

June 12, 2012

In response to your recent Advisory Letter

Dear Richard,

I did not reply when you posted this advisory before, but I feel compelled to this time.

I do agree with you that you are verging deep into the political realm however I also believe that, however uncomfortable that may be for some of your clients, and indeed for you, that is what we have hired you for. I am sure that all of your clients respect your opinion and are putting their hard earned money and their future in your hands because they believe that your expertise in the realm of investing and money management exceeds their own. Otherwise they would not be a client.

And I certainly agree with you that the national debt is a topic which must be dealt with and that our future, and indeed our present, is shaped by it in small ways and very large ones.

That is where we agree. And perhaps we agree on many other things.

What the question is to me, and it is at the base of every political discussion I have is, "What is the purpose of government and how is that best achieved." To me that means creating a society where "Life, liberty, and the pursuit of happiness" applies to all of the people living within its borders. It means that everyone is entitled to a base level of food and housing, that health care is a right not a privilege, that education and the potential of every person is necessary for economic and cultural success, and that the rule of law pertains to all of us equally, whether we are rich or poor, a person or a corporation. In other words a society which treats all of its members fairly and equally will prosper. A society which does not is doomed to failure.

How to achieve that is of course the question. There are many different visions and many different solutions. Indeed there are many different economists who have different theories and rationales.

My view is that it is not the size of an endeavor but the purpose which is at the root of the question. Perhaps we agree on the purpose, perhaps not. I do believe that the National Debt is reaching an unsustainable level. Again the question is not what to cut but how to grow. We are very wealthy society, we can afford to pay for our present and our future, fairly, equitably, and humanely.

Thank you,

R.

ANSWER:

Comment in response to your input:

R.....,

I feel much the same as you on issues of health, welfare, and life and liberty.

Your point: "Again the question is not what to cut but how to grow" is germane.

What most people don't realize is that we have passed that point where we can spend, and then borrow, to pay for our spending in order to force the economy to grow (Paul Krugman's approach, and other's). It's complicated, but not rocket science. The theory does not properly take into consideration the law of diminishing returns for these expenditures. The efficiency of the bureaucracy is in question, and the multiplier effect is reduced considerably under what it is predicted to be by academic theory.

This recession, and economic consolidation, is caused by a macro de-leveraging of our financial system - personal, business, and government. Historically, the recovery period for such a recession is considerably longer than what we have come to attribute to cyclical factor recessions. This is why unemployment stays high, employment grows slowly, and GDP growth does not follow the "V" pattern of bottoming and strong initial upward growth that we have become familiar with.

This recession is different than you or I have experienced in our lifetimes. We are not going to get the growth you want because there is still a lot of personal, as well as government, debt to repay; this de-leveraging process has many years to go before it is done. De-leveraging restricts the potential for economic growth.

The critical bottom line is that we must turn the Government debt-growth-curve downward. If we don't do this soon, the results will include government bankruptcy and severe inflation.

dick