

Let's Play Some Offense

September 2011

They have an old saying in football, "The best defense is a good offense." It's an adage that has been applied to many competitive situations, from business to the military. It suggests that with a good enough offense your opposition is too preoccupied to inflict strategic harm. The Armchair loves to play offense, on any competitive court, so it depresses me to constantly see our country playing defense.

The dot.com bubble bursts so we take action. The Twin Towers fall so we take action. Lehman collapses so we take action. GM is going broke so we take action. Banks are too big to fail so we take action...and make them bigger. We have sticky high unemployment so we take action. Geez Louise, it is no fun constantly taking 100 mile per hour serves on our heels. Why is this our game, why are we constantly playing defense? Why are we constantly reacting instead of pro-acting?

The answer is quite simple – we don't know our competition. If we don't know our competition, then it is impossible to develop a worthwhile offense. This has been our economic problem for at least a decade, not just since the 2008 crash. We don't really understand our economic circumstances so we are constantly playing defense, and the longer the defense is on the field, the more exhausted it becomes.

The "problem" talking heads in media, government and finance seem to be focused on – too much debt – is NOT the real problem. Too much debt is just a symptom of the real problem(s). Certainly we need to address the symptom, but if we don't address the real problem, the symptom will not go away.

Three basic problems have created the debt issue.

Problem one is the Technology Hangover. Technology is destroying jobs faster than our economy can naturally replace them. How can we have a growing economy when more jobs are being destroyed than created?

Problem two is the maturation of our rural farm to urban production economic transition. America is referred to as a Developed Market, but Mature Economy seems much more accurate. Either way you put it, the notion of mature or developed suggests we don't have the spryest economic capability.

Problem three is our transition from a production to a service and consumption based economy. Production is the top of the food chain in any economy that possesses a large and diverse employment base. Service serving service and consumers constantly consuming wants because their needs are fully met is not sustainable.

These are our real problems. It is because of these structural changes in our economy that we have too much debt. We've been masking over these problems by borrowing money to maintain the lifestyles to which we have become addicted. Consumers went overboard so government came in to bail them out, as well as their bankers. But government was already deep in debt. Now it seems we have reached the end of government borrowing to fix a borrowing problem.

Let's not mince words, thoughts or expectations. We have a ginormous economic problem. **We're down to printing money to sustain our economy**, as if this is a game of Monopoly. Sovereign debt default is a huge risk. It threatens global recession, if not worse.

Armchair Economic Perspective
Let's Play Some Offense
September 2011

What do we do? How do we protect ourselves from global economic contagion? And how do we “inspire” more organic economic activity? These are the two areas we should focus on – **protecting ourselves from global economic contagion and finding some kind of organic economic growth.**

The obvious and most important thing we need to do is create jobs. And we must do so with the most efficient use of our capital because we have precious little of it. We're not going to use capital efficiently by re-paving school driveways or roads that function adequately. Nor will we accomplish this by putting new roofs on buildings that are not leaking, or replacing city buses that still work.

We also don't have the capital to begin a grand redevelopment of our economic infrastructure. Let's not forget the bulk of that infrastructure is already in place. The production economy infrastructure was put in place over the last couple hundred years. The technology economy infrastructure was put in place over the last thirty years. As the Armchair has pointed out before, **once infrastructure has been put in place, its ability to induce further economic growth by expanding productivity has mostly been realized.**

We must be honest and recognize that most “investing” in infrastructure today is nothing more than maintenance. We are just maintaining productivity that has already been captured. We must certainly maintain infrastructure, but we can't expect this activity to be very economically stimulating.

Furthermore, building things like new commuter transportation systems in areas that already have sufficient and productive transportation capability is really just destroying capital. Building bridges to nowhere produces no productivity growth while it increases our need to spend more on maintenance. This is a peeing in your pants economic exercise, a moment of relief but then a new problem to deal with.

So what do we do to protect ourselves from global economic contagion and where can we find organic growth opportunity with our limited available capital? The heart of the answer is simple: **In order to protect ourselves from global economic contagion, we need to become more self-sufficient.**

Is there a way to become more self-sufficient and also find organic growth? Yes there is. **We can do both by increasing our support of and focus on natural resources.**

“Oh how silly,” one might think. “We're long past a natural resource economy. We are the innovation leader of the world. Innovation should be our focus, that's our future!” Well guess what? There is no innovation economy without natural resources. Google is nothing without energy. You can't build iPads without rare earth minerals. And Super Bowl MVPs can't play if they can't eat.

All economy begins with natural resources. All wealth originates from natural resources. There is no wealth and no economy if at first you don't have natural resources.

Economic value and wealth can be divided into three tiers of activity. The bottom and most important tier, the foundation to all economy and wealth, is natural resources. The second tier is production, taking natural resources and creating a product of value from them. The third tier is services. But if no production exists without natural resources, then no services do either.

No product can be made and no service can be provided without natural resources. What do you think the computer screen you are looking at is made from? How about that chair you are sitting in? And

Armchair Economic Perspective
Let's Play Some Offense
September 2011

how about that floor under your chair, the room you are in and the building structure where your room sits? What do you think is used to make your car? And how does a car, bus, plane or train get from one place to another?

ALL WEALTH AND ALL ECONOMY BEGINS WITH NATURAL RESOURCES.

If we were honest about America's wealth, and what we consider American Exceptionalism, it should be obvious it all began with natural resources. America was the land of opportunity only because our geography was blessed with abundant natural resources. You think immigrants would have come to a desert of sand?

Whenever anyone or any entity gets themselves upside down financially, the only way to right their economic ship in a sustainable way is by going back to the basics. This is what we need to do, get back to our basics, back to our natural resource economy.

Many things need to change, will change, as America goes through this turbulent economic period. Workers need to be better trained for the available jobs, but maybe more important, jobs must be made available to match current worker skills. We don't have the luxury of time to retrain our work force. We also can't depend on technology to save us since a great part of its purpose is to replace workers. We need jobs that fit our workers now and that don't require more government or more government borrowing. And we need to maximize the value of our limited capital. We need to start playing some common sense offense. We need three yards and a cloud of dust instead of praying for a Hail Mary pass.

Worthwhile positive change can be made with our economic circumstances if America would return to its roots, to its core competency, the tremendous competitive advantage that originally catapulted us to economic and political power. We must re-embrace our natural resource economy to kick-start its virtuous circle of expansion. From natural resources comes production and then from production comes services. This is the best way, the most efficient way we can start playing some economic offense, as well as increase our own self-sustainability.

Even the Emerging Market economies desperately need more natural resources, and we have them. So let's produce more and sell more. Won't growing exports be economically stimulating?

To abandon natural resources is to abandon inherent wealth and economic opportunity. Embracing our natural resource economy will protect us from global economic contagion and inspire organic economic growth. It will create jobs that fit with our production/construction worker employment base. And more jobs mean more consumption.

Wake up America! It's time to start playing some common sense economic offense.



Douglas A. Leyendecker
713-862-3030
doug@armchaireco.com