

Lack of Liquidity Affects Consumption

Byron A. Ellis - August 13, 2007



Increases in liquid assets tend to increase consumption if the poor get increases. If the government distributes the increases in liquid assets among the rich, consumption will not rise as much.

Often in central cities and rural America, liquid assets are scarce. Therefore, disposable income and hence consumption are low, inhibiting the ability of residents to engage in productive commerce.

Lack of productive commerce affects technological progress within these enclaves, limiting opportunities for jobs and improvements in standards of living. Additionally, the lack of employment opportunities increases crime and imprisonment rates.

However, politicians seldom view the lack of employment opportunities as solvable. Instead, they see the symptoms of the lack of employment opportunity as mitigatable through imprisonment. This political dissonance between the solutions to lack of opportunity and crime is baffling.

Last Friday, the Federal Reserve announced that it would pump as much money as needed into the U.S. financial system to help overcome the ill effects of lack of housing consumption. As a result, the Fed pushed 38 billion dollars of temporary reserve into the financial system and made similar moves the day before.

Credit problems have been rampant in central cities and rural America for years. Unfortunately, few politicians respond by facilitating mechanisms to ease their constituents' credit crunch. Rather, they respond by developing solutions to the outcome of lack of employment, crime.

One way that central city and rural leaders can ensure that increases in liquidity get to the targeted population is through subsidies that improve the technical progress of their constituents. For instance, subsidies for rehabilitating the stock of decaying housing could improve residents' skills in plumbing, electrical, carpentry, and other crafts needed in the housing industry. It will also increase community income and demand for goods and services.

Targeted subsidies by themselves, however, may not significantly increase consumption. Therefore, political leaders need to do more. They need to lure investment, and this may involve a reexamination of the tax structure. Furthermore, they need to ensure that the educational system is working for their constituents.

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