An Entrepreneurial Strategy for the Prosperity of the American Economy

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This paper aims at providing an entrepreneurial strategy for the prosperity of the American economy. A theoretical explanation of the business cycle is provided, and evidence is brought to substantiate the explanation of the Great Recession of December 2007. Based on this sound theoretical and empirical background, an entrepreneurial strategy is provided for the prosperity of the American economy. Essentially, this strategy contains various components aiming at increasing revenues and decreasing costs of the American business economy. Consistent with these two goals, investments, employment, income of the American people, and government tax revenues will be significantly increasing.

INTRODUCTION

Countries try to formulate and implement a long run strategy designed to enhance the prosperity condition of their economies which enhance people's welfare. The United States of America has not really engaged in a strategic planning for developing the American economy because it was thought that a national economic strategy is incompatible with the market system which is thought to survive economic crises. It follows that during each economic recession, millions of people lose their employment and income, as business enterprises plan to invest less or close down many plants. But the Great Recession of December 2007 has generated disastrous economic conditions which raised the unemployment rate from 5 percent in 2006 to about 10 percent on November 2009 and 9.7 percent on February 2010. Banks are hoarding cash and are reluctant to provide loans to both business enterprises and people.

It is a well-known proposition that American capitalism cannot function without credits created and provided by the banking system to all economic agents. It is also true that American capitalism does not operate effectively during a period of high inflation. This is because creditors are expected to lose part of the purchasing power of their loans, which occurs when borrowers pay back their debts when the inflation rate is high. Spending for wars creates an inflationary environment, particularly when war expenditure is financed by borrowing. Wars in the Middle East always tend to increase oil prices, which create inflation in the imported countries. Therefore, wars do not benefit the American economy, although oil corporations and the military industrial complex generate huge profits.

The basic purpose of this paper is to formulate an entrepreneurial strategy for the prosperity of the American economy. In order to do so a theoretical framework is developed in section two to explain what has actually happened in the economy to trigger this disastrous economic condition. Section three uses the analysis of section two to formulate and implement a basic entrepreneurial strategy that can negate the unwarranted economic condition and be able to create a prosperous economy for the American people. The last section is devoted to a summary and conclusions of this paper.

THE THEORITICAL FRAMEWORK

Before formulating an entrepreneurial strategy for the prosperity of the American economy, there is a need to explain the prosperity condition of the economy, which is based on the rising revenues and decreasing costs. The difference between the two variables is the profit. Once profitability increases, investment will increase, and so will employment and income. The analysis presented here is based on Veblen's and Mitchell's works on the business cycle (Mouhammed 2008). For the economic prosperity, Veblen provides some variables for reducing the cost of output. He (1923: 97) contends that a "ceaseless advance of the mechanical technology has...the effect of lowering the production cost of the necessary equipment, as also the (physical) cost at which raw materials may be had." So, a reduction in the prices of capital goods and the quantity of raw materials such as oil used in the production process by using advanced technologies reduce the cost of production. And the decline in cost of production will increase (shift) the aggregate supply curve and profits.

One of the initial effects of introducing technology is to replace expensive workers and reduce wages to keep the production-costs down (Veblen 1923: 220 and 287). Simultaneously, technology increases work intensity and efficiency by augmenting the work done and the gross output per hour, or productivity. Veblen (1923: 200) thinks that the business community always intends "to buy the industrial man-power as cheap as may be, and to sell the means of living ...as dear as may be." More importantly, a cut in money wages will increase the aggregate supply and profits, generating higher output and lower price level. This proposition of lower wages clearly means that profit inflation is augmented at the expense of the community. Moreover, lower wages during the initial expansionary phase of the business cycle are associated with increased productivity which reduces the cost of labor per unit of output.

This behavior of increased productivity and lower wages implies a lower share of labor in the Gross Domestic Product (GDP) and an inequality in income distribution in favor of the business community, or absentee owners. This inequality creates output that cannot be sold domestically (or overproduction), as working people have less income to spend. Therefore, a tendency to go global becomes essential for capitalist development, and governments have to accommodate this tendency by serving the business interest through diplomatic efforts and military forces. Historically, the military approach has been very popular because it benefits the military and oil corporations, which are the most important institutions in the American economy. Simply, the idea of finding global markets means the augmentation of the aggregate demand and the reduction of cost by finding new and cheaper input sources.

Mitchell (1913, 1927, 1941, and Mouhammed 2008) includes other factors reducing the cost of production during the early phase of economic prosperity such as low interest rates, taxes, administrative cost, rents, insurance premium, and lower prices of materials. For Veblen (1923: 393), the basic point is, "The earnings of enterprise and invested capital are always eventually to be drawn from the margin of sales-price over production-cost, it is incumbent on all business management to curtail production-cost so far as may be." Simply, entrepreneurs have to reduce all elements of production cost in order to be efficient and profitable. Higher profit margins will increase investment and income.

On the revenue side, Veblen (1923: 287) argues that the fundamental objective of business enterprises is "to increase their sales without lowering prices". Sales can be augmented by several methods. Salesmanship which consists of advertising and personal bargaining according to Veblen (1923: 311) is used to increase sales and revenues. In fact, this method emphasizes the importance of marketing. It is also true that the new techniques of marketing products and the new ways for finding markets are crucially important for the business enterprise, because they are essential elements of innovations furnished by entrepreneurs for prosperity. Once again, successful marketing will increase the aggregate demand and revenues.

Debt is needed for generating higher demand and revenues as well as higher prices. And the Federal Reserve increases the supply of money and provides loans to banks. New credits provide funds to people whether they are business or consumers. Consumers can obtain some credits to spend for consumption items. The increased consumption spending will stimulate producers to produce more output to accommodate the growing demand. Consequently, induced investments will be materialized, and many industries producing capital goods will have new demands for their machines and equipment. In other words, credits create a process of cumulative causation helping the entire economy. It follows that central banks should stand ready to accommodate the economy with a sufficient amount of liquidity. In short, loans at lower interest rates can increase consumption and investment expenditures and consequently will increase the aggregate demand, revenues, and the aggregate supply of the economy.

Given a low cost of production, Veblen (1923: 400) correctly thinks that profit "is widened by raising the level of sales-price; both by efficient salesmanship in the merchandising trade and by a continued expansion of the outstanding volume of purchasing-power through a continued creation of credit." When profits are widening, investments, employment, and income will rise, and the economy is prospering. Governments can obtain more tax revenues from people when prosperity continues. And taxes can be used to maintain and develop the infrastructure of the country which partly minimizes production cost, as new roads, training centers, communications, and bridges are built.

When some firms adopt new technologies, they have to invest heavily. New investment expenditures will stimulate firms using the new technologies to expand its production process by producing more capital goods, which require materials and inputs from other linked industries. It follows that these industries will react to this stimulus by increasing their production, which will in turn increase their demands for other necessary inputs, including skilled and educated labor. All these expansionary effects increase the aggregate demand and supply and consequently will increase profits, employment, and income of economic resources, which in turn increases consumption spending on other goods and services. Firms will react to higher expenditures by producing more of these goods and services and by using more economic resources to satisfy market demands.

Governments can increase business revenues and effective demand as well. Government, as an important institution serving the interest of absentee ownership, enhances "prices by contributing to the security" of the country (Veblen 1923: 432 and 400). Veblen (1904: 250-56 and 1923, 34-5 and 398-411) thinks that security is maintained by spending on police and military; both of these expenditures generate a higher aggregate demand that enhances prices and revenues. For example, many industries can benefit when the government cuts taxes and spends more on military hardware. The defense industries can produce tanks, bombs, airplanes, missiles, and other necessary equipment for the military. Other industries such as the auto industry also benefits because they can provide more cars and trucks to the military sector. As is usually known, these items do not have a longevity during wars. Hence, the economic engine will be working as long as a military hostility exists. Veblen also thinks that wars will dislocate the economy in the long run, as they damage many industries and increase interest rates due to high government demand for borrowed funds. In other words, war spending can affect the economy positively in the short run but it has disastrous consequences in the long run.

Revenues can be augmented by merger and consolidation (Veblen 1904: 240-44 and Veblen 1923: 337) and by enlargement of domestic and foreign markets (Veblen 1923: 287), where the latter is achieved by imperialism (or globalization). Merger and consolidation, while they eliminate some producers, do increase profitability and revenues of some firms, as they increase prices and cut costs. Many redundant costly operations are eliminated, and most likely merged firms can augment their market power by charging higher prices for their products and by paying lower prices for their purchases. Thus, profits are increasing. But for the entire economy, mergers enhance monopoly power and increase prices of materials. Thus, the production cost of other enterprises will rise and the aggregate supply of the economy will decline. In the global economy, higher prices due to monopoly power may force world consumers to switch to other providers; hence, the market share of the merged firms may decline.

Similarly, finding or enlarging foreign markets can increase revenues and profits. Foreign markets generate more sales for firms operating globally. That is to say, exports of the country will rise; consequently, investments, domestic employment and income will be rising affecting other domestic industries and the economy positively. It is also true that foreign markets can provide inputs to be processed. These inputs can secure the production process for many firms using these inputs to produce products. For example, finding oil and coffee in some foreign markets will make oil companies and other firms (producing products such as petrochemicals) able to generate more profits and revenues.

Mitchell (see Mouhammed 2008) thinks that some forces may arise to enhance the domestic economic prosperity. For example, if other countries cut taxes on imported items, then exports will rise and the exporting country can benefit. The provision of credits by some of the exporting countries also stimulates exports of the country. Another important force is the exchange rate of the national currency. If the dollar is depreciated, then the exports of the country will increase as their prices become cheaper in term of other strong currencies. Imports will decline, as the imported items become expensive in terms of the dollar. Hence, the aggregate demand and employment of the country will rise. A similar outcome occurs if some foreign countries become prosperous and increase their imports from other countries. Prosperous foreign economies will fuel the expansionary process in the linked national economies.

In short, economic prosperity of a capitalist economy comes by increasing aggregate demand and revenues and by decreasing aggregate costs, a situation generating high profitability. For Veblen, high profits explaining the internal dynamics of prosperity mean augmented earnings and capitalization; as business enterprises issue more outstanding securities. That is, profits create prosperity in the stock market and various groups of economic agents benefit. Eventually some of these enterprises during the prosperity period become over-capitalized (Veblen 1904: 220-21 and 1923, 182-83, 221f and 334).

Usually, as profits increase and the economy prospers, firms demand more workers. Logically, money wages will also rise. During this condition productivity slows down, and when this happens, given the fact that money wages are rising, the labor cost per unit of output will rise. As the prosperity continues, demand for capital funds will increase. Hence, interest rates will be increasing, a phenomenon that will kill the expansionary process of the economy because it increases the cost for many business enterprises and consumers (Schumpeter 1934).

Mitchell (1923 and 1951) thinks that during the prosperity phase of the business cycle, rents, insurance cost, interests, office cost, money wages, and prices of raw materials will be rising. Normally, as demand for offices and raw materials rises, rents and prices of inputs will be increasing. For example, when demand for corn rises, the price of corn will increase, and this requires firms using corn as input to pay a higher price for corn. Hence, their cost of production will rise. Similarly, if the price of oil increases, oil consumers will have to pay higher prices. It follows that the cost of production will be increasing, and these higher prices and costs will contribute significantly for reducing profits and increasing inflation which in turn increases the nominal rates of interest.

The period of profit reduction creates financial problems (fragility) for some of the overcapitalized and other business enterprises, as they have to pay the fixed charges for the means of debt created during the prosperity period. Consequently, a liquidation process starts, and many firms, banks and financial institutions, and individuals will be bankrupt. Creditors will lose, because in some crises the values of collaterals become lower than the values of the debts. Usually, this indicates the start of a new period called recession (See also Mouhammed 2003). During this period some firms which started producing during the late period of the expansion will try to sell their products, but the economy is in a crisis. Their only option is to cut prices in order to obtain cash. All these indicators will reduce confidence in the economy, and firms will have to cut production, which means less investment expenditures and a higher unemployment rate. This, in turn, generates lower incomes and lower consumption spending which hurt retailers and other businesses. Both consumers and investors form a condition of fear, and bad news will be diffused about the economy.

Empirically, the reality of the American economy provides supporting evidence for the foregoing explanation. The Great recession of December 2007 can simply be explained by the previous analysis. The American economy was growing after the terrorist attack of 11 September 2001. The Bush administration reacted militarily by occupying Afghanistan and Iraq. The federal government had no funds to finance these two wars, and therefore the government started borrowing from foreign countries and other domestic sources. In other words, the Bush administration did not raise taxes to finance the war, and borrowing was the method that increased the expectations of inflation. The Federal Reserve increased the federal funds rate which led to increase the interest rates.

Due to the war in Iraq and the threat of bombing Iran, oil prices started soaring significantly. By July 2008 the price of a barrel of oil reached $147. When the price of oil and cost of money rose, several outcomes occurred, including the increases in the rate of unemployment. Many families could not pay their mortgage payments, and the housing sector collapsed, generating a very high rate of unemployment among construction workers. Likewise, investments in residential buildings declined significantly, and the aggregate demand and the aggregate supply declined. In other words, these variables reduced the Gross Domestic Product (GDP) and increased the rates of inflation and unemployment. It follows that additional families could not pay their monthly mortgage payments and had left their homes. Many banks and investors owned assets in these houses had lost, and the financial sector collapsed.

Moreover, when the prices of oil increased the substitution effect worked. Some people had to reduce their consumption of oil and others could not find alternatives; as the demand for oil is inelastic. Simply, higher prices of oil have reduced spending on other commodities and services produced by the economy: the income effect. For example, some people could not afford dining outside, which then damaged restaurants. People could not travel either, and the hotel industry was negatively affected. Sales of the retail sector declined as well. All these service industries had to cut employment as demand for their products and services declined.

In addition, the increased oil prices had a tremendous effect on other industries using oil as the basic input. American auto industries started collapsing as people reduced the purchases of cars requiring more fuel to operate. When this industry felt the pain the steel industry and other industries such as the tire industry were negatively affected as well. Hence, unemployment started increasing in these affected industries, pushing the national rate of unemployment upward. The airline industry depends heavily on oil, and when oil price increased, airfare also doubled. The demand for air travel is elastic, and consequently the number of travelers declined, so did revenues. Demand for airplanes declined, and the production of airplanes was postponed, causing companies such as Boeing to suffer from a decline in revenues. In short, industries were linked directly and indirectly to the price of oil, and once the price of oil rose, these industries were negatively affected. All of these industries had to cut spending on investments and had to reduce employment. Eventually, people's income declined and the economy collapsed.

It should be clear now that spending for the wars and the increased oil prices and interest rates generated high inflation and unemployment. Budget deficit increased due to government wasteful spending on militarism, which provided a signal for a higher rate of expected inflation. Interest rates increased, and millions of people could not pay their mortgages. Investment in the housing sector declined, and millions of construction workers lost their jobs. The financial market collapsed, as many financial institutions lost funds in the housing sector, and the national rate of unemployment rose. The wars generated higher oil prices which disintegrated many industries and damaged consumers' purchasing power. The only beneficiaries (with huge profits) were the military industrial complex and oil corporations. Innovations were not significant whether in developing technologies or new products. Hence, investments could not increase to accommodate innovations. Eventually, the aggregate demand and the aggregate supply declined, generating the current Great Recession with higher rates of inflation (about 5 percent in 2008) and unemployment (about 10 percent in November 2009). The increases in both rates formed a phenomenon called stagflation. Once the inflation rate was actually rising, banks tended to hoard cash by reducing lending as a result of the fear factor for their funds and the purchasing power of their loans.

THE REQUIRED ENTREPRENEURIAL STRATEGY

The proposed strategy is grounded in two dimensions. The first dimension aims at what the business enterprises have to accomplish, and the second dimension aims at what the public sector must implement. Both dimensions have to reduce the cost of doing business and to increase revenues in order to augment domestic investments and to compete globally. Business enterprises must deal with several components of entrepreneurial strategy in order to survive in the competitive global environment. The business enterprises must be engaged in innovative activities. They have to find new methods and processes to produce their products efficiently. This requires continued research and development through spending on scientific work. These new processes may require investments in new technologies in order to increase labor productivity and to cut inputs required for the production process. Implicitly, this goal needs effective and efficient management with competent leadership characterized by honesty, empathy, intelligence, rationality, and the ability to react properly to unforeseen or uncertain events and to stimulate workers to work more intensely and efficiently for the business enterprise. This also includes the avoidance of any rent seeking activity (which always increases corruption and the cost of doing business) and the ability to obtain information and skills that reduce cost of production.

The innovative activity also contains finding new and high quality products. These characteristics of products will enable the business enterprise to increase its market share domestically and globally. That is to say, product developments maintain the same customers and bring new customers to these new and high quality products. For example, an auto company cannot survive by producing ugly cars that consume lots of fuel in an economic condition where the price of fuel is extremely expensive. It is also true that entrepreneurs of these enterprises must keep trying to find markets domestically and globally where people can purchase these products. Simply, finding new products and markets (export outlets) will keep demand curves increasing and consequently will augment business revenues. Finding supply sources of inputs is also important for cutting cost and increasing profitability. Markets may force businesses to adapt products for particular conditions, and these firms are forced do so. These activities suggest that business enterprises must take the necessary risk for augmenting profits.

Usually, firms operating in foreign markets have to compete with other firms for attracting customers. Besides the high quality products, prices must be reasonable and competitive to attract buyers. Monopolistic and oligopolistic prices are normally too high for many producers and consumers; thus, high prices will drive consumers away. The best solution for this problem is to behave like competitive producers with the lowest degree of market power. Once market power is curtailed, business enterprises can compete in terms of prices and quality of products, which is the best strategy for successful operations in the global economy.

The business enterprise must avoid X-inefficiency. This means that managers need not engage in activities aiming at expanding their power or giving jobs to incompetent friends. Inefficiency and work de-intensity rise due to lower motivation of workers and ineffective supervision. Nor should managers use the rule of thumbs in making decisions. They must always resort to the rule of rationality: where costs and benefits must be compared before making a decision. In addition to the managerial efficiency required for the global competitive environment, the business enterprises have to provide its labor force with the necessary education and training for better skills. Both activities enhance labor productivity and consequently reduce the cost per unit of output. Given the market price for a product, the lower cost per unit of output can increase profitability which is the most important source for investments and expansion.

Business enterprises may resort to imitation for developing new products. Imitation is an important behavior for the business survival, and firms that cannot imitate may collapse in the global economy. For example, auto companies in the world imitate each other and have been able to produce efficient cars. But the American auto makers have been reluctant to do so and have continued to produce inefficient cars. Hence, these firms are on the verge of collapse.

Firms in the long run have to cut their cost per unit of output. This goal can be achieved by reducing wasteful activities and becoming more efficient. For example, firms spend huge funds for advertising in order to create consumer loyalty. If spending on this activity declines, the remaining unused funds can be reallocated to investments or can be used to pay for price cutting to increase the firm's market share. Efficient uses of capital goods can increase efficiency by reducing breakdowns. By the same token, the efficient use of high productive workers can reduce cost per unit of output as well. Many firms can reduce its cost by producing by-products if this is possible. For example, automakers can produce cars and parts, and a university can offer various degrees for increasing economies of scale. Developing by-products will cut average cost of production in the long run and reward businesses for taking the necessary risk.

Business enterprises have to deal properly with their workers by establishing competent and cooperative procedures of labor relations. These relations improve labor productivity by enhancing and developing high morale. Firms must follow rules established by workers and management. Both can share a part of the profit and use the rest of the profit for increasing investments. Workers can become more productive when their bosses follow reasonable working rules for rewarding workers according to performance. Surprises and employment of incompetent friends create disturbances and slow down productivity. It is also correct that a long run plan for a business concern is more effective if the working people provide inputs for developing the plan: the elimination of the Yes-Man. Workers are knowledgeable in deciding which product can be eliminated if it becomes unprofitable. They are important contributors for designing and developing new products that attract customers and enlarge the firm's market share.

With respect to the role of the public sector in the economy, the government must do its part in order to help business enterprises cutting cost and increasing revenues. The government must furnish several components for an effective national strategy. The government has to direct public spending to stimulate and finance innovations. The government can coordinate this action with the private sector. Funds can be spent for developing research for finding new technologies, organizations and methods of production, and new markets for selling products and obtaining economic resources. Funds have to be spent for finding alternatives to oil, a strategy that reduces the country's independence on foreign oil and consequently will eliminate costly wars for obtaining economic resources. The development of these innovative elements can be utilized later on by the private and the public sectors for increasing revenues or reducing the cost of doing business.

The government has to spend funds for enhancing labor productivity. The public can train workers for various skills in order to increase their productivity. These skills can be used by various enterprises. Particularly, it is extremely important to train labor on new skills that the economy has a shortage in them. As Adam Smith (1776) analyzes it, specialization saves time and increases productivity which increases capital accumulation, employment, wages, profits, and the wealth of nations.

The government can create a reasonable economic environment by which the business enterprise will make less number of violations. That is to say, business enterprises can stick with the rules established for that purpose. Less costly regulations will reduce the cost of doing business and will help business enterprise use their funds for more investments. A higher rate of domestic investment is an essential force for increasing economic growth, employment, and income. These increases will in turn increase government tax revenues.

The government needs to reduce corporate market power by increasing competition. This can be done by either regulations of big corporations or by breaking these corporations into smaller competitive components. Once corporate power is weakened, prices of economic resources will decline, and many firms can employ more of these resources without affecting their profit margins. Consequently, products can be sold at lower market prices and consumers become better-off. Indeed, competitive firms, in contrast to monopolistic and oligopolistic firms which tend to be inefficient, can generate allocative and productive efficiency which will enable the economy to grow faster. In this context, bailout is the wrong policy, because it wastes tax funds and keeps inefficient firms on the oxygen: alive.

The government has to be involved in an effective fiscal policy. Taxes must be cut on people and on economic agents. Cutting taxes on business enterprises will stimulate them to save more funds, hire more workers, and purchase new capital goods for investments. Government can stimulate domestic investments by providing credits and tax exemptions for those firms investing domestically. Similarly, income earners can make advantage of low taxes by keeping more disposable income for additional consumption and savings. The government can provide tax credits for rapid depreciation of capital goods employed domestically. Simply, more domestic investments will generate more jobs and income for the American people, and these jobs will enable people to buy houses in order to stimulate real investments in the housing market and other related industries.

By the same token, the government has to have an effective policy for spending. The government must spend on unemployment compensation in order to help the unemployed to live decently. The government has to spend more on education. The government must establish excellent schools with best teachers to teach students sciences and mathematical courses. These courses will enable students to attend colleges to study sciences, engineering, computers, finance and insurance, and other scientific fields. Obtaining these degrees will allow these graduate students to find better employment at higher salaries. In addition to education, training must be provided by the government to help displaced workers to obtain new skills and new jobs. It follows that education and training will enhance the quantity and the quality of human capital which is an essential ingredient for economic growth and development. And once the growth rate of the economy increases, the unemployment rate will significantly decline. That is, a higher rate of economic growth will create millions of jobs.

Government spending on the infrastructure is also a necessary task for the economy. It has been estimated that the country needs around $200 billion to maintain all bridges in the country. The Bush administration could not find these funds because it tended to spend the marginal funds available for the two wars. New bridges and roads, power stations, internet network, maintenance of the existing roads and bridges, and building new airports increase productivity and minimize transportation cost. Thus, efficient infrastructure reduces cost of production (external economies) and increases productivity which in turn raises economic growth and reduces unemployment. Without efficient infrastructure, the nation cannot become prosperous.

The government has to have a clear policy for eliminating corruption and rent-seeking behavior. Policies designed for these purposes will create confidence in the business enterprise and will reduce production cost, because corruption represents internal and external diseconomies. It increases the cost of the corruptive firms and imposes higher cost on the community, which will in turn generate external diseconomies on non-corruptive enterprises. In addition, once rent-seeking behavior is eliminated, American democracy can work effectively for all the American people.

The government has to spend funds to maintain the environment. Capitalist behavior has wasted economic resources such as land, trees, forests, and water. This behavior has polluted the environment as well. Saving the environment and species require the creation of green jobs. This transition process has to be encouraged and financed by government spending. The government has to impose a harsh penalty on those business enterprises that are polluting and destroying the environment, and has to be engaged in global treaties that protect the environment. This tendency will compel the country to produce new technologies for reducing pollution, which requires a higher rate of domestic investments which will reduce the rate of unemployment.

The government has to work with other nations for achieving various goals and has to provide development assistance to other needy nations. The prosperity of these nations will increase their imports from other nations, including the United States of America and will allow foreign direct investments to prosper, which will generate higher rates of employment and income for the unemployed and the employed people. The government has to work with the world community to eliminate tariffs and subsidies in order to enhance free trade. Free trade will increase the country's exports to these nations and will reduce prices of goods, services, and economic resources. The government has to work with the world community for finding an agreement for establishing a fixed exchange rate regime. The fixed exchange rate will not allow a country to depreciate and appreciate its currency unilaterally in order to make adjustments to the balance of payment, because these changes create economic disturbance and economic dislocation. In short, the global cooperation and the reduction of U.S. budget deficit will create political and economic stability in the world.

The public and the private sectors have to reform the health care. The health-care cost has been increasing significantly and millions of people do not have health insurance. Health care has become costly for business enterprises and has pushed many firms to relocate to other countries. Profitability of firms has also been declining due to the high cost of health care. Therefore, a reasonable solution must be found for this problem, and the public option is the best solution for the people.

The government has to reduce poverty and income inequality. Over the last eight years more than thirty seven million Americans are considered below the poverty line. The Gini coefficient, which measures income inequality, has increased to more than 46 percent. Income inequality shows that about 20 percent of the population receives fifty percent of the distributed income and the other eighty percent of the population obtains the other fifty percent of the income. This inequality is manifested in a reduction in consumption spending for a large segment of the people. In other words, if income is more equitable as it was before 1973 when the Gini coefficient was 37 percent and the percentage of the poor was lower, then consumption spending could have been higher and business enterprises could have earned more revenues and could have invested more funds. It follows that a national economic strategy has to consider the reduction in poverty and inequality as basic goals for the prosperity of the nation. Education, training, and government support for the needy families can reduce these disturbances and put the economy on the right direction.

Living wages in line with productivity and cost of living is an important goal for the American people. Even Adam Smith in his Wealth of Nations suggested that higher wages will increase labor productivity, growth, and employment. It is true that if wages increase without the necessary increases in productivity, business enterprises will make lower rate of profit. But if productivity increases because of technological advances and labor intensity, capitalists can pay higher wages and still make reasonable profits for the expanded accumulation process of capital. It is the intention of this paper to argue that if productivity grows on the average by three percent or more a year, money wages will have to increase by the same percentage. A high-wage economy is of crucial benefits for the economy, because the working people spend what they obtain for purchasing consumption goods, houses, and other assets, and capitalists will be able to increase investments.

Two important institutions must be controlled by the public are oil corporations and the military industrial complex. Military spending must be cut by fifty percent or more because the country has the military ability to destroy the entire world several times. Currently, the annual military spending is about one trillion dollars, and the country can save half of that amount and redirect the saving towards investment in the infrastructure, education, the health care, and the local and state governments to enable them to save and to create new jobs. Oil corporations represent the other important institution which pushes the country to go to wars such as the occupation of Iraq and Afghanistan. Both countries have been occupied for the cause of oil and oil pipeline, respectively. The same companies created the ongoing hostility between the United States and Iran. These corporations are also responsible for the high prices of oil in 2008, which affected the country negatively and contributed significantly for the appearance of the Great recession of 2007 and the collapse of many industries such as the auto, the airline, and some service industries. They are responsible partly for the misery of the American people. Indeed, the best ways for minimizing the influence of these corporations are the public control and the search for energy alternatives. Again, when these corporations' influence is dominated by the public, the war tendency for grabbing economic resources of other countries will die out gradually; hence, the country (and the world) will be safe.

The federal government must provide more funds for many states to help them balance their budgets. Currently, many states have budget deficits, and the federal government allocated about $117 billion for helping these states. This allocated fund was partly used for saving and creating jobs. But this allocation was not sufficient, and many states started laying-off people. If these deficits are not solved, these states may be forced to increase property and income taxes, an action that will affect people and businesses negatively. Rising taxes is also inconsistent action with the federal government strategy intended to increase spending and to cut taxes for creating more employment and income for the American people. In other words, the states' action will negate the intended goals of the federal government and may keep the economy in its recessionary condition for a long period of time.

The Federal Reserve has to maintain price stability in the economy. As it is understood the Fed's goal is to conduct the monetary policy of the country in order to keep a stable price level. That is, deflation and inflation must be avoided. For example, under a recessionary condition banks are likely to hoard cash rather than lending funds to consumers and business enterprises. In other words, hoarding reduces the rate of economic growth and increases the rate of unemployment. The fear and uncertain conditions can lengthen the recessionary phase of the business cycle. The Fed can provide the necessary credits (liquidity) to economic agents in order to create confidence in the economy, and the government can guarantee loans provided to small businesses. That is, the Fed has to maintain price stability and control inflation in order for the banking system to be able to provide the necessary liquidity for the economy. In short, financiers like to avoid inflation and uncertainty. Lastly, the Fed must avoid the practice of increasing the federal funds rate when the rate of unemployment declines and the rate of capacity utilization increases, because this practice has contributed significantly for derailing the economy from its expansionary path.

SUMMARY AND CONCLUSIONS

A theoretical analysis for the Great Recession of December 2007 was provided and supported by some facts. Basically, the American monopoly capitalism is no longer able to function efficiently with long-run wars. Wars destroy people and their properties and create fascism and many violations of international and domestic laws. The wars in Iraq and Afghanistan have enlarged the budget deficit to $1.4 trillion, generating an inflationary condition that will increase the long-run interest rate and crowd-out private domestic investments. The dollar will be depreciating and the cost of imports will be rising, which will contribute cumulatively for rising inflation. The wars have also contributed to increase oil prices which have increased the cost of doing business and have weakened the American people's purchasing power. Several industries such as the auto industry have been disintegrated. In short, revenues of the business enterprises have declined and costs have risen; hence, profitability has been squeezed (which disturbs the stock market and weakens the financial institutions) and investments have declined. The outcome is the Great Recession of December 2007. Fundamentally, the war tendency (or mentality) has to be eliminated or curtailed by the American people, and a civilian competitive economy for serving the American people must be built.

To change the recessionary condition which has been characterized by high rates of inflation and unemployment, an entrepreneurial strategy has been developed. The proposed strategy aims at increasing business revenues and decreasing business costs in order to increase profitability which will revive the stock market. Business enterprises which must have to have open-minded leadership have to create better organizations and working relations in order to reduce the long run cost per unit of output. These enterprises have to adopt new technologies that are able to augment productivity which will increase economic growth and employment, and have to be innovative in cutting cost and in increasing market share. Usually, innovations come by spending on research and development (R&D) and by having intelligent leaders. These firms have to take the risk by developing new products and by eliminating products that are not desirable by consumers. They have to find ways for cutting input costs by introducing new technology.

To help business enterprises generate prosperity, the government has to adopt a compatible complementary strategy for creating external economies for people and businesses. Basically, the national strategy has to depend on a sound mix of fiscal and monetary policies. Government has to cut military spending and budget deficit and has to increase spending on education, training, infrastructure, technological advance, productivity, innovations, and unemployment insurance. The government has to work on solving the health-care problem by providing health insurance to the American people. The government has to cut taxes on domestic investments, particularly in the manufacturing and the housing sectors, and has to discontinue all forms of bailout. The Fed has to provide sufficient money and credits for the business enterprises and consumers at very low interest rates, a provision that has to be associated with the achievement of price stability by reducing inflation. In short, these strategic elements will be able to create new investments and to generate employment and income for the American people.

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