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Investing in a Dry Hole

“How we teach is what we teach.” — John McArthur, Harvard Business School

Money, money, money, we never can seem to get enough of the filthy lucre.

We even love to sing about it. From the 1972 classic movie Cabaret — “Money makes the world go around” has about 4.5 million YouTube views. The movie was set in Berlin during the Weimar Republic in 1931. That German linkage we will come back to later.

Even more popular is “Money, Money, Money” by the Swedish group ABBA which has over 6.2 million views.

The world is awash with money, or so we are told, but why is it that I don’t have my share? After all, our economics are based on a total monetary equation: $GDP = C + I + G + N(I - E)$. This means in human terms the Gross Domestic Product is equal to Consumption, plus Investments, plus Government spending, plus the Net Value of Imports minus Exports. It’s all

about the money and where we sit in the world, our wealth, our future, is all supposedly determined by this measure of money, with, or sans inflation.

Last week a segment of the stock market traders were waiting for Friday in anticipation the FED chairman Ben Bernanke would signal that there would be another round of Quantitative Easing (QE) to help that Investment segment of the economy; but they really didn’t get that short term assurance. After that, the hope shifted to the European Central Bank (ECB) chief, Jean Claude Trichets would say the same thing. Again, under current world circumstances, he gave no assurances either.

In reality neither the FED nor the ECB has much ammunition left in their money ammo bunkers to provide true incentives to really get the global economy going again, or in reality, even staving off a recession, in either the United States or in Europe. However,



should they believe that economic globalism is about to collapse; we will see economic QE that will make the past stimuli look like a tent revivalist's offering request.

So the question that really needs to be asked in this world of money, money, money — Where are all the people in this faux-fiat money economic world?

It seems to be: "People? We don't need real people to have economic growth! Especially if those people are the bourgeoisie, or the proletariat, you know, those stupid commoners, who have primitive beliefs, so as long as we, the more evolved citizens of the new global order, have enough money, those common humans will have nothing to worry about!"

In reality however it is the people, with all their faults, weaknesses and all their positive attributes that make the real world function. And guess what, all those elitists, who think they are some sort of higher evolutionary human manifestation of a real god, well they are in for some real come upins (comeuppance).

Now if we move away from just "show me the money" to the human side of reality there are a number of biases within this money game, as well as within the current governmental struggles in Washington DC. For purposes of this discussion we will use what in management and leadership circles is a concept known as the Munich Analogy.

This analogy goes back to the rise of National Socialism in Germany and deals with the Munich Agreement. British Prime Minister Neville Chamberlain believed that he had worked out a deal with Adolph Hitler regarding the Third Reich's expansion into Czechoslovakia; this deal would bring about an era of European "peace with honor."

Needless to say that really didn't work out quite the way the naïve Mr. Chamberlain had envisioned. Therefore from that time unto the present, it is an imperative in any type of strategic negotiations to not settle for an agreement that ended in the way the Munich Analogy led to World War II.

Of course most negotiators don't use the term Munich Analogy, they really just don't believe in either the ethics and/or the worldview of the other party. The recent debt ceiling negotiations are a

vivid example of this lack of trust on either side.

To some extent this is the problem of the liberal base of the American Democrat Party, which believes the Munich Analogy has happened to president Obama in his dealings with house Republicans and specifically the TEA Party. In a way the situation, at least from the American perspective, is just as serious as in the real Munich Agreement however, and neither side of the negotiations, or the war, is willing to give in, on their true highly grounded principles of the standoff.

On Monday, president Obama picked labor economist Alan Krueger as head of White House Council of Economic Advisors. That basically means, that the president will announce in his economic speech next week, a new round of New-New Deal Keynesian economic stimulus. That will play well with his No-Munich liberal base of the Democrats. At the same time, he will confront the TEA Party as basically conservative rightwing fascists that only want to cut everything and just don't understand the need for these stimuli to create jobs.

For their part the Republicans will counter that this is a non-starter. I will paraphrase slightly: These proposals from the president might prove that he isn't an National Socialist, but just a European style Democratic Socialist, the country is bankrupt, we need to get our debt under control, cut spending, cut taxes, continue to work to repeal socialized ObamaCare medicine. Their No-Munich, no-capitulation will point out — that all the previous \$800 billion economic stimulus did little good, as did similar expenditures under George W. Bush.

To see the root cause of the United States current situation however, we must go back earlier in the twentieth century to the Russian Revolution and the totalitarian worldview of Bolshevik communism and its antithesis the Objectivism of Ayn Rand.

When they look at the uber-liberal left, the uber-conservative right, is pointing out the this is all that Barack Obama knows and he secretly believes that communist-stateism is the highest, most evolved, form of human governance. It was just that the Soviets were not as highly evolved as we are today, to truly understand the elitist role of providing wise governance to the masses.

Expanding on the conservative end of the political spectrum, it is understood that totally free Laissez Faire unregulated markets are the highest achievement of human evolution. In such a world the smartest and best, working towards their own self interest, can and will create a society where those with lesser abilities will be brought upward by those individuals who will continually find a better way.

What both sides ignore is the reality of God, sin, especially original sin, and God's grace, common and specific, through the propitiatory sacrifice of Jesus Christ. That, we have presented and continue to express in other venues.

Over the last sixty years, or since the end of World War II, the United States has experimented with lite beer versions of both worldviews. After the war until about the early 1980s, progressivism, in conjunction with some — to a lot of military industrial complex saber rattling; brought about a generally rising standard of living and the expansion of the middle class.

That began to change through the stagnation of the Nixon-Ford-Carter years. With the election of president Reagan we began to see a shift towards a more unregulated form of Laissez Faire capitalism, with continued support from the professional military and the expansion of strategic military Keynesianism. When Alan Greenspan took over as FED chairman, the sweeping shift towards free markets, stimulated by easy credit, continued this appearance of prosperity.

With the election of George W. Bush, followed by the election of Barack Obama, we have seen basically the radical shift between the two economic extremes of the American post war period. Consequently we now see both political extremes of both political parties now finding little of lasting benefit in either man.

Reality Check: George W. Bush and Barack Obama, have very little in common with either Adolph Hitler or Neville Chamberlain. Furthermore we are a month shy of 73 years beyond the Munich Agreement. The United States of America currently needs some real leadership much more contemporary than the Russian Revolution, almost a century ago. We need something well beyond looking back to find future hope in a New-

New Deal or a New-Idolized Reagan Revolution. Both schemes currently are nothing more than Industrial Age investment dry holes.

Going back to our original GDP, we find the "I" which stands for Investment. As we have stated previously that really applies to Wall Street type investments and their derivatives, in the broadest understanding of the term, simply because that exchange of money can be tracked, through various forms of securities regulations, but more importantly through the tax code. In that sense Wall Street is the world's largest money driven investment tool; it makes a very significant contribution to our GDP.

Outside of the well-paid practitioners of the Wall Street craft, again where are the people? Since this financial bubble began to burst in late 2007, the bourgeoisie, or the proletariat, you know, those stupid commoners, no longer have the wealth to play this game, and only the Wall Street Investment-Bank-Holding Companies have access to the essentially free money leverage to continue to believe that if it all falls apart again, both the FED and the ECB will be there, because if they were too big to fail before, "man you ought to see us now!"

Let us just make the wild assumption that this humble observer, along with John Mauldin and a whole host of independent future thinkers, believe we are entering an Endgame of the Debt Supercycle, or similar nomenclature; this is stupendously going to change the future.

I have called this the transition from the Industrial Age to the Individual Age, but I use those terms because they make such a distinct transition. In reality this Individual Age is not so much the definition of what we call the individual today, or even the Objectivism, or the Libertarian view; rather it is simply putting people, real people back into the economic mix, and perhaps over time, in a position superior to money.

So for the rest of this week we will look at the Industrial Age, money only Investment dry hole, and begin to run it to the other side of the Debt Supercycle Endgame; into a future where people are again an important part of the way the world works and their views have a much more salient effect upon all phases of personal and commercial life.

With that in mind I thought it would be interesting to begin with a simple statement of jobs

lost from the time global finances began to unravel in late 2007, to perhaps when Obama came into office in 2009, then until the present. What I found was not all that simple, going back to our earlier Munich Analogy, those numbers seem to reflect those bad guys, in contrast to we, the good guys. In terms more familiar to us all, it was all the jobs lost — contrasted with jobs created or saved.

The government for its part just reported data in a bureaucratic fashion. When you get down to the real reality, it is not the jobs numbers themselves that are the issue in this non-human Investment discussion, but rather the fallacious group think that, even when you add in privately held small businesses, that these “Investment” enterprises have ever been job creators. This could be faith in a myth, simple stupidity, gross ignorance, or a bold-faced lie! These Investments don’t create new jobs.

For the umpteenth time reported here, the Kaufman Foundation has shown, using U. S. Government data, that established business are in the aggregate net job losers, to the tune of a million jobs per year, over history dating back to 1977. New jobs are created by business startups — period.

From that baseline it is not all that hard to envision that we have created, saved or whatever, no new jobs since the financial meltdown began, because we have had absolutely no, none, zero, zilch, new startup businesses since the endgame began. Using the Kaufman statistic as a simple linear regression, and going back to late 2007 we should be down about 4 million jobs. A little improvement of the statistics, because it really was the Great Recession, the lost job numbers should be spot on.

Furthermore the way the concept of investments is currently understood by so called American leaders, pundits, lobbyists, socialists, communists, libertarians, capitalists, normal people and anyone I have left out, our jobs equation is not going to change until we come up with some way to get business startup “EQUITY” capital to entrepreneurs. To state anything to the contrary, is really Voodoo Economics, which is where it truly began, but we will save that for next week.

You cannot build a successful startup enterprise with borrowed money, because, no matter what the business plan financial spreadsheets may say, those numbers share one fundamental truth: They are wrong — 100 percent of the time. They may be too high, they may be too low, but for sure they are wrong.

Furthermore in the best of times, banks should not be loaning money to startups until they have a true cash flow history. In times like these, Investment-Bank-Holding Companies have access to free money from the FED, to play in the money Investment sector of our inhuman GDP equation. We definitely don’t want them making (fixing) markets for startup enterprises.

We will develop some innovative solutions next week.

Our current GDP’ method of looking at Investments, especially in the sense of job creation, is and can be nothing but a dry hole. Would, could, should; you expect anything else?