

US Government Policies Will Not Fix Its Economy

Purpose

This is a reissue of previously disseminated information.

The *CJ* Investment Newsletter deals with the entire spectrum of securities investing, including cash (money market funds), bonds, equities and options. It will evaluate the overall investing environment and then discuss the relative allocations of these asset types, as well as strategies to implement within them. Essentially, it reflects what I'm actually doing with my clients.

These letters are not sent "cold." Either I know you or someone you know gave me your name. Yes, this letter *is* a sales tool. It communicates how I apply my investment strategies, so that you can decide, without any sales pressure, if my thinking is compatible with how you want your money invested. If you're not already a client, I would like to discuss your *becoming* a client. Please call me for more information.

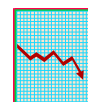
However, that's not its only purpose. Even if you never become a client, if you want this information, I want you to have it – for a while, anyway. My hope is that providing this information and teaching you what I think is important when investing may help you. Please contact me if you have any questions or comments. I'd love to hear your reaction to my letter.

Quick Look

Market



Next Expected Move



- The US government's policies will not fix the current economic problems because they operate in at least one incorrect paradigm.

US Government Policies Will Not Help

“Those who cannot remember the past are condemned to repeat it.” – George Santayana

Can we agree that in order to solve a problem, one must first understand the true nature of the problem? Put another way, doesn't the manner in which a question is asked define which answer(s) will apply? Given this, if the paradigm of understanding a problem is not true, does that not preclude finding an answer to the problem that would solve it?

Listening to every US President since Reagan and the two Fed Chairmen in that same period, one would think that the primary source of most of our economic problems were related to some sort

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of problem with consumer demand. Here is the crux of the government's misunderstanding.

Believe it or not, there are *two* ways of looking at the causative agent driving a capitalist economy:

- Demand causes production – the government's view.
- Production creates demand.

You probably don't know about the second because, prior to late college or graduate school, if then, the US governments only teach the side that empowers government to interfere "rightfully" in economic matters. They don't want you to know the other side – a topic for a different article.

The first view began in the 17th century and it was heavily influenced by the Mercantilism of the time. The second view was argued most famously by David Ricardo in the 19th century. From *MacKenzie* (above right): "David Ricardo and Thomas Malthus argued over this matter, with Ricardo arguing correctly that Demand Side economics was wrong. J.B. Say also proved the irrelevance of Demand Side economics by showing that demand derives from the supply of goods to markets. Ricardo and Say won this debate, and this issue was settled for more than a century."

During the Great Depression, Lord John Maynard Keynes reintroduced Demand Side economics in his famous *The General Theory*. Governments worldwide, including ours, quickly grabbed at the opportunity to justify interfering with their economies. Prior to Keynes, accepted economic theory provided no justification for government interference in their economies. Whether Demand Side economics was true was no obstacle to governmental adoption of it.

Jean-Baptiste Say, the famous French economist and philosopher stated in the economic law named after him that, "Supply creates its own Demand." From *Corrigan*: "Or, to put it in colloquial English, 'You want some of these here beans? What you got in yer wagon to trade fer 'em?'" Also from *Corrigan*: "For the best part of the century... it was accepted that if you worked to produce a saleable good (or to offer a saleable service), you were then entitled to exchange it for the fruits of someone else's efforts at a price to be freely negotiated between the two of you."

Years ago, when I first studied Austrian economics, I read Say's Law and its explanation and thought it was blindingly obvious. As *Corrigan* puts it: "That this should be controversial shows how far we have fallen from the good common sense of our forefathers."



Further Reading

Sean Corrigan, "Say's Law for Our Time,"
<http://mises.org/story/1042>

D.W. MacKenzie, "Demand-Side Dogma,"
<http://mises.org/story/1142>

Peter Anderson, "Say's Law in Context,"
<http://mises.org/story/1264>

George Reisman, "Production versus Consumption,"
<http://mises.org/story/2079>

It's simple. You have to work to create something to offer in exchange for something you want from someone else. You work to produce. Your production creates supply. *Your supply creates the ability to demand.* It takes two parties with supply in order to have a free exchange. You don't have the right to demand anything if you haven't produced something of value to exchange. We do have a name for such a one-sided exchange, however. It's called stealing.

Working from Demand-Side economics puts the cart before the horse. The governments' working from this paradigm prevent them from seeing the problem clearly and, therefore, solving it. However, as if that isn't bad enough, it does not merely stop there. The "solutions" they enact to correct their badly defined problem actually exacerbate the problem itself and creates other distortions in the economy, and, therefore, other problems. The most obvious of these are distorting interest rates, creating malinvestments, interfering with capital formation, and creating higher highs ("bubbles") and deeper recessions in the business/trade cycle.

To paraphrase former President Reagan, "It's not that our government friends don't know anything. It's just that so much of what they know just isn't so." As long as our government denies the truth of Say's Law and acts contrary to its tenets, they will be unable to solve any of the problems related to supply or demand and will create unwanted distortions in other parts of the economy. This is especially frightening at this time, when, after screwing up our markets and economy more than at any time since the Great Depression, they reach for ever more power to manipulate the economy.

Perhaps the government could learn something from biology; successful parasites don't kill their hosts.