

Economic Commentary

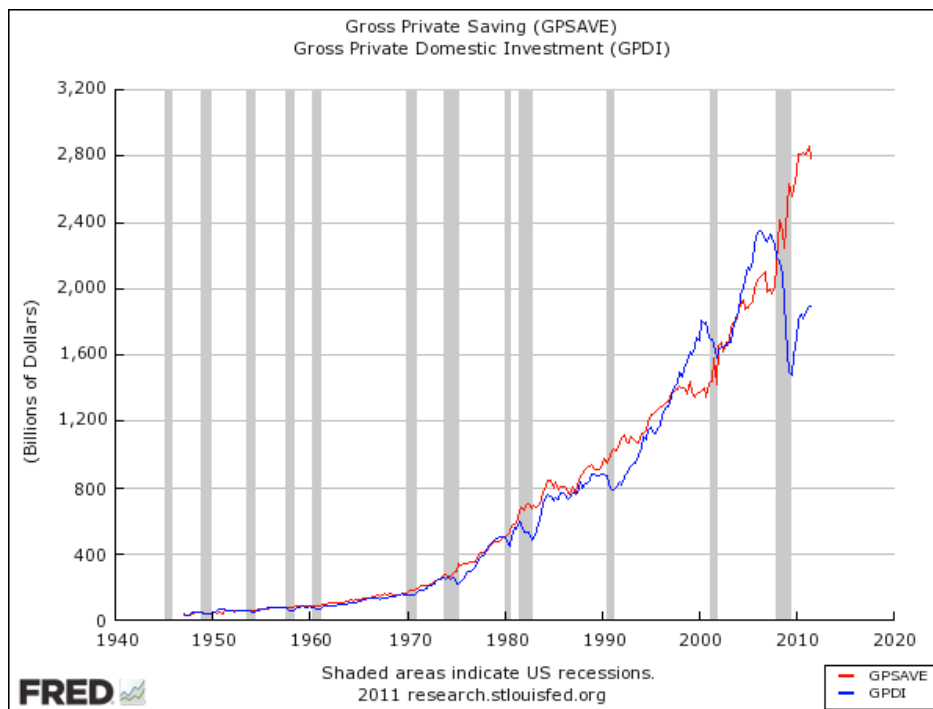


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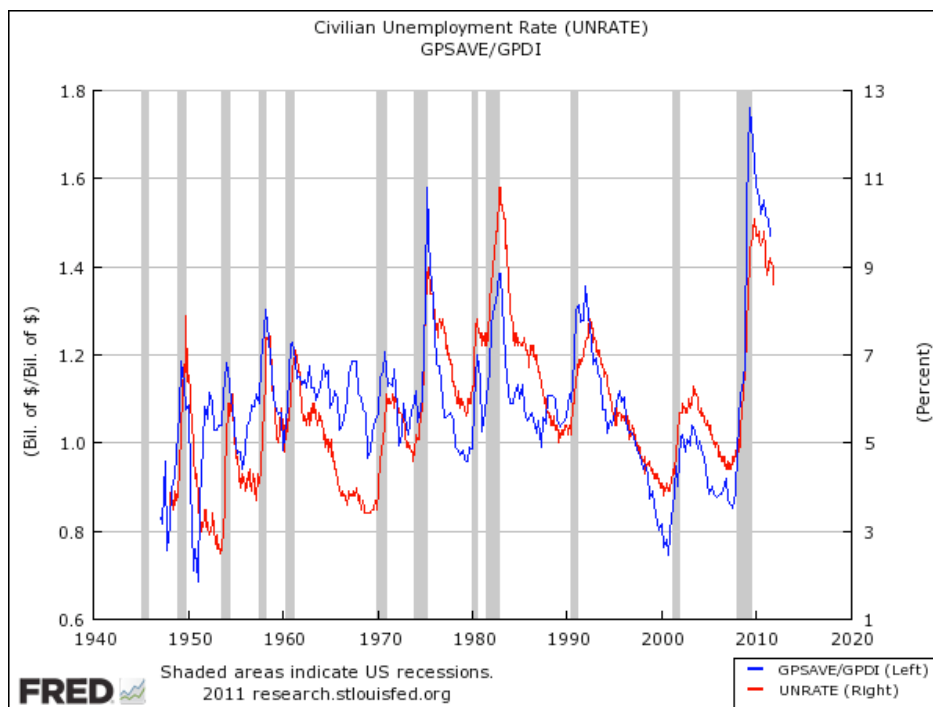
Sandbox Public Policy

Nobody ever asked the founders of Deere & Co. to develop a tractor that would end up revolutionizing the farming industry. Nobody ever asked the Wright brothers to develop the airplane that would revolutionize the travel industry. And then our favorite example, nobody ever asked for someone to develop the hula hoop. No, all of these items were created by someone with an idea getting together with someone who had some money and together they came to market and hoped for the best. That is what economists call organic growth and that is exactly what we no longer have as we once did. While the Democrats and Republicans play sand box in Washington about creating jobs through saving a mythical voter \$20 a week so he can go out for pizza, Rome burns. What in the world has become of the adults in our country? Can anyone do anything that makes economic sense anymore? Please note the following chart which tracks gross private savings with gross private domestic investment.



Adapted from macrofugue.com

They have mostly moved in unison since the 1950s except lately. What does that tell us? When savings are invested in the real economy, the economy does well. When savings are used for non-organic reasons – like playing the commodities market or piling debt upon debt to gain some zero sum trading advantage – growth goes away. Capital investment in the real economy creates many good products generating many new jobs. Please note the next chart.



Adapted from macrofugue.com

Does it look like the unemployment rate and the savings divided by private investment have any relationship that correlates? Yes it does. The key to making this country grow again is to create an environment where capital investment in the real economy is facilitated. How is that done? Low taxes, less government regulation, and business-friendly, adult politicians that unify rather than divide the factors of production.

Debt remains a major hindrance to the world economy. Somebody somewhere is going to have to take the losses that have been created by all this financial engineering. To date it's been the world's taxpayers who have bailed out government and their financial institution partners. We cannot continue to bail out those who have failed and reward those who have caused the problem, while at the same time leaving our posterity saddled with the debts. What can't be paid won't be paid. We expect several major financial institutions to go broke during 2012 along with a country or two.

We find it hard to believe that there will not be a recession in our nearby future. It is developing very slowly and will continue to do so unless a major crisis pops up, bringing it acutely down. Under these conditions high quality bonds will do well and stocks will not.



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