

THEN & NOW THE SAME

WEB BUZZ 2009.07.06

The economy in many respects is self-healing. The problem is that with the intervention of the Federal government the recession will be extended for some time to come. As Gary Shilling points out, in 8 of the last 11 recessions there have been positive real GDP numbers during the slow down period. This, of course, is going to be more severe than a general run-of-the-mill downturn. It is destined to be longer and deeper than anything since the 1930s.

Those following the conventional wisdom are under the impression that the worst is over (we think that they are probably right about this) and that an accelerating recovery will soon be in sight. Many have said the present quarter (3rd) and/or the 4th quarter will witness that occurrence. As you know from our prior writings, we believe that the damage to financial industry and the subsequent real economic breakdown will continue for at least another year and probably longer.

We have just finished the book *New Deal or Raw Deal* by Burton Folsom, Jr. We would suggest that reading this book will give you a historical perspective about what developed in the 1930s and what is happening now. Again, if left alone the economy will cure itself more quickly and more efficiently than the iron hand of government meddling, which tramples on those who are producers while propping up those who have failed. Rather than placing the old assets (the auto industry for example) in new hands at lower cost numbers, we have a zombie industry occupied by old management and union workers who jointly drove the companies into bankruptcy. Note, please, the destruction that the New Deal did to our free enterprise system. Business was made the scapegoat. The most damning quote came from FDR's greatest ally in his administration. In May of 1939, Henry Morgenthau, Jr. said to his fellow Democrats on the House Ways & Means Committee, "We have tried spending money. We are spending more than we have ever spent before and it does not work. . . . We have never made good on our promises. . . . I say after eight

years of this Administration, we have just as much unemployment as when we started . . . and an enormous debt to boot!” Government intervention didn’t work then and will not work now. Expect an economy that will result in a Japan-like lost decade.

Financial markets are presently acting in such a way that reflects that maybe the worst is over—and it probably is. The market’s reaction to pure out and out fear has probably past, but a new reaction that discounts a long expected L-shaped recovery is on its way. It’s quite possible this later reaction will see new lows in stocks and highs in government bond markets.