

JEKYLL RESEARCH



© Crown copyright UK Government Art Collection

From Joseph Jekyll Advisers LLC

P.O. Box 48821
Telephone 706-255-9469
Fax 706-546-4559

Athens, Georgia 30604
Email: tomwilkinsCFA@jekylladvisers.com
Web Address: www.jekylladvisers.com

October 10, 2011

“Do They (Economists) Really Know What They are Talking about?”

No, I am not talking about my former economics professors, but about a *Wall Street Journal* article given to me by a good client.

Such affords a timely inquiry into John Maynard Keynes’ “multiplier” theory. As you may already know Keynes thought that economic contractions could be cured by “priming the pump.” This was Franklin Roosevelt expression, updated today as “deficit spending” or “not living in your means,” depending on your political persuasion. Such has been one of several gospels in economic classroom for six decades. Deficit spending was better than “trickled down” theories because government spending would impact directly the economy with the rippling effect of an ocean wave gathering momentum. *Government Motors* (known to old timers as *General Motors*) would get an order from Washington for more limousines and so more steel was ordered from Pittsburg and so the steel workers would buy more American-made television sets (oops, that was before sets were made in Japan). The \$25 million order from Washington for limousines was to have \$50 million economic “impact.”

If Keynes’ Rx was to open the door to economic good times, our country should be dancing a lovely waltz today. Since the Keynesian theory has not worked in 2009-2011, we can officially forget about Keynesian “multipliers.” Yes, not all economists knew what they are talking about, especially under all conditions.



© Crown copyright: UK Government Art Collection.

One economist did know what he was talking about in today's world of deleveraging, austerity, credit rating downgrades and high government debt constraints. He was Irving Fisher¹ (1867-1947). The best economist following in the Fisher tradition is Lacy Hunt, Ph.D. I have issued him a formal invitation to speak at my CFA Society in Atlanta. So stay tuned in.

Economic theory is not so clear about “multipliers” during large-scale cut backs by governments. During August when President Obama knuckled into the “super committee” in order to get an increase in the debt limit, it seemed that cut backs could have a negative multiplier effect. Then in September, the argument was change. Up arose a new American Jobs Act, estimated to cost \$500 billion or perhaps as much as \$200,000 per job created.² This step obviously puts the investment world into “Washington-grind-lock” mode until at least November when the “Super Committee” in Washington gives us its decision.

Last week I attended three meetings which dealt with these issues. Perhaps, the most productive meeting was the one sponsored by The Georgia Public Policy Foundation, where the Heritage Foundation released a comprehensive study of the “Patient Protection and Affordable Care Act³” and Governor Rick Perry promised:

“On my first day in office I will repeal as much of Obamacare as possible by executive order.”

Bernie Marcus, co-founder of Home Depot, led me *not* to expect any solutions in 2011 to Washington “gridlock.” Each party is striving to gain complete control of Washington in 2012 and consequently 2011 is being written off their books.

Meanwhile, I am off this weekend to a Bar Be Que roast of Governor Nathan Deal....he's the man who thinks investments by big corporations bring about job growth...but do they cost \$200,000 per job?⁴ Stay tuned in.

¹ Irving Fisher taught at Yale University. He is best known for his article entitled “The Debt-Deflation theory of Great Depression,” and his book: Booms and Depressions.

² Martin Feldstein, chairman of the Council of Economic Advisers, under President Ronald Reagan and president emeritus of the National Bureau of Economic Research, the umpire of calling when recessions begin and end, estimates that the \$500 billion in the Obama Jobs Act will end up costing \$200,000 per job.

³ This study, though strongly wedded to a conservative point of view and subject to being bias, is nonetheless the best and most thorough study I have seen of Obamacare.

⁴ On August 4, 2011, Governor Deal announced that Rock Tenn will create 500 jobs in Norcross, costing an estimated \$10,000 per job.