

ECONOMICS, ECONOMIC POLICIES AND SOLUTIONS

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Abstract

This article raises some important points about the economy and economic policies, and proposes some important solutions.

Economics can be defined as the science of creating wealth. It is the theoretical underpinning which explains the workings of commerce. The important point to note is that despite the analyses and recommendations of the economic experts who advise, guide and formulate governmental economic policies, the dynamics of the global economy has been as intractable as ever. Governmental policies have always been bandied about to ensure that businesses thrive, people have jobs and the economy is buoyant, but often the reverse results. What can be really seriously affecting the economy? One may wonder.

It should be borne in mind that economics is about the thinking of people involved in commerce - whether they are buying, selling, employing, looking for jobs, trading, negotiating, investing, getting bank loans, lending, etc.. Companies may reduce prices, offer free gifts, increase salaries, provide all kinds of incentives, etc., to attract customers and employees, customers may selectively purchase goods based on brand-name, product image, price, service, or a combination of all these, and workers may choose jobs and employers. To modulate all these commercial activities to ensure that there is prosperity and full employment in the economy, the government has an important, central role. The government, through the central bank, can increase or decrease bank interest rates to encourage or discourage savings and hence reduce or increase the money supply, and, also increase or decrease taxes to reduce or increase the money supply. (The government influences the economy through monetary policies, which pertain to the regulation of money supply, and, fiscal policies, e.g., increasing or lowering taxes and increasing or decreasing spending on public works.)

However, what many seem not to be well aware of is that varying the interest rates and taxation rates by the government quite often do not have the desired effects - increasing or decreasing the money supply, and, increasing or decreasing spending. To expect such governmental economic policies to work all the time is naïve. Such economic policies may work sometimes, but certainly not all the time. To understand why this is so, we need to have a deeper understanding of the human psyche.

Economics is actually ultimately about how people think and behave where money or wealth is concerned. There are many wealthy people who spend relatively little, and even hoard, despite their wealth, while in economic theory we assume that people with more money will spend more. On the other hand, contrary to economic theory, many not so well-off people spend relatively much despite their lack of wealth, and many may even beg, borrow or steal in order to afford a spendthrift, luxurious life-style, e.g., the shopaholics, the night-clubbers, etc.. Though we may expect those with good incomes to save more when bank interest rates are high, this may not happen when the person is spendthrift and generous, e.g., interested in shopping, traveling, dining in fine style, clubbing and giving treats. Some of these people may have other financial commitments, e.g., mortgages to pay, children's education to finance, loans to repay, investments or other business undertakings, etc.; so they may not be able to save despite the high bank interest rates. Of course, those with lower incomes,

who are less able to make ends meet, may also not be inclined or able to save even if the bank interest rates were very high.

High import duties and taxes may also not coerce people to spend less. For instance, despite the high import duties, road taxes and ERP charges for cars to discourage car-ownership, making car-ownership in S'pore really expensive, many who can ill afford to own cars possess them, for the love of the automobile, convenience and/or the sake of looking good (status symbol). Despite all the best efforts of the government here to reduce the car population in order to solve the problem of road congestion, car-ownership seems to be getting more robust. And, despite the high import duties and hence high prices of liquor and cigarettes here, those addicted to them evidently continue consuming them as before. We should also not under-estimate the effect of advertising or marketing gimmicks, which can be subtle but can cause impulse buying, especially in the case of consumer products such as food, drinks and clothing - here people who purchase are governed more by emotion or feeling than reason and may do so whimsically.

Also, do not be surprised that often the not so well-off will spend more than the rich. It must be noted that immaterial of whether they are wealthy or poor some people will simply spend, as it is their nature to be spendthrift and generous with money. Some people may just lack financial management skills and discipline where budgeting is concerned while some others are prudent and wise with their money. On the other hand, many wealthy people are miserly or "Jews" as they may be derisively called. That is, the wealthy, who are expected to spend more, or, save more, or, invest, may not do so, while many who are not well-off may spend a great deal, some even borrowing or stealing to do so.

There are also well-to-do people who think far ahead, plan and save for a great future or for the "rainy day" instead of spending freely. There are also people with entrepreneurial ambitions who may save in order to start a business, regardless of the bank interest rates and taxation rates. There are people who live simple lives, who will save a substantial part of their income because they have no interest in shopping, fine-dining, clubbing, traveling and other luxuries.

Doesn't all this explain the frequent failures of governmental monetary and taxation policies where the economy is concerned? Too little money circulating, i.e., too little spending, in the economy leads to depression and unemployment. Too much money circulating, i.e., too much spending, leads to inflation or high prices and financial hardship. However, there is an evident solution to all this. To solve the problem of depression, people can be "forced" to spend in order to increase the money supply and buoy up the economy. Here, two types of currency can be introduced, one type with expiry dates, which may be varied, to ensure that a certain quantity of money circulates during a certain period (these money have to be spent by certain dates and cannot be saved), the other type with no expiry date which can be spent anytime or saved. The expiry dates of the first type of currency can be varied as follows: short, medium or long term in expiry. The expiry dates can be adjusted from time to time according to the economic conditions. For example, if there is inflation, i.e., too much money is in circulation, the currencies with expiry dates may, for instance, specify that the money cannot be spent for the next few months/years (period), after which period they can be spent but will expire on certain dates. By thus playing around with the usage and expiry dates of these currencies, the amount of money, and spending, in the economy can be controlled. On the other hand, to counter the effects of deflation, wherein the quantity of money in circulation and spending are low, the expiry dates of these currencies can be shortened. However, in this instance, to avert the onset of inflation the production of goods and services should keep up with the increased demand caused by the increase in money supply and spending.

All this should be administered by a statutory body or governmental body. Employees and sellers will thus be paid two types of currencies, one with the above-mentioned expiry dates and the other without. What

amount or proportion of the two types of currency to be paid out should be determined and administered by this statutory body or governmental body, based on the economic conditions and/or forecasts for the specific period. Neater still if instead of paying by issuing these two types of hard currency a debit card (payment based on the actual amounts of the two types of currency available in the person's debit card account, which will be deducted from the account when the account holder is making payments) is used; this debit card or cashless paying method should make it easier for the governmental institution to administer the whole monetary system. This will apparently be an effective way to overcome our on-going economic malaise over which we seem to have little or no control - depression, unemployment, inflation, deflation. Here we are only talking about monetary transactions within the same country.

At the international level, concerning trading between countries, the same principle should also apply, except that the currencies with expiry dates, the currencies without expiry dates and the debit cards should now be issued and administered by an international authority, e.g., a newly created division of the United Nations.

Summing up on the point why economics does not solve economic problems, it can be said that economics fail because people's minds, attitudes and behaviours are evidently very difficult, if not impossible, to predict. As is described above, they are complex and come in a great variety of types and characters, often emotional and not very rational, and full of whims and fancies which are quickly changing as well as habits, and therefore cannot be expected to respond appropriately to governmental economic policies which are based on assumptions that may be too simplistic and unrealistic. However, the monetary system described above should perform the trick.

In any case, we should control the economy and not let the economy control us.

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