

“The bureaucracy is expanding to meet the needs of the expanding bureaucracy.”

- Oscar Wilde (attrib.).

“The Democrats are the party of government activism, the party that says government can make you richer, smarter, taller, and get the chickweed out of your lawn. Republicans are the party that says government doesn't work, and then get elected and prove it.”

- P.J. O'Rourke.

**In his 1992** book *The End of History and the Last Man*, Francis Fukuyama argued that the fall of the Berlin Wall just a few years beforehand marked the definitive end point of any rivals to 'enlightened' Western liberal democracy. Eight years later, Robert Shiller in his analysis of 2000 era stock markets, *Irrational Exuberance*, cited widespread investor pride at the apparent triumph of free market western capitalism against all comers as one of the defining factors behind stretched millennial era stock valuations. Both of those narratives look somewhat ridiculous now. According to the Bureau of Economic Analysis, US second quarter GDP in 2020 fell by an annualised 32.9 percent. To put that figure into context, that is broadly the equivalent of the first three years' worth of the Great Depression accelerated *into just three months*. That slowdown is almost entirely a real world reflection of deliberate government action – if you can even call it that. This correspondent normally finds little common ground with most writers at *The Financial Times*, but it is difficult to argue with their US editor, Edward Luce, when he suggests that

We are witnessing the biggest governance failure in modern US history.

Not that politicians on this side of the pond have much to be proud of. Throughout the West, the various responses of national governments to a (not especially dangerous) new virus have been haphazard, chaotic, arbitrary – and economically devastating. They used to say that if you thought education was expensive, try ignorance. Today, if you thought anarchy was dangerous, expensive and economically annihilating, well, get a load of current central planning. Advocates of ever-larger government now have their work cut out – forever.

“We have involved ourselves in a colossal muddle,” wrote Keynes in his essay *The Great Slump of 1930*, “..having blundered in the control of a delicate machine, the working of which we do

not understand. The result is that our possibilities of wealth may run to waste for a time – perhaps for a long time.”

But words matter, and their meanings matter. Keynes’ metaphor of economy-as-machine is not just inaccurate, it’s a category error. The economy is not some simple machine; it is as complex as human nature because the economy is human interaction on a global scale. *The economy is us*. And by extension, the financial markets are us, too.

The *economy as a machine* metaphor is invalid, just as the economics of Léon Walras (a.k.a. physics envy) is invalid. The great insight of the so-called Austrian or classical economic school, inspired by the likes of Ludwig von Mises and Friedrich Hayek, is that the economy is far too complex to be compared to a simple mechanism. The economy is subject to all of the hopes, fears, frailties and illogicalities of human beings. Good luck modelling that.

So we now know, to our very great cost, that *pace* Keynes, the economy cannot simply be switched off and back on again like a computer. We now know, to our very great cost, that it is easier to put the fear of God into a frightened electorate than it is to unscare them and get them to go back to work. (It might also not have been such a good idea, in the greater scheme of things, to pay people – for several months – to sit on their backsides at home all day.)

God only knows what the historians of the future will make of 2020. A global flu panic that results in countries shutting down entire economies sounds like the pinnacle of craziness – until you discover that Europe between the 15<sup>th</sup> and 17<sup>th</sup> centuries was periodically prone to something called the ‘glass delusion’, in which sufferers believed that they were made of glass and at risk of shattering into pieces. The French King Charles VI was one of the higher profile victims of the illness, and he would reportedly wrap himself in blankets to prevent his buttocks from breaking. Because human nature never really changes, we choose to allocate to uncorrelated investment vehicles known as systematic trend-followers, which make no attempt to predict the future, or to avoid seeming overvaluation, but which are simply content to ride such price trends as appear from time to time, both up **and** down, courtesy of the interests and enthusiasms of the mob.

We also allocate, at present, to precious metals-related companies, provided we can secure robust cash flows in the process from businesses trading on comparatively modest earnings multiples, and with little or no debt. As George Bernard Shaw once remarked,

You have to choose (as a voter) between trusting to the natural stability of gold and the natural stability of the honesty and intelligence of the members of the Government. And, with due respect for these gentlemen, I advise you, as long as the Capitalist system lasts, to vote for gold.

Not that we have true capitalism at present, but rather that sad, distorted travesty known as crony capitalism, or crapitalism. And governments are dab hands at priming the crapitalist pump for their own ends. As Goldman Sachs’ chief commodities strategist Jeffrey Currie suggested on 28<sup>th</sup> July:

Real concerns around the longevity of the U.S. dollar as a reserve currency have started to emerge.. We have long maintained gold is the currency of last resort, particularly in an environment like the current one where governments are debasing their currencies and pushing real interest rates to all-time lows.. The greater the deflationary concerns that policymakers must fight today, the greater the debt build-up and the higher the inflationary risks are in the future.. Today the risk is from debasement of fiat currencies that sows the risk for inflation, and gold is the best hedge against debasement.

Amen to that. Meanwhile, somebody within our government or media should have the gumption to speak truth to power and point out, politely, to our political 'leaders' that sometimes, when you're in a hole, you stop digging.

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Ref I69/2/KC0308.