, say, Germany's inflation rate was higher than the U.S.'s between 2001 and 2007, and other reasons for differences in exchange rates did not exist, then when we convert both German GDP values to current dollars we'll get a lower percentage GDP increase in (current) dollars for Germany than we would in (current) Euros, and the percentage increase in (current) dollars should be comparable to the U.S.'s percentage GDP increase in (current) dollars to see whether the German economy grew faster or slower than ours did after *differences* in inflation have been eliminated by normalizing to dollars.

If we wanted a *quantitative* comparison (rather than just an ordering), we'd then have to convert the U.S. current−dollar amounts in all cases to constant−dollar values − though as long as all GDP values (and exchange rates) were assessed at the same two points in time, this should not change ordering at all and should change values only by a multiplicative constant (the amount of U.S. inflation between the two times).

If the exchange

> rate varied only a little and you used "constant price" values, the
> result might not be off that much, but you need to know what the exchange
> rates were in order to determine if the results are even close.

I have no idea what you mean above. Given that we're looking at a 6−year period, unless the exchange rates varied *wildly* either during 2001 or during 2007, the precise point during the year at which they were assessed couldn't throw the overall result off by much.

[considerable wandering into realms of constant−currency snipped: I already understand what *those* evaluations lead to, but that's not what we're talking about here]

....

> 2001−2007 GDP change using constant prices
> Australia 20.3%
> Canada 17.2%
> China 77.6%
> France 9.9%
> Germany 6.5%
> Hong Kong 38.2% (Apparently had a period of deflation) India 55.8%

> Italy 5.5%
> Japan 11.3% (Deflation also)
> Russia 45.4% (Inflation must be pretty high)
> UK 16.5%
> US 17.9%
>
> Based on the IMF data, these are the most relevant 2001 to 2007 GDP growth figures for comparison purposes. They are sometimes called "real" GDP growth rates.
>
> Now for the part you seem to be getting stuck on. The USD was not used in any of these calculations (excepting the US of course). Note that the relative values have changed enormously from my previous "current price" calculations (see below) because each nation's inflation is now factored out. Exchange rates are not a factor at all.
>
> 2001–2007 GDP change using current prices
> Australia 49%
> Canada 35%
> China 115%
> France 23%
> Germany 12%
> Hong Kong 21%
> India 101%
> Italy 23%
> Japan 4%
> Russia 238%
> UK 36%
> US 36%
>
> In any case, I believe both sets of figures speak for themselves as to the health of the US econony.

Hmmm – so either way you look at it we're *way* behind China, India, and Russia (three sufficiently–sizable economies that this might be some cause for concern), plus maybe Hong Kong, but at least holding our own pretty well elsewhere in your list. OTOH (since you refer to Wikipedia below, I guess it's OK to do so here), we don't quite make it out of the bottom third of countries in the world for our 2006 real GDP growth (http://en.wikipedia.org/wiki/List_of_countries_by_GDP_%28real%29_growth_rate), so we probably shouldn't be putting on too many airs.

But all that's still a digression from the underlying question of whether using the method *I* used throws useful light on our economic situation, so let's get back to that.

> I am still confused as to why you think using the USD in computing the domestic growth rate of another nation would be of any value whatsoever.

I trust that you are now no longer confused, but just in case:

I used the USD because that was the only obvious way to eliminate relative differences in inflation while still using the current prices that you were using. Little did I realize how much else doing so would unearth.

> The USD is great for comparing the relative sizes of GDPs,

As I noted above, *if* it can do that in a quantitatively–valid manner, *then* it can also compare relative growth rates: that's really very elementary mathematics. So either you'd better revise your understanding of the propriety of using dollar–conversions to compare GDP *sizes* at single points in time, or you'd better revise your understanding of the propriety of using them to compare growth rates over time.

but it has

> no place in computing a GDP other than in the US.

It does if you want to use current prices as your starting point, because you cannot then eliminate differences due to differing relative inflation without normalizing to some specific currency.

I mean, you cannot

> possibly think (can you?) that France uses the USD to compute its GDP?
>
> Perhaps your understanding of GDP needs work. Wikipedia says:
>
> The GDP of a country is defined as the market value of all final goods and services produced within a country in a given period of time. It is
> also considered the sum of value added at every stage of production of
> all final goods and services produced within a country in a given period
> of time.
>
> These GDP values are only possible to compute using the currency of the
> country, given that everything in the country is valued in that currency.
> Only after the GDP values are computed can the USD exchange rate be applied
> to give the GDP in USD.

Surely this is the way the IMF did it, don't you think? In fact, after looking at a few samples, it appears to be exactly the way they did it.

By using a constant value for its currency a

> country can compute a GDP with inflation factored out.

Except you chose to use current values in your original thesis, so that's how I formed my response. In addition, when comparing relative GDP growth rates, using constant national currencies, while factoring out local inflation rates, ignores changes in relative currency value.

> Even after writing all of the above, I am still trying to figure out why you thought the USD had any relation at all to other nations' internal growth rates. I am at a lost. You want me to explain "why not" without there even being a "why".

It should now be clear: I want you to explain exactly what's wrong with the logic I described above. I'm legitimately interested, because that logic *should* lead to results that are much closer (especially in terms of ordering, even if less so quantitatively) to the constant–price comparisons than it seems to, unless there really are some strange things going on with exchange rates (or the conventional comparisons that you favor just don't work well any more as the economies of the world become increasingly interconnected).

I'll offer up a simple, concrete example of the problem I have with just using constant national currencies to evaluate relative GDP growth rates:

The French 'real' (constant national currency) GDP grew by about 9.9% between 2001 and 2007, while the U.S. 'real' (constant national currency) GDP grew by about 17.9% over the same period. French inflation over that period was about 12.2% (according to the IMF 'deflator'), while U.S. inflation was about 15.3%.

By comparing the 2001 current–currency GDPs of France and Germany with their USD 2001 equivalents we can see that the exchange rate used was about 1.117 Euros/$ (the dollar fluctuated considerably against the Euro during 2001 before the bottom fell out in mid–2002, so it's not clear exactly what date that rate reflects – but it is at least *somewhere near what the average for all of 2001 seems to have been). Similarly, by comparing the 2007 current–currency GDPs of France and Germany with their USD 2007 equivalents we can see that the exchange rate used was about 0.769 Euro/$ (this looks more like a mid–December 2006 or January 2007 value than a 2006 average).

Now, if we were just looking at those GDPs in isolation, the exchange rate wouldn't matter: we'd see the relative increase in productivity inside each country in its own local terms and be able to adjust for local inflation to get a 'real' growth rate, regardless of what might be happening to its currency in a wider context. But if we want to compare increases in productivity *between* countries, ignoring exchange rates is less defensible, since they do reflect *real changes in value* between the very units used to measure those GDPs – changes that are *not* captured just by taking local inflation into account.

Is the fact that our 2007 dollars are worth only 2/3 as much in the EU as 2001 dollars were 6 years ago (the basis for the differences between the relative GDP numbers which I originally posted and the numbers that you clearly prefer) relevant to comparisons of our increase in GDP over that period with the increases of the EU countries, at least insofar as they're used to assess the overall health of our economy relative to the health of theirs? Taking that to its logical extreme, could our economy possibly be said to be healthy if the dollar were *worthless* elsewhere in the world? To what degree are we artificially (and probably only *very* temporarily) being propped up by inertia (e.g., the use of dollars as the traditional OPEC currency), such that while we may have so far avoided paying many of the consequences of the dollar's devaluation, when that bill comes due it will be sudden and devastating? Why would, e.g., China continue to want to invest in our country if the currency it's investing with is being devalued at this rate relative to other options like the EU?

Our economy does not live in isolation, and everything we're doing on the WTO front makes us *more* intertwined with the global economy, not less so. Under those circumstances, I don't see how one can simply ignore exchange–rate slides as significant as the past 6 years have been with a hand–wave, and I don't see why they're irrelevant when *comparing* rates of GDP growth (in fact, I'm not even sure how they could be considered irrelevant even in assessing *purely local* GDP growth, unless the country in question were pretty

well isolated economically from the rest of the world).

But by all means, feel free to try to convince me otherwise: believe it or not, I'd actually *like* to find a reason for more optimism here – I've got a daughter, after all, even if I didn't care about anyone else's kids (though I do feel significant responsibility toward them as well, just in a more abstract manner).

– bill
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