

# Business Forum

COMMENTARY | Economic troubles

## GOVERNMENT IS JUST A BUTTINSKY

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**L**istening to every U.S. president since Ronald Reagan and the two Federal Reserve chairmen in that same period, one would think that the primary source of most of our economic problems was related to some sort of problem with consumer demand.

But there are two ways of looking at the causative agent driving a capitalist economy:

- Demand causes production — the government's view.
- Production creates supply and, therefore, demand.

You probably don't know about the second because, prior to late college or graduate school, if then, governments only teach the economics that empowers



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**Presidents since Ronald Reagan was in office have blamed most U.S. economic troubles on problems with consumer demand.**

government to interfere "rightfully" in economic matters — that is, primarily Keynesian economics and its derivatives. They don't want you to know

that there are other, maybe correct, points of view.

An ignorant populace is easier to control.

The demand-side view began in the 17th century, and it was heavily influenced by the mercantilism of the time. The supply/production view was argued most famously by David Ricardo in the 19th century.

Ricardo's arguments convinced the vast majority of economists at the time that demand-side economics was wrong. French economist and philosopher Jean-Baptiste Say provided solid theory proving that demand derives from the supply of goods to markets. Ricardo and Say were declared the victors in this debate for more than a century.

But during the Great Depression, John Maynard Keynes reintroduced demand-side economics in his famous *The General Theory of Employment, Interest and Money*. Governments worldwide, including ours, quickly grabbed at the opportunity to justify interfering with their economies.

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Say's Law states that "supply creates its own demand." It's simple. You have to work to create goods or services to offer in exchange for goods or services you want to acquire from someone else. You work to produce. Your production creates supply. Your supply creates the ability to demand. It takes two parties with supply 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. Working from this paradigm prevents governments from seeing the problem clearly and, therefore, solving it.

However, as if that isn't bad enough, their "solutions" actually exacerbate the problem. Even worse, they create other distortions in the economy, leading to still more 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.

As long as our government

denies the truth of Say's Law and acts contrary to its tenets, it 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, it reaches for ever more power to manipulate the economy.

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

