The Truth About Black Friday, Consumer Spending, and Economic Growth

21 MIN · YOUTUBE · HTTPS://WWW.YOUTUBE.COM/WATCH?V=BFVR9O6AMBI
https://www.youtube.com/watch?v=Bfvr9o6amBI

SUMMARY

The video discusses the misconceptions surrounding consumer spending as a driver of economic growth, particularly during the holiday shopping season. It argues that while consumer spending constitutes a significant portion of GDP, it does not inherently lead to economic prosperity; rather, savings and investment in productivity are the true engines of growth.

- *Black Friday shopping frenzy highlights the cultural obsession with consumer spending.*
- *Consumer spending accounts for about 70% of GDP, but this figure is misleading regarding economic health.*
- *Increased consumer spending has coincided with declining personal savings rates over the decades.*
- *Historical data shows that higher savings correlate with higher GDP growth rates.*
- *The video critiques the Keynesian view that consumer spending stimulates the economy, advocating instead for a focus on productivity and savings.*
- *Economic growth is driven by supply and productivity, not merely by consumer demand.*
- *Public policies encouraging spending over saving may hinder long-term economic health.*
- *The speaker emphasizes the importance of investing in productivity to improve living standards and wages.*

deck the halls with macro Follies deck the halls with macro decking the halls with macro Foles once again hey there friends fans and foes of dad Saves America John paa here and first I want to wish you a Happy Thanksgiving for you and your family and welcome you to the Hunger Games that is Black Friday the Black Friday frenzy an estimated 116 million Shoppers hitting the stores bedum in the aisles of some

of the nation's biggest retailers Shoppers fighting over garments at this Victoria Secret in Chattanooga Tennessee deep discounts triggering a freefor all bargain hunters at this Georgia Walmart wrestling over pots and pans the commotion veering out of control at an Alabama Mall God oh my God oh gosh oh gosh

[Applause] ohap ah yes nothing makes you feel more uncomfortable about the culture of America than the perennial scenes of Americans devolving into zombies to get the latest deal at Walmart sometimes that Dev Evolution takes a a uniquely dystopian turn what the hell is it looks like a shopping center one of

those big indoor malls what are they doing why did they come here some kind of instinct memory of what they used to do this was an important place in their lives it is an important place in our lives the shopping mall the online store the place where we can get something new something fun and uh I don't mean to poo poo it too much it's fun to get a deal I love going to best and seeing uh if I can get a good discount on a new television even though I don't need one but uh I I think the thing that's less fun is the way our economic Elite and frankly our entire culture talks about the role of consumer spending in our economy this is an issue that uh well I am personally very passionate about because I think it is one of the places where the problems with how our economics is taught and then understood

in popular discourse leads to profound misunderstandings about how to make our country greater how to make our country wealthier how to make our future brighter and you see it time and again this time of year like clockwork listen to any fed speech or Market analysts and you might hear this buzzword that the US consumer is a big part of the economy here's fed chairman Jerome pal 70% of the economy that is the consumers is is healthy with high confidence low

unemployment wages moving up very low unemployment labor force participation it's that's that is what is driving our economy now 70% of the economy what does that even mean well that figure comes from personal consumption expenditures that's an index of consumer spending on goods and services as measured by the Bureau of economic analysis and this chart shows you the percentage of US consumption that's relative to GDP over the last 50 years and a pretty clear Trend here going upwards over that time

now of course it's a good thing for a strong consumer to drive an economy it's a good thing for the strong consumer to drive the economy as you can see consumption has gone up consumption as a share of of the dollars spent in our economy GDP is essentially a measurement it is not an equation it's really just an accounting of all the dollars spent in a given year and the way that accounting ends up breaking down is C

for consumption spending this is what we're talking about Black Friday Christmas presents food clothing Etc investment I which is money that we that gets spent on Goods that actually are productive equipment factories and the like government spending which of course they take from us and spend so it's even weird that government spending is included but yeah what the government spends having taken from us and thereby reducing our consumption and investment

and then um net exports so the total after you subtract Imports of the goods and services that we sell to people abroad that's GDP it is a measurement and over time as you can see consumption as a share of the total has gone up and we are told over and over and over again including from the Federal Reserve that consumers drive the economy because consumption spending is 70% of GDP we hear it over and over and over and over

I don't think it's an amazing economy and the reason it's not phenomenal is because consumers and households alike are managing their budgets like light switches some months we're seeing significant consumer spending While others they're really hunkering down looking to alleviate the budget from past spending and also looking to uh save a little bit and provide more space for further months this is the nonsense in my opinion that we are bombarded with how

dare we manage our budgets how dare we calculate what we should spend versus save and adjust it we should try to spend more more more more more more this is also why you will hear during times of recession in particular economists and and politicians say it's good for growth and for Recovery if public policy puts money in the hands of people who are more inclined to spend it than to save it we will hear this when people

talk about unemployment benefits or stimulus checks or even things like food stamps it's stimulus for the economy to give money to people who have a what economists call higher propensity to consume will can't afford to save I'm going to spend this time with you explaining why this is wrong but first I wanted to share a little bit of a video I made over a decade ago mocking this because it's just that important and we have made just that little progress in

understanding it the economy is just terrible and we've already bought all these presents I'm really worried about our future Honey what else can we do I'm spending as fast as I can to stimulate the economy uh-oh I just maxed out my credit card here use mine the economy can use all the spending it can get stop right there is your family's holiday spirit and checkbook suffering from the fallacy that consumer spending grows the economy

well say goodbye to this popular misconception with econ story's new fake holiday album deck the halls with macro Foles deck the halls with macro folies enjoy the greatest collection of economic Holiday Hits ever aggregated decking the halls with macro Foles once again so what's going on here well first let's go back back to that graph that the uh uh fine Financial

gentleman pointed to with his lovely drawing of how we keep spending more and more of every dollar we uh we earn on consumption this right here is the graph that he was pointing to this is the share of personal consumption expenditures as a share of GDP over time and as you can see if we start after the end of the second world war where things started to normalize in the 1950s we are right around 59 to 60% of GDP is

measured as people going to the store and buying stuff consumers it sometimes dips down to 58% but it more or less hovers around there and then there's an important thing that happens that I want to just note because I think it does play a role in the transformation that that comes next and that is in 1971 Richard Nixon cut the final ties between the US dollar and gold it was called closing the gold window and it

was because basically the Fed was printing money like crazy to help pay for guns and butter the Vietnam War and more and more social programs as part of the Great Society welfare Medicare Medicaid Etc by preventing basically the only people that could still redeem US dollars in gold which was International central banks and governments it set the f F free to print as much money as it liked with no consequences other than

inflation and so what starts to happen in the 1970s and continues through to our modern times is the share of total spending in the economy GDP devoted to personal consumption goes up and up and up as we see we move into the 80s it creeps up into the mid-60s and then we start to Peak around almost 70% by 2011 and to this day we're lingering right around 68% consumption as a share of GDP so if the pundits and politicians are

correct we should be seeing accelerating growth after all the consumer drives the economy and consumption drives growth and we need to be concerned about consumer sentiments and consumer spending well what happened before we look at GDP growth I want to point out the flip side of consumer spending right money can either be spent or what saved and so if you look at personal savings

rates in the United States they are the inverse mirror of the rise in consumer spending right here is the graph of the personal savings rate in the United States again over the same period since the 1950s as you can see throughout that period the 1960s and70s the personal savings rate in this country was 10 11 sometimes as high as 12 133% and then starting around the collapse of the gold standard the closing of the gold window

and the rise of inflation that followed the savings rate in this country continued to go down as consumer spending went up savings went down we're spending down our savings we're spending all of our money as Americans to the point where in the middle of the 2000s 2005 five and six the savings rate was only 2 to 3% that's how much the average person was saving of their income and in

fact after a brief explosion where the FED printed tons of money and sent it to us filling our bank accounts and we were also prevented from buying anything because we were locked down in our homes savings rates have once again fallen so our savings rates in this country are lingering around four to 5% less than half of the period between 1950 and 1980 roughly so if you believe the mainstream if you believe the Keynesian stimulus

consumer spending crowd this should all be good for growth it turns out it's not so final graph this is a graph of real GDP growth year over-year over time what do you see now because of the variability it can be a little hard to see the trends you can however see overall again let's leave out 1942 when growth was at 18% uh distorted by the war or

1946 where the measurement of growth is also way out of whack with the end of the war you see growth 1950 88.7% you see highs 7% 6.9% 1965 6.5% you see growth rates slow growth goes down the more we've spent the more consumers have used stuff up the more growth has gone down I I took this data exported the CSV file and just looked at

the averages per decade to just try to understand it because it's hard to see from here from 1950 through 1969 the average rate of GDP growth in this country was 4.4% at a period when say savings was close to 11% and consumption was about 60% of GDP 4.4% this was sort of the high point as far as low consumption High savings culture in America over the past decade really since 2001 the average growth rate has been almost half

2.4% and if you look at it over time each 20e period has seen growth in this country decline along with savings and exactly in the opposite direction of consumer spending going up that is the facts this is the plain old numbers this is what we are looking at consumption doesn't drive growth a couple percentage points difference in growth per year is an enormous change in the quality of

life for Americans over time growth compounds so when you subtract almost half of our growth rate you are making Americans almost twice as poor over any given decade this is a big deal and this is the result of this Keynesian spending obsessed culture and policy imposing itself on WE the American people and US buying into the lie that going to the

store and buying stuff drives growth it doesn't it is the reason why we want growth but it is not the drive D of it and before I explain why that is um I want to play the part of that uh that Christmas video that tries to do it in a little bit of Rhythm and Rhyme now curl up by the fire with the classical croning of Jean Baptist say hark I hear a fallacy demand can't grow the

economy we produce so we can buy demands enabled by Supply if our goal is more consumption first we must increase production Rising productivity is the path of prosperity the love of markets tells us why growth is driven by Supply growth is driven by Supply now you might hear that and you might hear

rhetoric ringing in your ear what are you talking about what is this you're saying it's like supply side economics trickle down economics what are you talking about what I'm talking about is actually something really really simple and its Simplicity has been masked in economic jargon in mumbo jumbo going all the way back to the the father of modern nonsense economics John Maynard KES this idea the law of markets was the foundation of our classical

understanding of the way the economy worked and that is to say that the way we end up with more demand more money in our pockets more ability to buy stuff and improve our lives the way that you get that is by increasing your productivity being able to make more stuff I only can buy something at the Shelf I only have the money to go to Walmart or to Best Buy or to amazon.com and take advantage of that Black Friday

sale because I I made the money to do it in the past or I borrowed it from somebody else which unfortunately is often the case you know we have seen personal debt rates go through the roof to fund our spending and that means somebody else produced and made the money and I I borrowed it from them and they couldn't spend it and I so that I could that is how growth happens increasing our ability to produce stuff

when you think about it it's very clear when you're on a desert island right if you drop 10 people on a desert island they're barely scraping by they're trying to grab fish out of the ocean and uh skin them with their bare hands and cook them on a fire they've got a concoct right there on the spot hopefully it hasn't rained and you are barely keeping up with life you are consuming but your consumption it might

be keeping you alive but it isn't making you any better off than sustaining life if you you want to actually start to have Leisure or anything like more of the things you want you know a a nicer Hut some some something to do when you're not desperately trying to fish and find food what you have to do is save that is the actual mechanism if you want to take the time to figure out how

to catch more fish to build a net to construct a a trap or a contraption that is what investing is you have to take the time and invest it into the capital that will make you more productive that is the best model for how to think about savings and investment and why higher savings not higher consumption leads to higher growth higher savings means we now have

resources to in invest in making ourselves more productive figuring out how to do more with less investing in factories investing in R&D for new processes new products that that is what drives growth savings drives growth not consumption not spending and that's why all of the public policies the inflation the stimulus program

that try to push us to spend every nickel we've got instead of save it for the future and make it available for people to borrow and invest stand in the way of us having a faster growing healthier economy it also is the case that that very process is what actually increases our wages the reason why today Americans hour of work will buy more

stuff than 50 or 100 years ago for an hour of work is precisely because we have managed to invest over time in things that make that one hour of work get a lot more done again one more analogy Economist Milton fredman famously or perhaps apocryphally was visiting a public works job site in in another country I think it might have been Hong Kong and he sees everyone digging a uh a trench for a road using

shovels instead of tractors and he spoke to the foreman and said I don't understand you have um Modern Machinery why are you using shovels instead of using a giant tractor you could get so much more done so much more quickly and the man said well sir this is a jobs program and his response was well if it's a jobs program why not use spoons the way we get more with less the way we make more money is by getting

more productive that is how we do it we need to find a way to do more per hour worked and then when we do that and we finally have that money in our pocket we need to save more of it than we currently do and only then can we get into a healthier economic situation so I hope you use this Friday's deals to keep a little bit of money in your pocket if you're struggling working

paycheck to paycheck I totally get it and I hope your future brightens as we head into the new year and I also just want to offer my gratitude to all of you who watch Dad Saves America here it's been a incredible year for us we entered 2024 with a little over 50,000 subscribers and looks like we might have 250,000 before the year is done that is all thanks to you showing up liking what

we're doing and hopefully liking this video if you do please leave a comment if you think I have once again gone off the rails let me know and uh have a great holiday weekend