

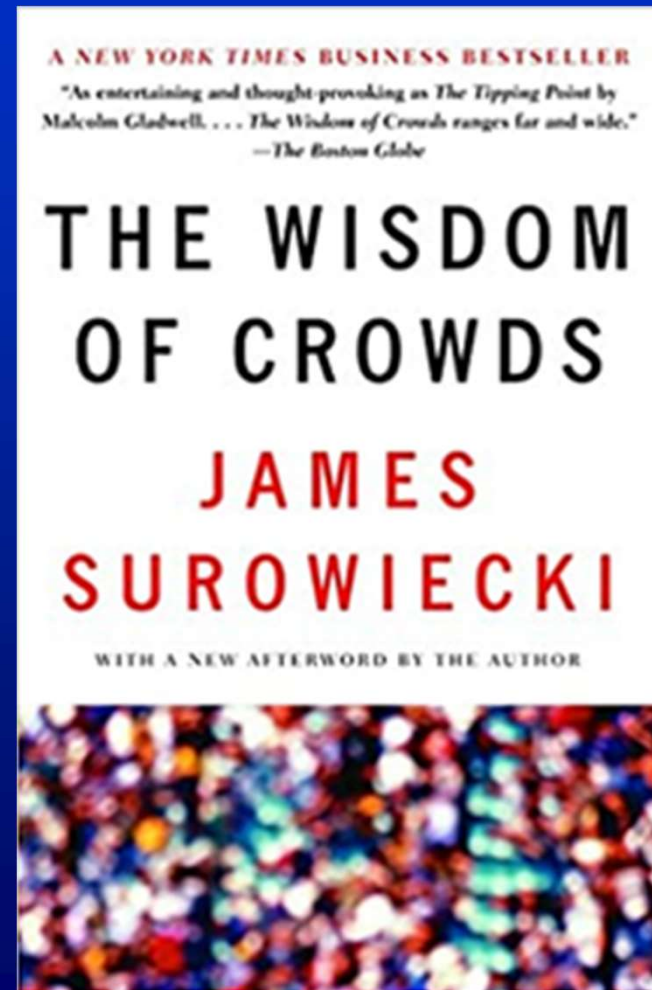
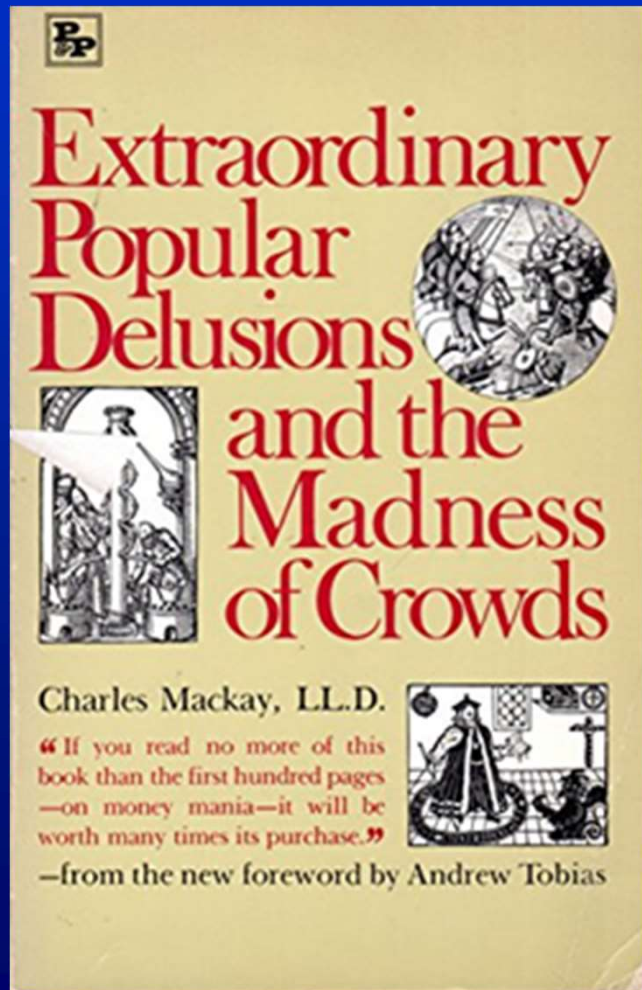
PUZZLES AND PARADOXES IN MONEY AND THE ECONOMY

By Mark Skousen
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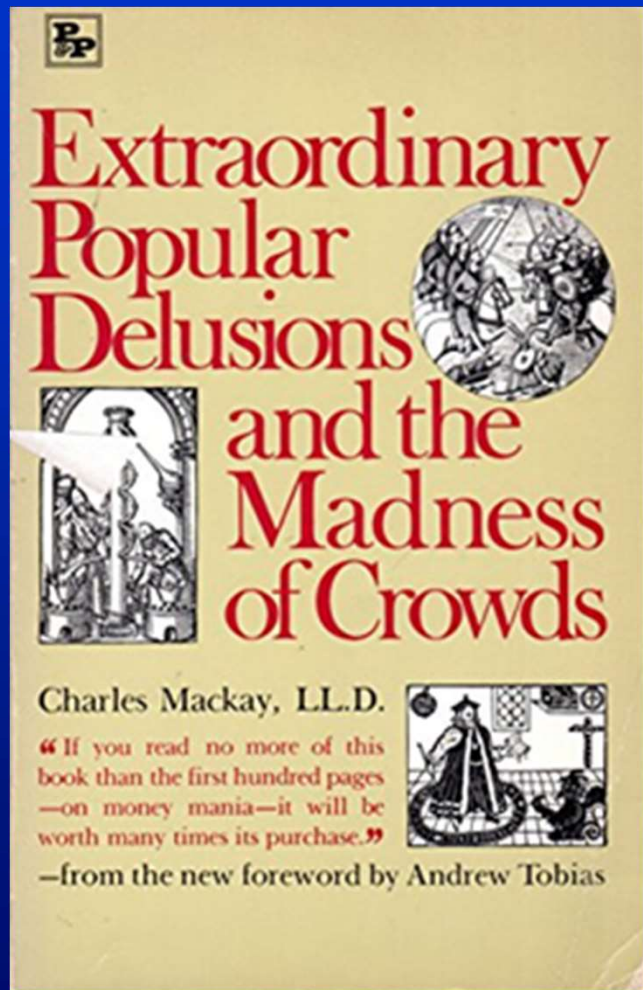
Puzzler #1

Democracy debate:

Is it the madness of crowds or the wisdom of crowds?



The Madness of Crowds



“The public is fearful of bargains. No one can possibly achieve any real and lasting success or ‘get rich’ in business by being a conformist.”

– J. Paul Getty

“Our investments are chosen on the basis of value, not popularity.”

– Warren Buffett

“The public is right during the trends, but wrong at both ends.”

– Humphrey B. Neill,

“The Art of Contrary Thinking”

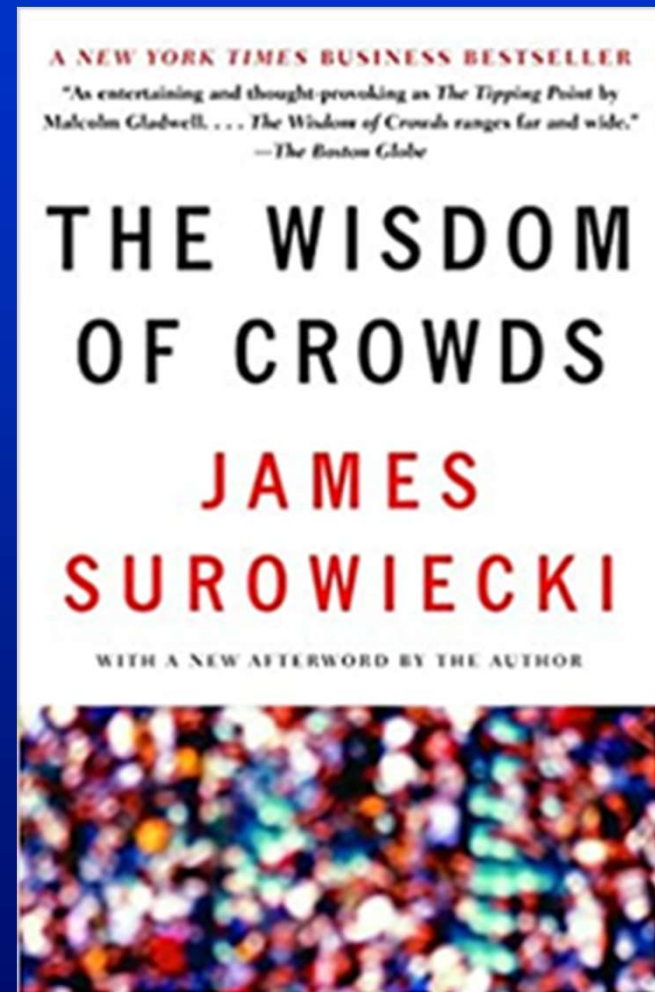
The Wisdom of Crowds

In 1906, British scientist Francis Galton visited a country fair in Plymouth, England, where he witnessed a betting contest on the weight of a fat ox. Around 800 people of all walks of life – butchers, farmers, and townsfolk, placed wagers. Galton compared the contest to democracy.

“The average competitor was probably as well fitted for making a just estimate of the weight of the ox as an average voter is of judging the merits of most political issues on which he votes.”

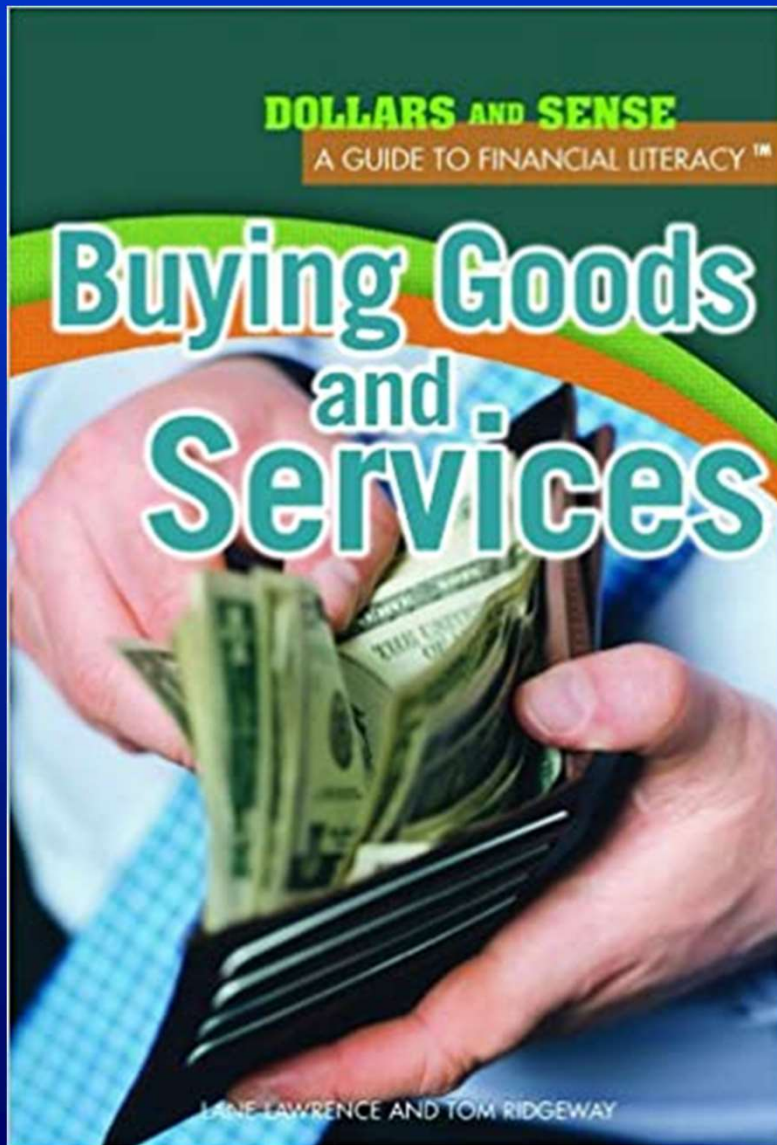
It turned out that the average of the 800 guesses was 1,197 pounds. The actual weight turned out to be 1,198 pounds.

How do you reconcile this puzzle – the madness of crowds in the stock market and the wisdom of crowds at a county fair?



Puzzler #2

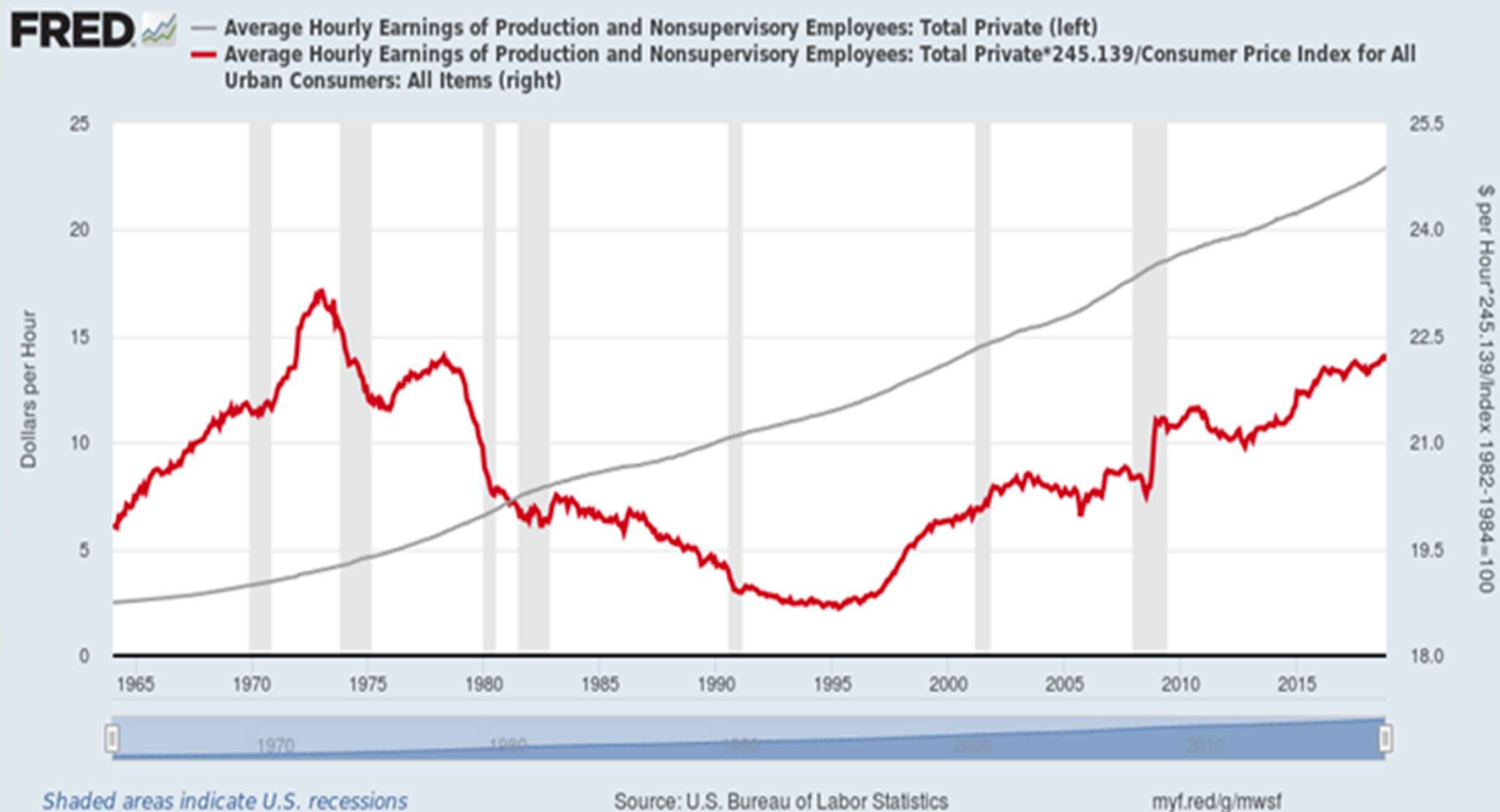
Money vs. Goods



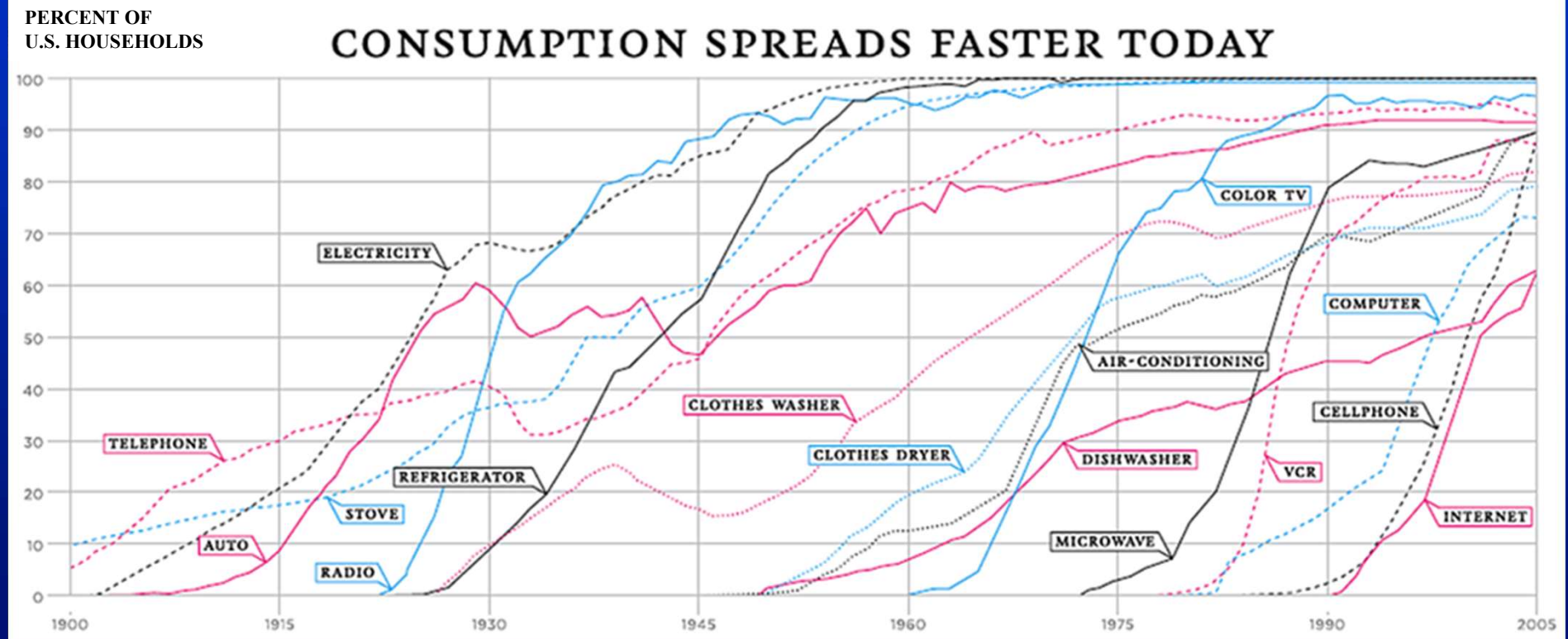
What is the best way to measure a rising standard of living:

Average real wages or goods/services that people can buy?

Average Real Wages Topped Out in the early 1970s (red line)



Increasing adoption of goods and services 1900-2005

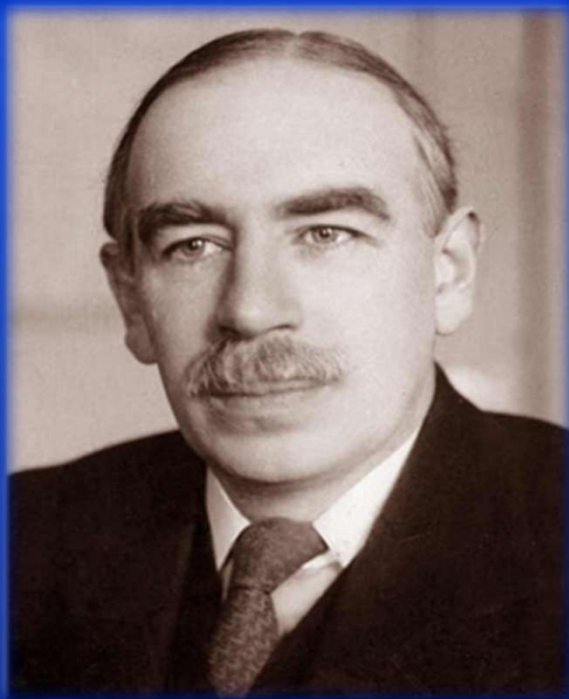


What Money Can Buy

**A bed but not sleep
Computer but not brain
Food but not appetite
Finery but not beauty
A house but not a home
Medicine but not health
Luxuries but not culture
Amusements
but not happiness
Acquaintance but not friends
Obedience
but not faithfulness
Sex but not love**

Puzzler #3

Keynes's Law vs Say's Law



John Maynard Keynes
(1883-1946)



Jean-Baptist Say
(1767-1832)

Does demand create supply, or supply create demand?

What drives the economy?

Consumer Spending



Business Investment



Government Stimulus



“Consumer spending accounts for 70% of the U.S. economy. This unleashed consumer spending generates more growth. American consumers, whose spending is 70 percent of economic activity, don't have the dough to buy enough to boost the economy – and they can no longer borrow like they could before the crash of 2008.” – **Robert Reich**

“Though not one in a thousand recognizes it, it is business, not consumers, that is the heart of the economy. When business produces profitably, they create income-paying jobs and thus consumers spend. Capital formation is the key to worker productivity and consumer prosperity.”
– **Larry Kudlow**

Breakdown in GDP, Q3 2020

Personal Consumption Expenditures (C) = \$ 14,402 bil.

Gross Private Domestic Investments (I) = 3,688

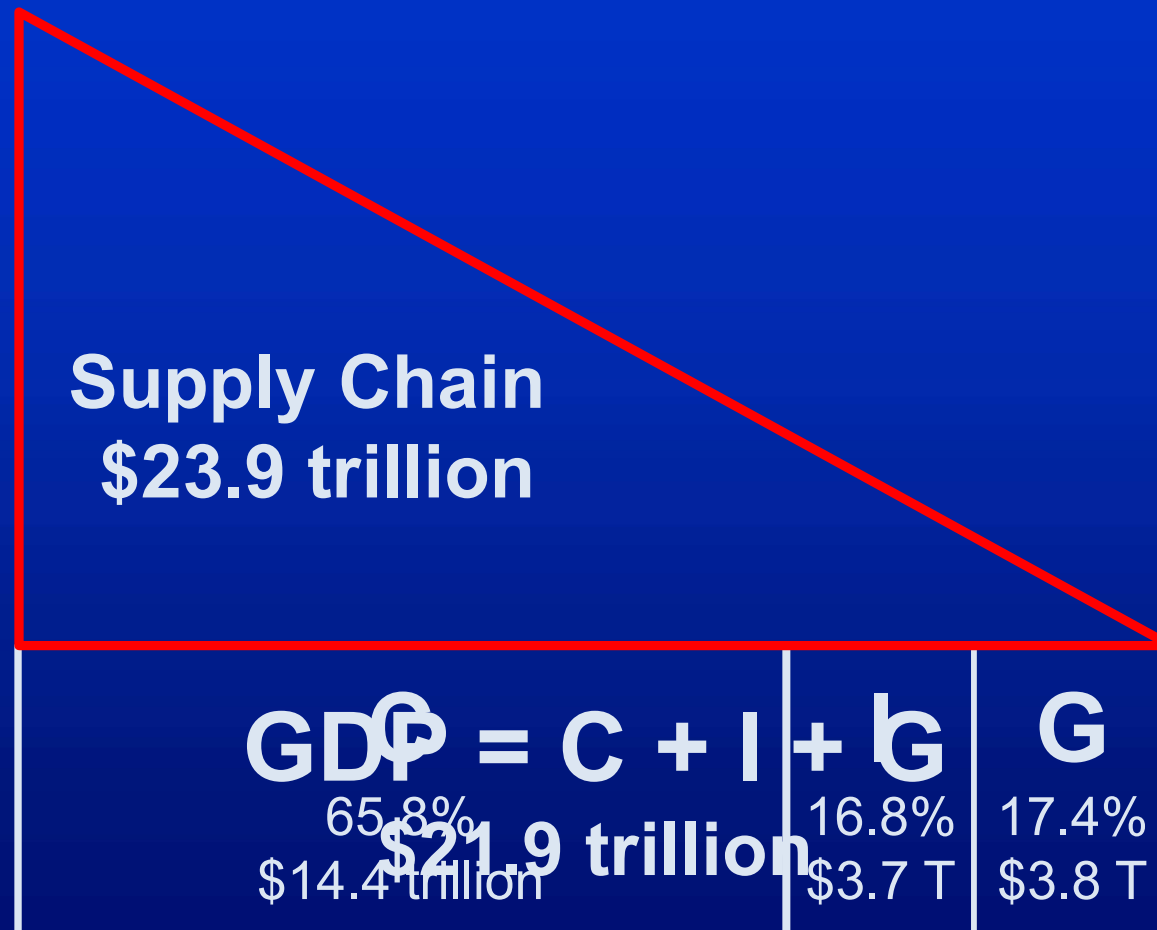
Government expenditures (G) = 3,816

Net exports (XM) = -736

Gross Domestic Product (GDP) = \$ 21,170 bil.

Source: Bureau of Economic Analysis, www.bea.gov. Q3 2020

What's Missing from GDP?



Note: all figures are as of Q3 2020, reported in trillions USD and exclude Net Exports

What is Gross Output?

Gross Output (GO) is a much broader measure of the economy than gross domestic product (GDP), which is limited mainly to final output (finished goods and services).

GO is the sum of an industry's value added and intermediate inputs. It includes the value of net output – or GDP – plus intermediate consumption.

$$\text{GDP} = \text{C} + \text{I} + \text{G} + \text{NX}$$

where:

C = Consumer spending

G = Government expenditures

I = Private investments

NX = Net exports

$$\text{GO} = \text{C} + \text{I} + \text{II} + \text{G} + \text{NX}$$

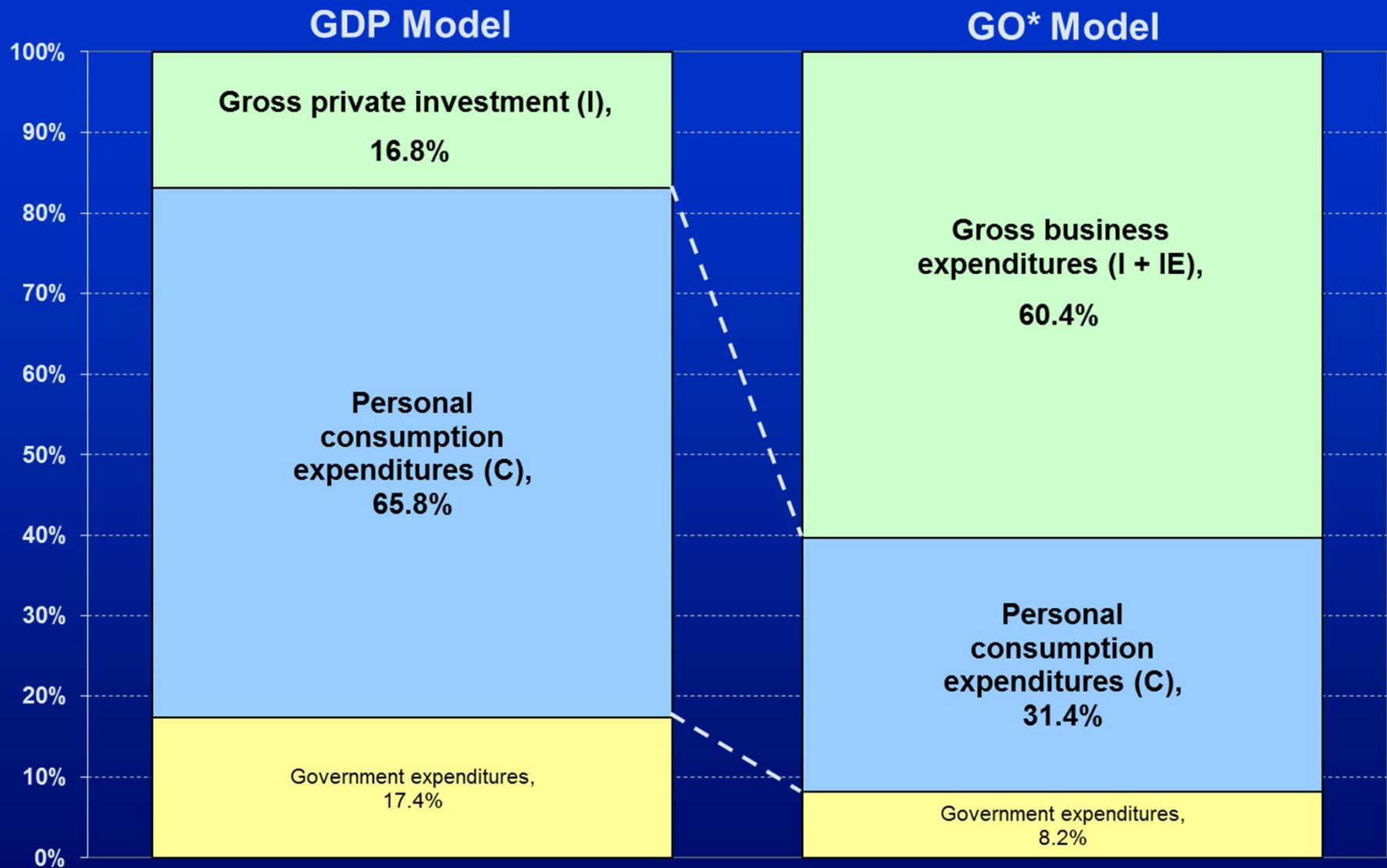
or

$$\text{GO} = \text{GDP} + \text{II}$$

where

II = Intermediate inputs
(supply chain)

Q3 2020 Data



Credit: Ned Piplovic

NOTE: Q3 2020 data from BEA; Net exports (XM) excluded

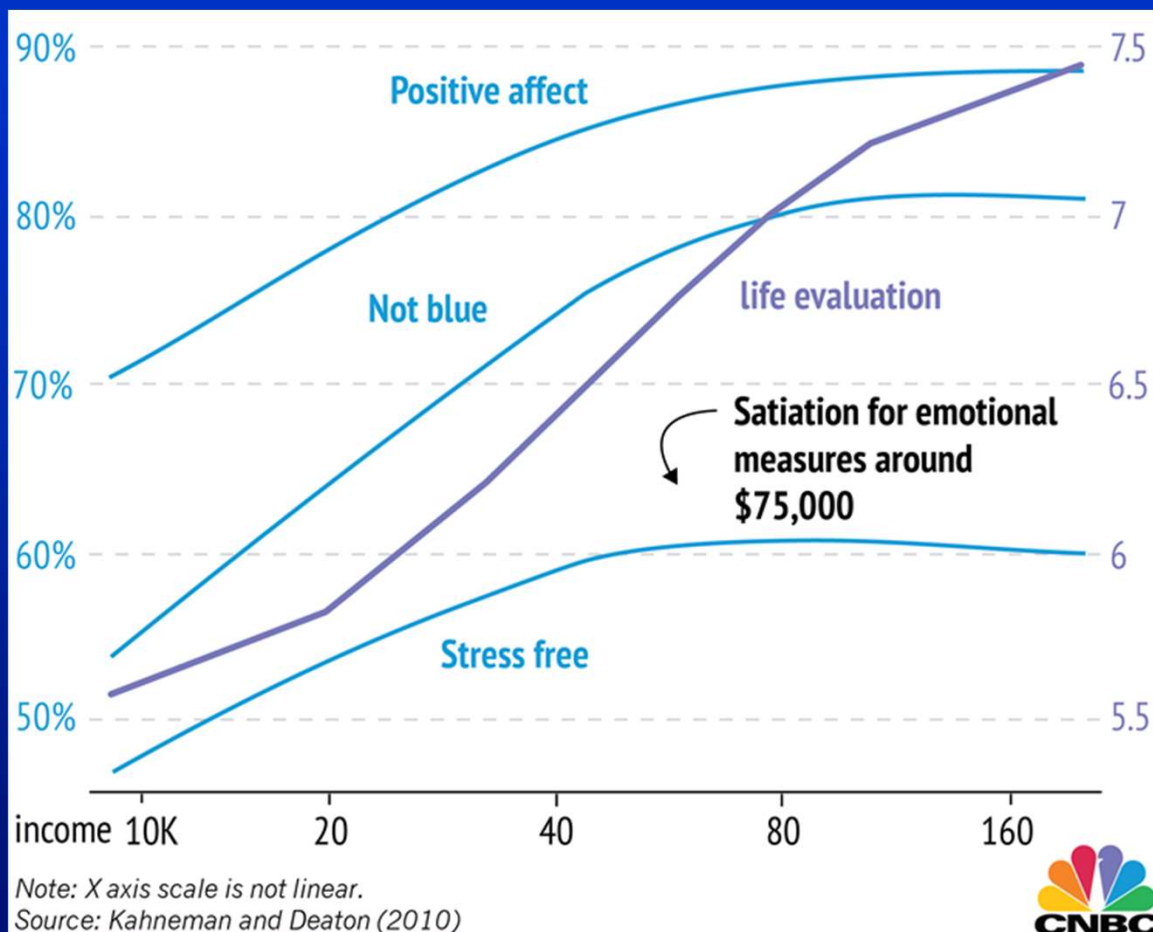
Puzzler #4

Can money buy happiness?

Hello green, goodbye blues

A study has found a satiation point around \$75,000 for an individual.

While emotional gains disappear after that, gains in life evaluation continue.



“Money doesn’t buy you happiness. I now have \$50 million, but I was just as happy when I had \$48 million.”

– Arnold Schwarzenegger

Puzzler #5

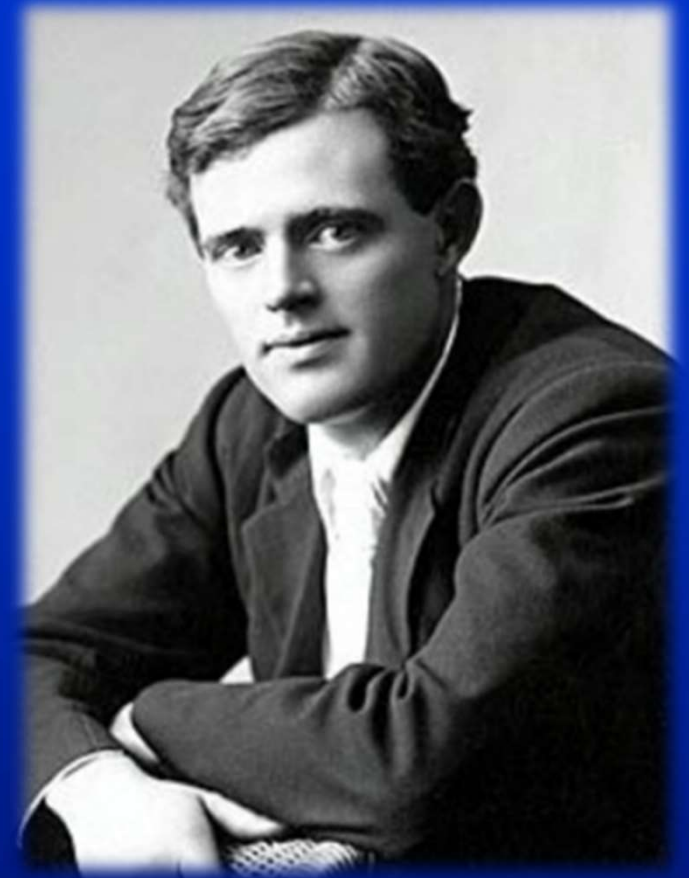
Why does socialism always fail?

A photograph of a dirt road winding through a forest. The road is light brown and appears to be made of dirt or gravel. On either side of the road, there are tall, dry grasses and some evergreen trees. The background shows a dense forest of trees, some of which are bare, suggesting a late autumn or winter setting. The sky is overcast and grey.

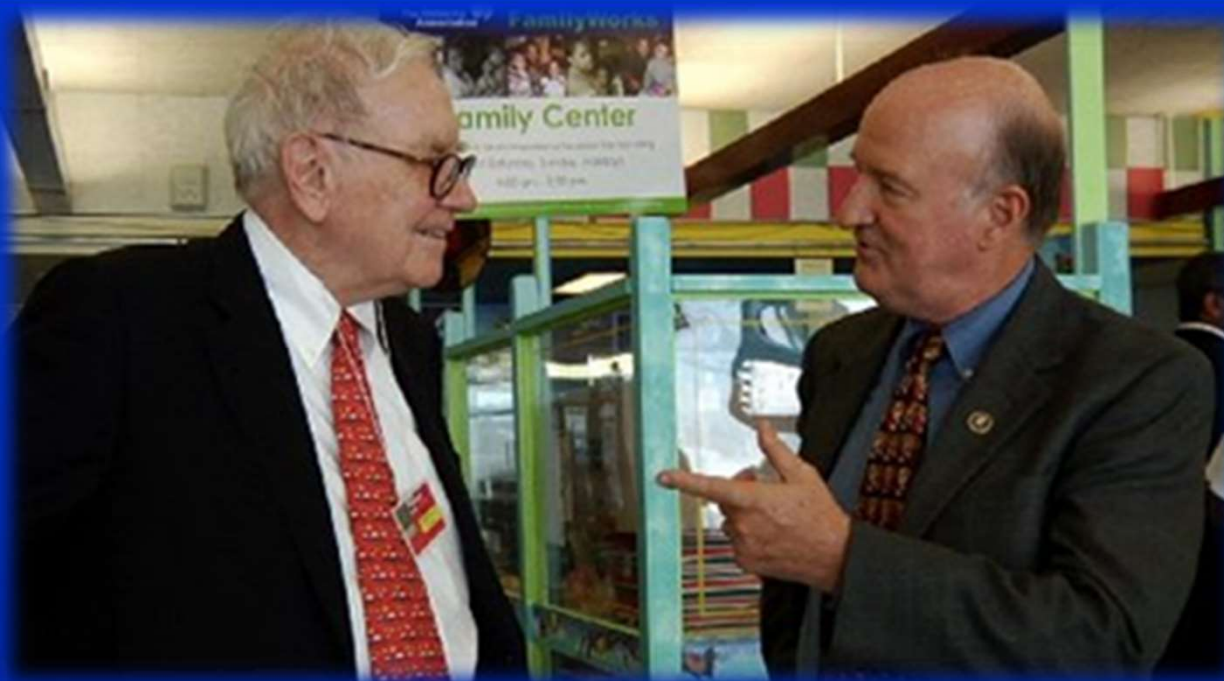
**From each according to
his abilities, to each
according to his needs.**

Karl Marx

**“From each according
to their ability,
to each according
to their *deeds*.”**

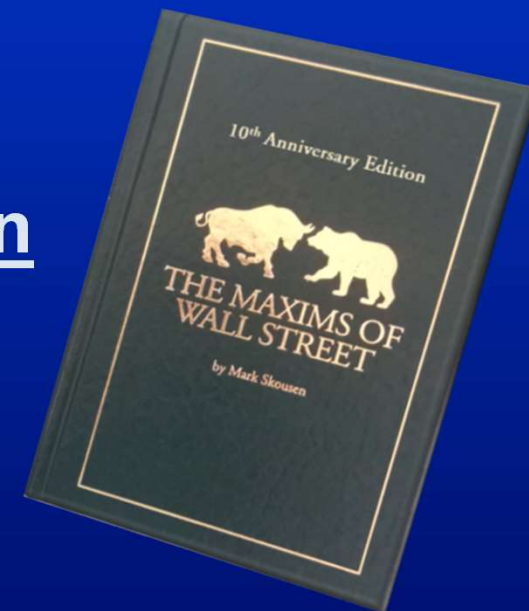


– Jack London

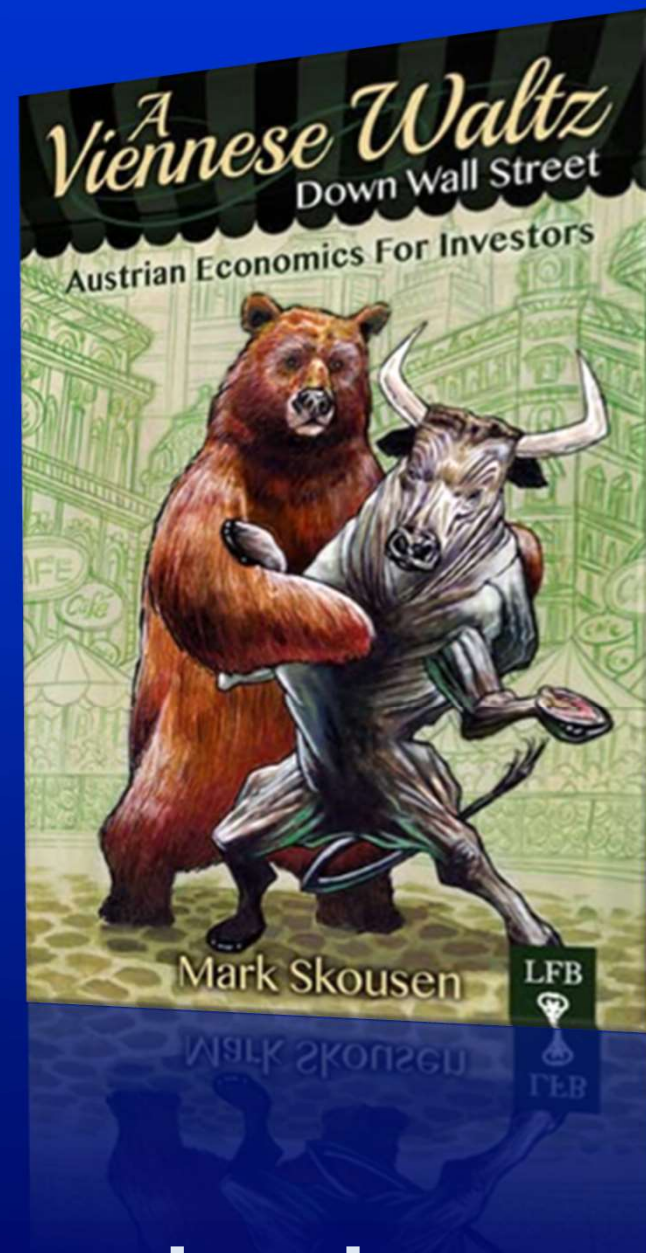
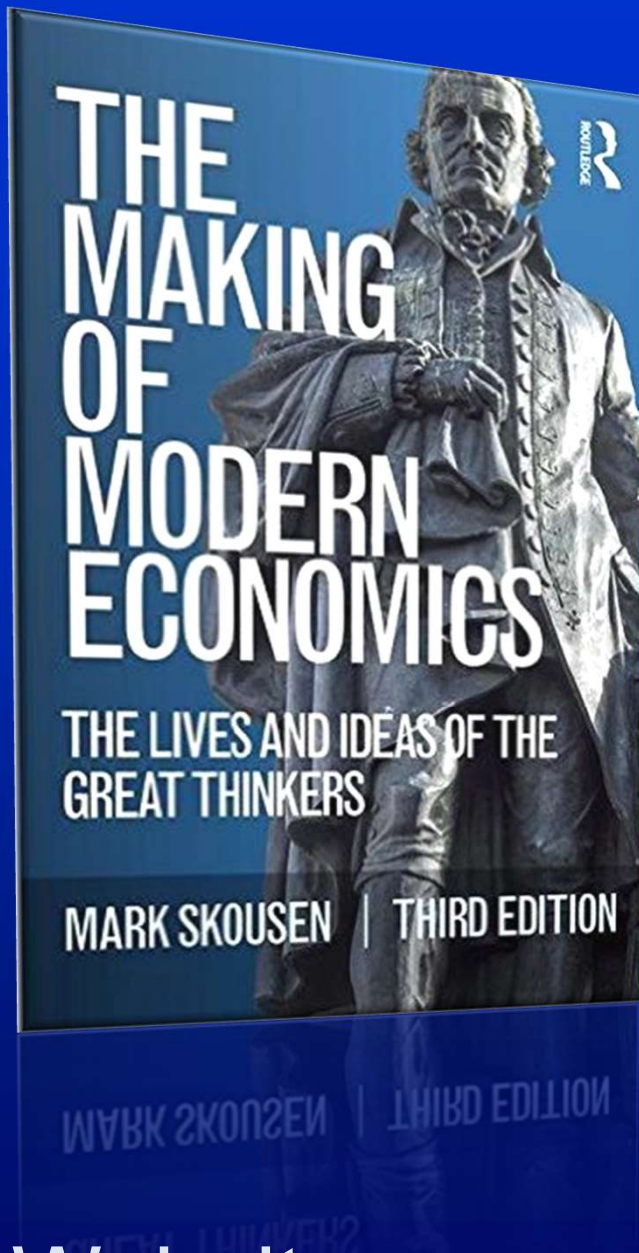


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