

## Economic Prospect

# Jackson Hole Dreaming

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**Jackson Hole WY, G7 in France, and an Endless Back and Forth with Xi of China:** The recent statements of the U.S. President and differences with Fed Chairman Powell and Chinese President Xi led to the churning of the stock market and bond markets in spite of the two very stabilizing meetings in Wyoming and France. I'll focus on last week's Jackson Hole meeting. The same global elites of business, banking, and government also gather in Davos in Switzerland in February.

**Concern about the Fed's Direction** in Jackson Hole, WY. Why Fed monetary policy? Because even though economic strength is more important; and even though there are signs of recession in the developing world; and even though Europe is weak; and even though America's economy may be weakening (though stronger than most), the Fed's actions are regarded as drivers of the global economy.

**This makes for a very powerful Fed** though Chairman Powell said last Friday morning that he does not want that strong of a role. Investment and earnings/profits and growth and even sovereign debt seem to pale in impact compared to the impact of the Fed. Usually, if the Fed keeps interest rates low that is good for investment and economic growth. Is there a downside? Yes, low rates stoke inflation. What is new is that low interest rates are not igniting inflation today. This seems like a dream period to me.

**Are There Bubbles Forming?** Even if inflation is suddenly avoidable even with low rates, are there any bubbles forming where too much cheaply borrowed money goes as to the internet (1998) and then housing (2008)? No one can see any such bubble. I think I can.

Low interest rates are encouraging governments especially the U.S. (another \$1 trillion deficit this year) and Europe to borrow heavily. People keep buying government bonds even when the interest rate is nearly zero percent. This has been the case for over a decade, but that does not make it a new world. I think we are dreaming and will wake up suddenly and unhappily when the debt bubble bursts.

**Debt? How About Bernie's' New Green Deal:** The details are different than AOC's ban on cows and airplanes, but Bernie's plan includes turning your lawn into a garden and the cost is a staggering \$16.3 trillion. (WSJ 8/26). No more oil or fracking, but greedy oil executives will be in prison. Plan on battery operated cars by 2030 and on heating your home without natural gas. No coal or gas or nuclear power for electricity either. Such a transition will make electricity nearly free, he says. How? The EPA will monitor all investments by U.S. companies abroad to make sure the rules are obeyed everywhere. Dreaming.

**Bernie and AOC are even proposing that the U.S. can just print money** (endless \$1-5 trillion deficits annually) until inflation kicks in. That is daft, but worse, they dream that any inflation will evaporate with a mere tweak of fiscal policy. This is Modern Monetary Policy, and if it works it is only because the U.S. dollar is the world reserve currency. Printed money can pay for Medicare and for all the Green New Deal. Meanwhile, those who realize that debt can actually come due seem to be asleep. Wake up.

**Let's Call Our Economic System Free Enterprise** rather than Capitalism as people have come to associate capitalism as "the enemy of the people". That comes from L.B. Glickman in his new book *Free Enterprise: An American History*.

**Brazil, By Contrast, Is Becoming More Free:** The leftist Worker's Party has led Brazil for the past 13 years, but the new president, Jair Bolsonaro, has an entirely different approach. He was a leftist himself during his decades in their Congress. He is also famous for the indifference to fires in the Amazon basin now.

However, his new Economy Minister, Paulo Guedes is setting Brazil on a free enterprise path. He has been selling inefficient and unprofitable state owned businesses (as Margaret Thatcher did in Britain) and has made the state pension system workable by raising both the age of retirement and taxes. Next Guedes wants to simplify the income tax forms and lower rates. All of this is in stark contrast to the ideas in fashion on the left in the U.S. Brazil is a giant that can resume its leadership in Latin America. (WSJ 8/26)