

# “It’s Over” For US Economy: Buffett Partner

By <http://www.therightperspective.org/2010/02/24/its-over-for-us-economy-buffett-partner/> The Right Perspective

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Long-time business partner of Warren Buffett, Charlie Munger, writes [in a new article for \*Slate.com\*](#) that “it’s basically over” for the United States economy.

In his article, the Berkshire Hathaway vice chairman constructs the parable of Basicland, whose economy just so happens to run parallel to that of America.

In the beginning of Basicland, people live within their means, debt is limited to mortgages and some consumer loans, speculation is discouraged, and taxes are limited and pay for only “basic services” like fighting fires, defense, and the court system.

As a result, the economy happily grows at a steady annual rate of 3 percent.

But things take a turn for the worse, Munger writes.

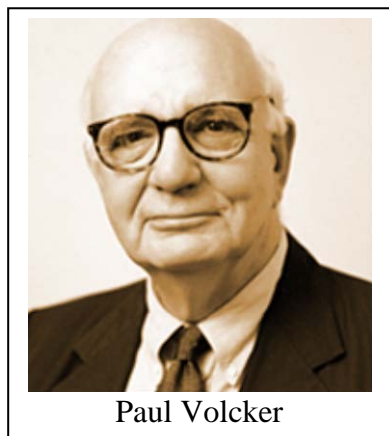
“The extreme prosperity of Basicland had created a peculiar outcome: As their affluence and leisure time grew, Basicland’s citizens more and more whiled away their time in the excitement of casino gambling,” and financial services soon grow to account for too big a portion of the economy.

“The winnings of the casinos eventually amounted to 25 percent of Basicland’s GDP, while 22 percent of all employee earnings in Basicland were paid to persons employed by the casinos, many of whom were engineers needed elsewhere,” Munger writes.

Then, Munger’s tale takes a shocking turn: Imported energy costs rise, and low-cost labor competition from abroad appears.

“Suddenly Basicland had to come up with 30 percent of its GDP every year, in foreign currency, to pay its creditors,” Munger writes.

The U.S. deficit — just the gap between spending and income in one year — is projected to hit \$1.6 trillion in 2010. Total debt is project to exceed 100 percent of GDP starting in 2011.



Paul Volcker

In the parable, Munger strongly suggests that the United States take seriously the campaign of Reagan-era Fed Chairman Paul Volcker, who wants the big banks to cease pretending to be banks if they expect the freedom to trade securities on the side.

“He suggested that Basicland should strongly discourage casino gambling, partly through a complete ban on the trading in financial derivatives, and it should encourage former casino employees — and former casino patrons — to produce and sell items that foreigners were willing to buy,” Munger writes.

As the parable ends, none of the politicians listen, and Basicland turned into “Sorrowland,” Munger concludes.