

**Can the Business Cycle Be Manipulated By
Massive Government Intervention When Free Market is Ignored?
by John V. Kamin, Economist**

There is one thing certain about taxpayers taking on \$10 trillion in new debt. It will have to be repaid over many years plus interest. Government has no money of its own; only what it gets from taxpayers or borrows.

One certainty about stimulus programs is that they don't work. The last one in May 2008 didn't. What works? Cutting tax rates as President Reagan and President Kennedy did.

A third certainty is that propping up failing corporations doesn't always work. Chrysler was bailed out in 1973. One third of a century later they're on the ropes again and have been for many years.

Limp-Along Theory

Free market capitalism says that failing firms should be allowed to fail. It makes the marketplace more efficient, saves taxpayers money and gets rid of unfair competitive advantages when some firms receive government money, but competitors don't. But when you subsidize failure, you get more of it.

**No Guarantees That Bailouts, Stimulus
And Government Takeovers Will Work**

Will the flood of new money and trillions in new debt create the "3.5 million new jobs" desired? No, there is no guarantee.

Prediction: What may happen instead is a bigger, temporary spending surge that creates some temporary jobs, then a letdown.

Will the downturn in the business cycle be shortened by government intervention? No.

Prediction: Downturn may be lengthened instead. Instead of economic excesses being "cured," they may go on for years.

Example: Japanese banks carried bad unpaid loans for 10-13 years as though they were good loans. This *lengthened* the Japanese recession for over a decade more than necessary.

Will new higher taxes help cut the deficit? No. Higher taxes usually lengthen business cycle downturns among other things. Higher taxes discourage risk taking, job creation and other desirable effects such as capital formation.

The Big Assumption Which You're Not Supposed to Talk About

The media won't talk about it, the government won't discuss it, and firms receiving bailouts won't mention it. But there is one big assumption among today's planners on the Potomac that they are making, knowingly or unknowingly.

“Success” to Breed Higher Interest Rates?

The assumption is this: that the USA government will continue to be able to borrow at very low (manipulated-lower) interest rates. Is that a flaky assumption? Yes, probably. If government intervention is successful and if the economy recovers soon, then interest rates are likely to go up and raise borrowing costs.

Since your rich Uncle Sam (living on credit) is the world's biggest borrower, he'll have to keep borrowing regardless of whether massive government intervention is successful or unsuccessful.

Forecast: Predictable after effects of massive government borrowing will be: a) smaller borrowers will be crowded out of the borrowing line by the USA and b) interest rates are likely to rise.

“Well,” you might say, “interest rates are low now and wouldn't likely rise in the future, would they?” That's another big assumption. When President Carter took office, interest rates were low – in 1977. But by 1980, the prime rate had risen to 16%, inflation had risen to 16%, T-bills brought 16% interest, mortgage rates were in the double-digits and government was borrowing money at a rapid but forced pace. People said it couldn't happen, but it did – hard evidence in 1977 to 1980 before Carter even left office, de-lected after one term.

Prediction: Higher interest rates on borrowing nationwide for both the best borrowers (government) and the rest of the borrowers (you and I and the companies you work for) could indeed rise.

Again, the business cycle could be stretched out by massive government intervention. Think of this. Most new real estate is based upon borrowed money. **Prediction:** Very few buyers will pay all cash for new properties. If the cost of borrowing (interest rates) triples from current puny forced-low levels, the construction industry (residential and commercial) will continue to suffer.

Massive Government-Run Economic Intervention to be Successful or Free-Market Freedom to Fail?

Because all Americans love their country, it is hoped that the massive but unproven government intervention and redistribution of wealth (from taxpayers to individuals) will work. However, economic evidence seems to indicate massive assumptions, possible unintended consequences.

USA governments have been trying to “legislate away” the business cycle for more than 75 years. Have they ever been successful? I can’t point to a single instance where they have. In fact, there are even more instances where government intervention has been disastrous. Lengthening the downturns, prompting double-digit inflation, delaying curative economic measures by subsidies and unfair prop-up competition and the list goes on and on. Let’s hope for the best, but prepare for the worst.

Strategic moves can include making discounted offers on tangible assets well below today’s distressed, discounted prices. Other inflation hedges, such as gold and silver coins, antiques and other tangibles can be pursued whenever prices drop temporarily.

You’ll need to build some cash resources too (cash is not a good inflation hedge), so that you can operate from a period of strength and pay your ongoing bills ... just in case the business downturn runs well into 2010, 2011 and maybe even 2012.

D.C. Beyond Your Control

Wouldn’t it be nice if you had some control over the additions to the debt load of every American, \$163,000 per person debt added by the latest budget just passed? Truth is, nobody asked you, nobody will ask you and you have nothing to say about it!

Wouldn’t it be nice if Washington leaders asked you, before giving more bailouts to major corporations that messed? Before firms paid themselves with massive bonuses with TARP money? Nope, you have no control whatsoever. I guess you could write an angry letter to your congressman, but that still doesn’t give you any say so over events.

Wouldn’t it be great if you could have a little say so about which tax cuts they’re going to eliminate, let expire and which added taxes they are going to raise BEFORE they do it? No, no one asked you and they’re not about to.

You have nothing to say about it even though you may have very strong economic points to make.

Are you getting the idea? If so, that means it is your responsibility to take charge of your own monetary affairs, legally.

Wouldn’t it be great if you had something to say about the Federal Reserve pushing interest rates down to nearly zero so that you get nearly zero returns (before taxes and inflation) on your savings and your retirement money? Nope, won’t happen.

Are you a little peeved bailing out people who made bad economic decisions, used no-doc loans, liar loans, NINJA loans (No Income, No Job, No Assets) to buy houses they knowingly couldn’t afford with flawed appraisals? And that now U.S. taxpayers must pick up the tab for their poor decisions?

That’s even more reason to take charge of your own affairs, since the leadership of all parties in Washington is relatively unresponsive to your personal needs.

What Can You Do?

There are many things, outlined in every Forecaster; strategies for regaining control over your own financial affairs and activities and making money. Just a few are re-adjusting your retirement plans, earning double-digit interest on TLCs, adding to holdings of gold and silver coins in the face of potential future double-digit inflation; maybe buying a proprietary business that an add more quickly than the giant corporations that no one owns, to unforeseen events. You may buy your own income properties for cash flow rents in rising rent trends, properties steeply discounted from even current 2009 lowball appraisals. And buy your own business building near where you live so you can get the tax benefits, monthly cash flow where your tenants pay your mortgage and eliminate your time-consuming unreimbursed daily commute.

Wouldn't you like to replace one of your vehicles with a collector car that goes up in value, appreciated instead of depreciates as you drive it, such as a muscle car convertible of the 1960s rather than the 30% to 40% depreciating hunk of iron you are now beating around the streets?

Summary

We have many more wealth growing strategies to spell out for you in the Forecaster so that you can make money (collecting antiques, antique firearms, resaleable rare coins, etc) to which we will call your attention and give you inside-the-market reports! Take charge. Regain control of your financing even if others do not want you to have control. Benefit and prosper. Have fun with your money!

John Kamin is a Consulting Economist and publisher of The Forecaster, 19623 Ventura Blvd., Tarzana, CA 91356, (818) 345-4421. Subscription cost is \$180 per year. For more money-making ideas, order his latest book Active Money Strategies & Hidden Wealth Builder Secrets For Young Adults: What They Were Afraid To Teach You In School. If They Ever Knew! \$20 + \$4 shipping and handling plus \$1.65 tax. (95 pages.)

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