



## In The Long Run, We Are All Dead

***"I am not robbed by the people who have more money than me. I am robbed by a government that wants to penalize my industry and give increasing portions of what I earn to people who do not emulate my principals, morals and ethics."***

***Cal Thomas,  
American Syndicated Columnist***

Having studied economics at Western in the late 1970's, one would have learned Keynesian economics which believes economies are not always efficient and need help from time to time. Keynesian economics advocates a mixed economy – predominantly private sector – but with a significant role for government. They encourage large deficit spending when economies are weak and pay down of those deficits when times were good and surpluses were once again in vogue.

It all seemed to make sense in the textbooks at the time, but as I got older (and wiser?), I began to lean more towards Monetarism economics, a branch of economics made famous by perhaps the greatest economist ever, Milton Freidman. In a nutshell, monetarism focuses on the macroeconomic effects of the supply of money and central banking, and their resulting effects on inflation, but overall believes in less government intervention.

It is somewhat ironic that Keynes's own words, which are the title of this article, seem to be such a conceptual driver for many who try to justify simulative efforts and institutions, while trying to transfer accumulated wealth. The implications are that we needn't suffer too greatly today, when we simply borrow from the future. This mentality might make sense for an individual, but not a society as a whole, as it's debts do not die with them, THEY GET PASSED TO THE NEXT GENERATION.

So today, July 2012, there are approximately twelve (12) nations whose short term sovereign real yields are negative. What that says to me is that investors around the globe are terrified.

This really shouldn't come as a surprise, as traditional wealth safe havens have been systematically destroyed. Real estate values have been hammered, savings and bank accounts yield nothing and bonds are at multi century lows. All this leaves one questions, where is conservative money supposed to go?

The reaction arises from myopic monetary policy from around the globe. The markets have been addicts for one form of stimulus after another. And yet, despite this entire stimulus all over the globe, this recovery continues to be the weakest on record. The realization is coming to the forefront that Keynesian debt spending has varying

effectiveness, depending on how much debt is on the books. The irony is we could have learned from Japan, which has been an example to all of us since 1989 when they began moving towards a zero rate policy and has remained there ever since.

We now see that under mismanaged government policy (The USA, Ontario, and Southern Europe) what happens when successive generations adopt Mr. Keynes's greedy concepts. It turns out that when a period of economic growth occurs and a society/economy should be paying back debt, it is left to subjective determination. And with human nature being what it is and politics having evolved into what it has, any recession, regardless how small, is deemed to be insufferable.

So here we are now, global interest rates have steadily converged to zero in many countries, be it advanced or emerging economies. According to text book economics, global economies should be booming. Unfortunately for the world (and Mr. Keynes), the world doesn't live and operate in reality based on text books. They have made it cheaper to fund consumption, and easier for governments, corporations and individuals to carry a given stock of large accumulated debt. The low rates which traditionally fuel an economic boom, driven by labour hiring and investment in plant and equipment, is not happening. One has to ask, why?

In my opinion, there is a lack of faith in elected officials by the voters who do not believe they have enacted policy to encourage those economic animal spirits. The massive monetary stimulus has been offset by very poor fiscal policy, if any can be found at all. And while central banks have provided certainty on how much financing costs will be, this has been greatly offset by uncertainty created by governments. One only has to look south to the USA, where Federal Chairman Bernanke has promised low interest rates until 2013-2014, but has a government which has created several financial cliffs in a very short time. Said government has not passed a budget since Obama was elected, then bashes job creating business on a daily basis all while adding uncertainty with huge overhauls of financial reform, healthcare reform and higher regulations. Compounding the issue is that all these reforms have not been passed, creating even more uncertainty.

Does it not seem unusual that 3.5% of US GDP is expiring at year end, and nobody is talking, much less doing, anything about it? It represents a historic fiscal drag, yet D.C. seems paralyzed by choosing politics over economics.

US treasury yields at their lowest recorded levels in centuries, and GDP growth estimates for America remain at below historic numbers?

In Japan, home to an economy that has been stagnant or contracting for close to 25 years, over indebted and in desperate need of inflation, yet the Yen remains one of the strongest currencies in the world.

President Obama in the last several weeks has made many comments which sound more like typical sour grapes from people who have not made it as far as they wanted in life, but place none of the blame on themselves. Rather, they have a litany of excuses that finally go as far as to dismiss the success of others. I grew up with people like this, I'm sure everyone has.

Being extraordinary in life, regardless of what one does, means putting in an effort every single day. It means getting up before the rest of the world, and going to sleep after the rest of the world. The President of the United States implying that all successful people are only successful because the government made them that way is both naïve and dangerous. To take a swipe at successful people by belittling or demeaning their life reeks of broader jealousy, and using it to divide a great nation, simply to get re-elected, is despicable. Put it this way: If President Obama really believes successful people only got that way because of paved roads and the internet, THEN HOW COME EVERYONE ISN'T SUCCESSFUL?

Yes, capitalism rewards those who work really hard and are smart. Years without vacations, nights without sleep, days of anxiety, ruined relationships and tons of elbow grease, are all part of the price to pay. Absolutely parental guidance and great teachers, coaches and mentors all help along the way. But without the basic drive and instincts to start with, they mean little. When the most powerful man on the planet tells hard working people their success isn't their own and hints that it's part of the public domain, then this coming US election is even more important. We are now talking about the fabric of what made America great.

If we don't get some good elected politicians in place very soon, and I mean "good" as in managers who do the right thing for the whole of society, not the individual, and it isn't all about getting re-elected, then I worry we will witness a destruction of the economic system as a whole, to which Keynesian policies have hastened its arrival.

Yes, we are all dead in the long run, but what if our ancestors had taken that philosophy, where would we be now? Especially the soldiers who fought in the two Great Wars, those who risked the ultimate sacrifice for that belief. The west needs to give its head a shake and get back on track.

Stay Tuned,

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