
Chairman Karl Peterjohn

3rd District

July 13, 2010

Address to the
Wichita Independent Business Association



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How do we get out of this mess?

- 1) Political efforts to correct our economic and fiscal problems
- 2) Intellectual and academic efforts to find a fix



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“The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slave of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back.”

- Lord Keynes, “The General Theory of Employment, Interest, & Money”



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Economists' failure

- NABE, Nov. 19, 2007 forecast, “While the US economy faces a higher risk of recession from credit markets, housing, and energy prices, NABE’s panelists still do not see recession as the most likely outcome.”
- “.....even the average of five most pessimistic panelists saw us skirting recession with growth of 1.5% in 2008.”
- “Economists have not escaped blame, not for causing the crisis, but for not seeing it coming earlier.....Had we more clearly seen the crisis coming, and seen it sooner, we surely would have warned policy makers and the public, and hopefully nipped it in the bud. Alas, we missed that opportunity, and the Great Recession happened.”

Chris Varvares, National Association for Business Economics (NABE) presidential address, Oct. 12, 2009 to this 2,500 member association of economists



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The Great “Recession” Continues

- “There’s no possibility to restore 8 million jobs lost in the Great Recession.”
Vice President Joe Biden
- “Stimulus” bill was supposed to prevent unemployment from exceeding 8%. Broad definitions of unemployment now show unemployment exceeding 15%.



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Double Dip Recession Likely

- Art Laffer, Wall St. Journal 6-7-2010 said:
“When we pass the tax boundary of Jan. 1, 2011, my best guess is that the train goes off the tracks and we realize our worst nightmare of a severe ‘double dip’ recession.”
“If you thought deficits and unemployment have been bad lately, you ain’t seen nothing yet.”



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Risk, Uncertainty, & Profit

- Economist Frank Knight's book
- On-going struggle between government and markets: The Commanding Heights book & video
- Market-based economists, F.A. Hayek & Milton Friedman (a colleague of Knight's) versus Keynesians, socialists and statisticians: Paul Krugman & Joseph Stiglitz



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Government must protect markets and not impede or destroy them

- Rule of law
- Regulatory stability
- Certainty in taxes
- These steps must be taken by government at all levels



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Rule of Law?!?

- GM CEO fired by Obama regime
- Auto company bond holders stiffed
- \$75 million liability cap becomes \$20 billion liability fund without legislative statute

Full liability for damages but within a rule of law



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Uncertainty

- Tax hikes
 - Debt Commission tax hike stalking horse
 - “Financial Reform” \$20 billion conference committee tax hike
 - Health legislation tax hikes
 - Bush tax cuts expiration
 - VAT/federal sales tax



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More Uncertainty

- Wall Street Journal reports that \$1.8 trillion-\$2 trillion in business capital is still sitting on sidelines
 - Sysco CEO announces he won't do business in California any longer
 - Sysco CEO announces \$1 billion investment in Russia
 - Verizon CEO Ivan Seidenberg & Business Roundtable head, "...govt. is injecting uncertainty into the marketplace..." Hiring on hold as well as capital investment



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More Monetary Uncertainty

- Medium of Exchange is understood
 - Rise of Euro
 - Increasing ability to move money worldwide
 - Zero interest rate dilemma
- Store of Value is not
- American/World Monetary history
 - America's first inflation
“Not worth a Continental”
Rise and fall of commodity based money



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Business is international

- Only thing more mobile than human capital is financial capital
- “Today the U.S. is in an era of global competition to attract, retain and grow the operations of multinational companies that it’s never faced before....These (multinational) firms are now the canaries in the U.S. economic coal mine. Will our lawmakers pay attention?”

Growth & Competitiveness in the U.S., McKinsey Institute



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International risk exposure

- “U.S. multinational companies have long been among Americans’ strongest firms. Although they comprise far less than 1% of U.S. companies, they account for about 19% of all private jobs, 25% of private wages, 48% of total exports of goods, and 74% of non public R&D spending.”

McKinsey Global Institute



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“Stimulus” failures

- 2008 first stimulus. Bipartisan with Bush and Pelosi/Reid Congress
- 2009 more stimulus. Keep unemployment under “8%” if it isn’t passed. \$862 billion in spending authorized. Enacted in February and unemployment reaches 10%
- 2010 stimulus III and negative “multipliers”



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Increasing risk, uncertainty and eradicating profit

- Auto industry takeover
- Health care takeover-new Czar appointed
- Bank takeover continues

- Some banks manage to escape
- AIG still a government entity

\$1 trillion more from taxpayers for Fannie & Freddie

How much more from TARP/too big to fail?

Tax hikes looming

What is next?



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The Meltdown

- Housing
 - Fannie & Freddie
 - Another public/private partnership failure
 - F&F untouchable by Obama & Congress
 - Precipitated the Financial meltdown
 - Community Reinvestment Act is legal trigger that began this financial meltdown



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More Energy Uncertainty

- Cap 'n Trade or more accurately:
 - The newest and largest energy tax
 - Politically correct energy
 - Taking proven energy capabilities off of the table: coal, oil shale, & even natural gas
 - BP = “Beyond Petroleum” ignores the reality of carbon based energy until we eventually develop a fusion nuclear power source(s)



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We are all Keynesians now

- Time Magazine said this first in 1965
- Richard Nixon repeated this five years later while he imposed wage & price controls on the U.S. economy
- Left wing Nobel Laureate Paul Krugman has repeated that we are all Keynesians.
- President Obama now states that economists agree that his “stimulus” bill worked.



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There is a bright future

- If government will let markets and entrepreneurs work

Government's role: 1930's versus 1921:
Hoover/FDR versus Harding/Coolidge

If we continue the current path: capital is on
strike: Atlas Shrugged

\$2 trillion on the sidelines



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FDR/Morgenthau

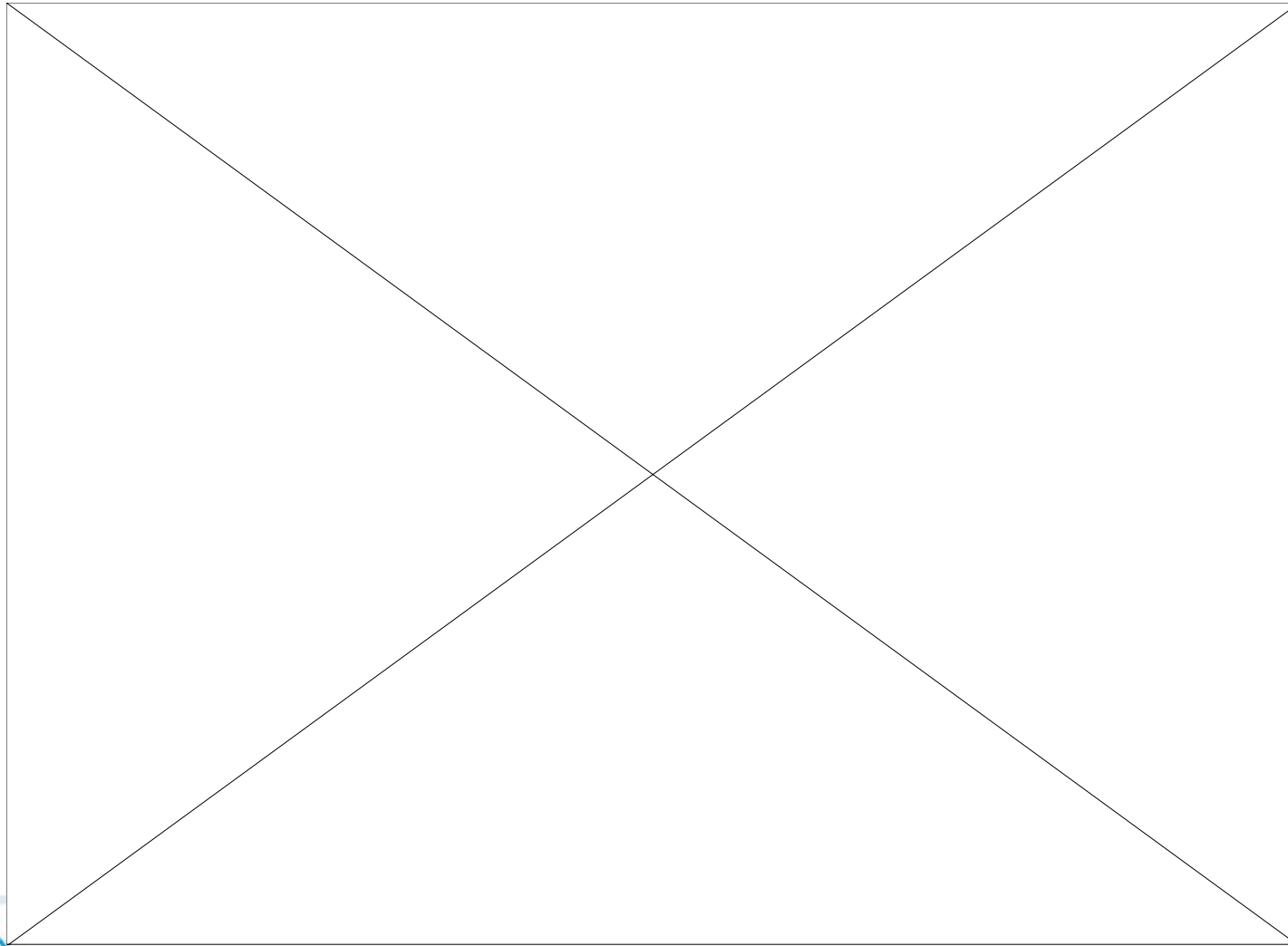
“We have tried spending money. We are spending more than we have ever spent before and it does not work....I say after eight years of this Administration we have just as much unemployment as when we started...And an enormous debt to boot!”

Secretary of the Treasury, Henry Morgenthau, May 9, 1939 congressional testimony



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Hayek v. Keynes



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County Solutions

All Local Government:

Stable regulatory & tax structures

Transparency on spending

Stop suing for more tax \$--no more Montoys

Voter approval for state/local tax hikes
(TABOR)

Re-examine regulatory structure, zoning and
other local rules and costs



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Local Solutions

- Certainty is needed for tax and regulatory rules
 - No tax hikes without voter approval—catch up to our neighbors in CO, MO, & OK
- Ease tax burden whenever possible
- Ease regulatory burden whenever possible
- Avoid unnecessary increases for utilities both private and public (avoid new mandates)



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Federal & State Economic Solutions

- Need an American Margaret Thatcher to restore the American Dream and end Obama statism—not can be done, but must be done
- Return industry to private sector: banks, AIG, automobile, & housing
- Replace Obamacare with market based health solutions
- Energy production is needed in the Saudi Arabia of coal and shale oil—the USA
- Cut federal spending, restore Bush tax cuts while ending Obama tax hikes
- Expand trade agreements (Columbia, S. Korea)
- Full expensing of business investment (F. Smith) and cutting corporate income tax rates
- End “stimulus” federal spending—doesn’t work
- Sale of federal assets—like in 18th century
- Create stability in our dollar and monetary system
- Audit Federal Reserve



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Our Opportunity

- Statism/socialism continues to fail
- Continuing technology changes
 - Moore's law
 - Biological revolution
 - Shrinkage of transportation, communication, & information costs
 - New channels for communication & information
 - Creation and destruction in economic activity



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Peterjohn's Reading List

- "The Road to Serfdom," F.A. Hayek
- "The Commanding Heights," Daniel Yergin & J. Stanislaw
- "The End of Prosperity," A. Laffer, S. Moore & P. Tanous
- "Free to Choose," Milton Friedman
- "The General Theory of Employment, Interest and Money," J.M. Keynes
- "Risk, Uncertainty, & Profit," F. Knight
- "The Housing Boom & Bust," Thomas Sowell
- "Meltdown," Thomas Woods Jr.
- "Atlas Shrugged," Ayn Rand
- "The Fatal Conceit," F.A. Hayek
- "Socialism," L. Von Mises
- "The Ascent of Money," N. Ferguson
- "Against the gods: the history of risk," P. Bernstein
- "The Black Swan," N. Taleb



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Peterjohn's Reading List II

- "What has Government done to our money?" M. Rothbard
- "The Monetary History of the U.S., 1867-1960," M. Friedman & A. Schwartz
- "The Forgotten Man," A. Shlaes
- "New Deal or Raw Deal?" B. Folsom Jr.
- "Economics in One Lesson," H. Hazlitt
- "The Vision of the Anointed," T. Sowell
- "The Science of Success," C. Koch
- "Market Failure or Success," T. Cowen & E. Crampton
- "The Structure of Production," M. Skousen
- "Lesson from the Poor, Triumph of the Entrepreneurial Spirit," A. Llosa
- "Eat the Rich," P.J. O'Rourke
- "Monetary Mischief," M. Friedman
- "Government in the American Economy," R. Carson, J. Ingles, & D. McLaud
- "Knowledge & Decisions," T. Sowell



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Thank you Sedgwick County business community for your persistence in achieving the American Dream.

Questions?



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