The tribal wisdom of the Dakota Indians, passed on from generation to generation, says that, "When you discover that you are riding a dead horse, the best strategy is to dismount."

However, the United States Government often employs more advanced strategies, such as:

1. Buying a stronger whip.

2. Changing riders.

3. Appointing a committee to study the horse.

4. Arranging to visit other countries to see how other cultures ride horses.

5. Lowering the standards so that dead horses can be more productive.

6. Reclassifying the dead horse as "living-impaired."

7. Hiring outside contractors to lift the dead horse and move its legs.

8. Harnessing several dead horses together to increase speed.

9. Providing additional funding and/or training to increase dead horse's performance.

10. Doing a productivity study to see if lighter riders would improve the dead horse's performance.

11. Declaring that as the dead horse does not have to be fed, it is less costly, carries lower overhead and therefore contributes substantially more to the bottom line of the economy than do some other horses.

12. Rewriting the expected performance requirements for all horses.

And the final solution...........

13. Promoting the dead horse to a supervisory position._

# Fake Crimes

**by Paul Craig Roberts**

Studies show Americans close to being the worst educated and least aware population among first-world countries. Americans easily stumble into war and give up their rights because of exaggerated fears of terrorists and criminals. Americans have been losing accountable government, liberty and justice for a long time. At some point these values become irretrievable.

Consider justice. The US has the highest rate of incarceration in the world and imprisons 6 to 10 times as many people as any other industrialized country. Between 1990 and 2000 the US population increased 13%. The US prison population more than tripled.

There are hundreds of thousands of innocent Americans in prison. They are there because the criminal justice system no longer works to discover the truth of a crime, but to convict at all cost whoever happens to be charged with a crime. And they are there because the US criminalizes more acts than any other country in the world, including tyrannical police states.

In the US there are three categories of prisoners: the guilty, the innocent, and those convicted as a result of prosecutors' interpretations of vague and broad statutes that deem conduct to be criminal that reasonable people – and every other country – do not recognize to be criminal.

For example, in the Martha Stewart case, the prosecutor criminalized her exercise of her constitutional right to declare her innocence. He said it constituted fraud for her to declare her innocence and tacked on the charge. Remember that if you ever stand before a judge.

Almost everyone in prison is wrongfully convicted, even the guilty. According to the US Dept. of Justice (sic), 95% of criminal convictions result from plea-bargains. What is a plea bargain but self-incrimination, conviction without a trial by jury and without a test of the evidence against the defendant.

An uninformed public believes plea bargains to be sweet deals for criminals. Sometimes they are, but more often pleas result from prosecutors piling on charges until the defendant, innocent or guilty, cries "uncle" and gives up.

Prosecutors not only coerce defendants, they coerce witnesses to give false testimony. Sometimes coercion takes place behind closed doors. Other times it takes place in full public view.

Consider husband and wife defendants Andrew and Lea Fastow in the Enron case. The Fastows have two young children. In order to coerce "cooperation" and testimony against Enron executives, the federal prosecutors threatened to put both father and mother in prison, effectively rendering the two young children orphans.

In Harvard law professor Alan Dershowitz's immortal words, Andrew Fastow is being taught not only to sing but also to compose. To keep his wife out of prison, he will give the prosecutors whatever testimony they want against his bosses.

The American public watches all this in plain view and then believes the testimony!

You may think that Enron officials deserve what they get. But do you approve of the illegal and unethical methods used to produce the convictions? In effect are the prosecutors as guilty of criminal behavior as those they pursue?

"Junk bond king" Michael Milken was put into a similar situation. Unless he agreed to a plea, the prosecutors threatened to indict his younger brother.

If prosecutors can so easily frame the wealthy and politically connected, what do you think happens daily to the inner city poor?

Prosecutor Rudy Giuliani was a master at using the media to destroy the reputations of his victims, thus pre-empting a trial where evidence of a crime could be tested. Giuliani climbed over the bodies of his high-profile victims to become mayor of New York and a 911 hero.

Now it is Martha Stewart and mutual funds who have been targeted as a prosecutor's path to a political career.

Martha Stewart is falsely charged with "insider trading," an offense of which she cannot be guilty as she is not an insider and had no information from an insider.

Legal scholar and law school dean Henry Manne has shown (*Wall St. Journal*, 1-8-04) that prosecutor Eliot Spitzer's charges against mutual funds are largely trumped-up. The offenses are partly the unintended result of a Security and Exchange Commission "reform," which capped redemption fees that mutual funds used to discourage market timers.

Prosecutor Spitzer's claims about mutual funds are based, not on law, but on an academic paper written at the Stanford University Graduate School of Business. In other words, the prosecutor has a "theory." Professor Manne has shown the academic paper to be incorrect. What we are witnessing is a mutual fund witch-hunt based on an incorrect academic theory.

And Americans think they live under a rule of law!

No doubt some mutual fund managers exercised bad judgment and some may have broken some rules. But Spitzer's ambition has blown the cases out of proportion. We certainly do not want to criminalize bad judgment. It is hard to find a worse case of bad judgment than the Bush administration's invasion of Iraq.

---

**They** (American Businesses)pay their company managers as if they were rock stars... when anyone with any real business experience knows that most of what they do is either irrelevant, unproductive or harmful. The corporate chieftain's job could be outsourced to an Indian as easily as any other, but who's going to suggest it? Top executives sit on each other's boards... they award each other pay packages that would make a maharajah blush... and often know little or nothing of the business they're supposed to be in. They cannot invest the company's money for long-term projects. They don't really have any ideas for the long-term. And they know that the lumpeninvestors wouldn't much appreciate it if they did. So, they merely try to maximize current profits -- and put as much into their own pockets as possible.

--- Bill Bonner -- **THE DAILY RECKONING,** March 24, 2004

---

# GreenSpam

**by Mark Thornton**

Federal Reserve Chairman Alan Greenspan testified before the House Financial Services Committee on Wednesday and the Senate Finance Committee on Thursday. As usual, Wall Street and financial journalists were all in a tizzy. The Dow reached highs not seen since 2001, and the S&P 500 reached recovery highs. Bonds and the dollar scurried off in opposite directions.

Greenspan's semiannual testimony before Congress is much anticipated by market watchers, much discussed in the media, and much dissected by analysts for any nugget of the future that might be discerned. The reality is his testimony is all about deception. Greenspeak, his torturous twisting of words with endless assumptions, conjectures and qualifications, is not meant to inform, but to misinform and to give the impression that all is well, at least at the Fed.

For your own sake, think of his testimony as Greenspam. It's about our green money, but otherwise it is nothing but a useless distraction and annoyance. Delete it!

I actually have a Greenspam translator device, which eliminates all the extraneous information and provides a short summary of what Greenspan really meant to say. Here are the results from the last two days of testimony:

> "We really don't know what is going on in the economy, but all we really care about is getting George Bush reelected. I screwed his father out of a second term and I'm not going to make that mistake again.
>
> We are not sure what we are going to do after the election, but because interest rates can't go much lower, they are probably going higher. We do know that we are going to royally screw a lot of Americans in the process, but that can't be helped. It's what we do here at the Fed."

When Greenspan testifies, he gives his listeners in Congress and the media the message that all is well with the economy. All of his statistics are used to paint a rosy picture. He now tells us the weak dollar is good for the economy, but a few years ago he told us that the strong dollar was good for the economy. How convenient!

Of course he does mention that there are risks in the economy, but he is always ready to step in, take charge, and make everything better again. For an example of his accuracy, let's take a look at the opening statement of his Congressional testimony given February 23, 2000, right before the stock market began its crash and the economy sank into recession.

> **There is little evidence that the American economy, which grew more than 4 percent in 1999 and surged forward at an even faster pace in the second half of the year, is slowing appreciably.** At the same time, inflation has remained largely contained. An increase in the overall rate of inflation in 1999 was mainly a result of higher energy prices. Importantly, unit labor costs actually declined in the second half of the year. Indeed, still-preliminary data indicate that total unit cost increases last year remained extraordinarily low, even as the business expansion approached a record nine years. Domestic operating profit margins, after sagging for eighteen months, apparently turned up again in the fourth quarter, and profit expectations for major corporations for the first quarter have been undergoing upward revisions since the beginning of the year – **scarcely an indication of imminent economic weakness**.

When Greenspan discusses concrete problems in the economy he is always quick to point out that these problems are never the Fed's problem. He is always willing to help, but it is Congress that needs to get working fast on problems like the abysmal savings rate in America, the budget deficit, and the looming crisis of Social Security. He conveniently fails to mention that it is his low interest rates that discourage savings, that his willingness to "launder" federal debt encourages budget deficits and increased spending, and that he personally blew the opportunity to reform Social Security in the early 1980s.

During his testimony before the House Financial Services Committee, Congressman Ron Paul from Texas turned up the heat on Greenspan. The Congressman thanked him for drawing attention to the budget deficit and was relieved to hear that Greenspan was thinking about turning off the printing press (or at least slowing it down), but criticized him for thinking that he or any central planner had any method of determining the "neutral interest rate."

The feisty Congressman then asked Greenspan if the Federal Reserve and all its enormous power was a threat to freedom and economic prosperity. Greenspan admitted that under a fiat monetary system the Fed does have inordinate power but he added that this power was granted to them by Congress and that Congressional oversight of the Fed will ensure that the Fed will adhere to its duty to be responsive to the concerns of Congress. I am sure that this response was reassuring to Ron Paul's colleagues, but we should view it as alarming, although certainly not surprising.

The general lesson here is not to listen to Greenspan's deceptive testimony. Delete it from your mind like Spam e-mail messages. Watch what he has done and what he is doing, in order to protect your wealth and capital. Discount anything you read about his testimony except Congressmen Paul's questions and commentary. As Gary North warns, when Greenspan is dealing the cards, pay no attention to what he is saying…keep your eyes on his hands.

*February 16, 2004*

*Mark Thornton [send him mail] is an economist who lives in Auburn, Alabama. He is author of* The Economics of Prohibition*, is a senior fellow with the Ludwig von Mises Institute, and is the Book Review Editor for the* Quarterly Journal of Austrian Economics.

---

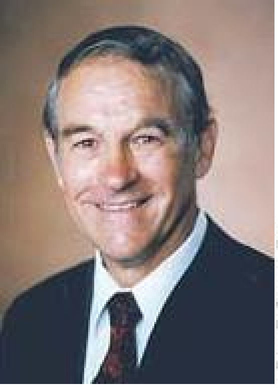
*** **Surprise, surprise.** We all know, of course, that Americans are getting rich by borrowing money. Now, USA Today tells us the average car buyer puts down only a third as much as he did 10 years ago... and stretches out his payments over 63 months rather than the 48 that were common in the 1990s. What's more, he typically finances 101% of the purchase price.

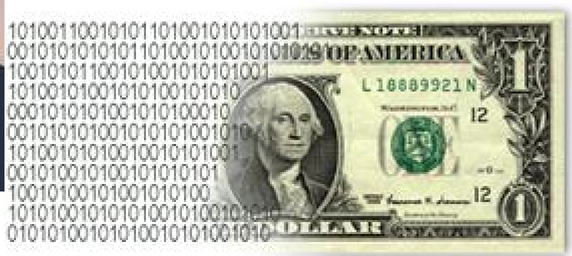
---

# Greenspan: Fed Has Inordinate Power

**News Release from Rep. Ron Paul, MD**

In a hearing before the House Financial Services committee yesterday, Congressman Ron Paul took the opportunity to ask Federal Reserve Chairman Alan Greenspan several pointed questions. Greenspan's normal evasiveness was tested when Paul asked him





directly whether Fed actions represent a threat to freedom and prosperity. Mr. Greenspan's startling response: The Fed does indeed have "inordinate power" over the American economy.

"I certainly appreciate Mr. Greenspan's candor," Paul stated after the hearing. "The Fed does have a tremendous impact on the economy and our lives, but its board members generally escape any political scrutiny for their actions. I want to make the public and Congress more aware of just how powerful – and destructive – the Fed really is. The unbridled expansion of the money supply will hurt all of us in the long run, in the form of price inflation, destruction of personal savings, and higher interest rates."

Paul also cited economist Friedrich Hayek's "pretense of knowledge" principle during the hearing, arguing that no amount of Fed "wisdom" can substitute for the discipline and price setting of the free market. He pressed Greenspan to admit that no government planner can know the "correct" interest rate for the economy, but the Chairman again sidestepped this central question.

Paul is well known for his opposition to inflationist Fed policies and his support for a stable, commodity-based currency system. True capitalism requires a free market for money and interest rates, just as surely as it requires a free market for wages and prices.

"Centralized planning is as disastrous in monetary affairs as in economic affairs," Paul stated. "Just as Russian bureaucrats could not determine prices, wages, or production levels in the absence of a free market, the Federal Reserve Board cannot determine the proper level for interest rates or the money supply. Our fiat currency and artificially low interest rates can only result in the deterioration of the U.S. dollar through inflation, which in the end causes interest rates to rise no matter what the Fed says or does."

*February 14, 2004*

*Dr. Ron Paul is a Republican member of Congress from Texas.*

---

# How Does Money Acquire its Value?

By Frank Shostak

In an article in the New York Times on January 15, 2004, Berkeley professor of economics Hal Varian raises a fundamental question: why are the dollar bills in people's pockets worth anything? According to Varian, there are two possible explanations for this: the dollar bills carry value because the government in power says so or because people are willing to accept it as payment. He concludes that the value of a dollar comes not so much from government mandate as from social convention.

And yet that still doesn't tell us why the dollar bill in our pocket has value. To say that the value of money is on account of social convention is to say very little. In fact, what Varian has told us is that money has value because it is accepted, and why is it accepted? . . . because it is accepted! Obviously this is not a good explanation of why money has value.

To bolster his thesis Varian suggests that the value of the dollar is a result of the "network effect." According to him, "Just as a fax machine is valuable to you only if lots of other people you correspond with also have fax machines, a currency is valuable to you only if a lot of people you transact with are willing to accept it as payment."[1]

### The difference between money and other goods

Let us try another approach. Demand for a good arises from its perceived benefit. For instance, people demand food because of the nourishment it offers them. With regard to money, people demand it not for direct use in consumption, but in order to exchange it for other goods and services. Money is not useful in itself, but because it has an exchange value, it is exchangeable in terms of other goods and services. Money is demanded because the benefit it offers is its purchasing power, i.e., its price.

Consequently, for something to be accepted as money it must have a pre-existing purchasing power, a price. So how does a thing that the government proclaims will become the medium of exchange acquire such purchasing power, a price?

We know that the law of supply and demand explains the price of a good. Likewise it would appear that the same law should explain the price of money. But there is a problem with this way of thinking since the demand for money arises because money has purchasing power, i.e., money has a price. Yet if the demand for money depends on its pre-existent price, i.e. purchasing power, how can this price be explained by demand?

We are seemingly caught here in a circular trap, for the purchasing power of money is explained by the demand for money while the demand for money is explained by its purchasing power. This circularity seems to provide credence to the view that the acceptance of money is the result of a government decree and social convention.

### Mises's explains how value of money is established

In his writings, Mises had shown how money becomes accepted.[2] He began his analysis by noting that today's demand for money is determined by yesterday's purchasing power of money. Consequently for a given supply of money, today's purchasing power is established in turn. Yesterday's demand for money in turn was fixed by the prior day's purchasing power of money.

So, for a given supply of money, yesterday's price of money was set. The same procedure applies to past periods. By regressing through time we will eventually arrive at a point in time when money was just an ordinary commodity where demand and supply set its price. The commodity had an exchange value in terms of other commodities, i.e., its exchange value was established in barter. To put it simply, on the day a commodity becomes money it already has an established purchasing power or price in terms of other goods. This purchasing power enables us to set up the demand for this commodity as money.

This in turn, for a given supply, sets its purchasing power on the day the commodity starts to function as money. Once the price of money is fixed, it serves as input for the establishment of tomorrow's price of money. It follows then that without yesterday's information about the price of money, today's purchasing power of money cannot be established.

With regard to other goods and services, history is not required to ascertain present prices. A demand for these goods arises on account of the perceived benefits from consuming them. The benefit that money provides is that it can be exchanged for goods and services. Consequently, one needs to know the past purchasing power of money in order to establish today's demand for it.

Using the Mises framework of thought, also known as the regression theorem, we can infer that it is not possible that money could have emerged as a result of a government decree or government endorsement or social convention. The theorem shows that money must emerge as a commodity.

On this Rothbard wrote,

In contrast to directly used consumers' or producers' goods, money must have pre-existing prices on which to ground a demand. But the only way this can happen is by beginning with a useful commodity under barter, and then adding demand for a medium to the previous demand for direct use (e.g., for ornaments, in the case of gold). Thus government is powerless to create money for the economy; the process of the free market can only develop it.[3]

But how does all that we have said so far relate to the paper dollar? Originally paper money was not regarded as money but merely as a representation of gold. Various paper certificates represented claims on gold stored with the banks. Holders of paper certificates could convert them into gold whenever they deemed necessary. Because people found it more convenient to use paper certificates to exchange for goods and services these certificates came to be regarded as money. In short, these certificates acquired purchasing power on account of the fact that these certificates were seen as representative of gold. Note that according to the regression theorem, once the purchasing power of a certificate is established it can function as money regardless of gold since now the demand for money can be established. Remember the demand for money is on account of its purchasing power.

Paper certificates that are accepted as the medium of exchange open the scope for fraudulent practice. Banks could now be tempted to boost their profits by lending certificates that were not covered by gold. However, in a free-market economy, a bank that over-issues paper certificates will quickly find out that the exchange value of its certificates in terms of goods and services will fall. To protect their purchasing power, holders of the over-issued certificates would most likely attempt to convert them back to gold. If all of them were to demand gold back at the same time, this would bankrupt the bank. In a free market, then, the threat of bankruptcy would restrain banks from issuing paper certificates unbacked by gold.

The government can, however, bypass the free-market discipline. It can issue a decree that makes it legal for the over-issued bank not to redeem paper certificates into gold. Once banks are not obliged to redeem paper certificates into gold, opportunities for large profits are created that set incentives to pursue an unrestrained expansion of the supply of paper certificates. The uncurbed expansion of paper certificates raises the likelihood of setting off a galloping rise in the prices of goods and services that can lead to the breakdown of the market economy.

To prevent such a breakdown, the supply of paper money must be managed. The main purpose of managing the supply is to prevent various competing banks from over-issuing paper certificates and from bankrupting each other. This can be achieved by establishing a monopoly bank—i.e., a central bank—that manages the expansion of paper money.

To assert its authority, the central bank introduces its own paper certificates, which replace the certificates of various banks. The central bank money's purchasing power is established on account of the fact that various paper certificates, which carry purchasing power on account of their historical link to gold, are exchanged for the central bank money at a fixed rate. In short, the central bank's paper certificates are fully backed by bank certificates, which have the historical link to gold.

It follows then that it is only on account of the historical link to gold that the central bank's pieces of paper acquired purchasing power.

**Conclusion**

Contrary to the popular way of thinking that professor Hal Varian presents in his article, the value of a paper dollar originates from its historical link to commodity money—which happens to be gold—and not government decree or social convention. Fiat money of the sort we use today could not and would not come about in a market setting. What the market created—gold-based money—the government had to destroy before leaving us with paper money whose value as a currency depends on the management practices of the central bank.

---

Frank Shostak is an adjunct scholar of the Mises Institute and a frequent contributor to Mises.org.

---

# Football and Economics: The Real Game Theory

Posted by Karen De Coster

The *New York Times* runs an interesting piece on New England Patriots coach Bill Belichick, who is among the top geniuses in the NFL today. First, some background info on Belichick. Prior to his head coach positions, he was a masterful defensive coordinator, a man so naturally inclined toward details, planning, and memorization that his father, a long-time coach at Navy, had him memorizing plays and analyzing Navy game films before he was 10 years old. Everywhere he has coached, he has turned his defense into a powerhouse unit. He has done this not because he automatically attracts the best player personal everywhere he goes, but because he is an incredibly astute theorist. For Belichick, everything from Xs and Os to cutting players is an exercise in grand theory. He has been known to build defensive game plans that have shut down some of the most explosive offenses in recent history. So, what makes him so unique?

Economics. Or so says Belichick. He graduated from Wesleyan with an economics degree. Okay, a not-quite-Austrian program, but nonetheless, his mathematical and economics background have fed his penchant for strategy, deep analysis, and cost-benefit decisions. Where other coaches only see an individual's outward performance, Belichick lays out his plans based on deeper analysis. He measures the player's direct cost to the team and the various opportunity costs of keeping the player. The benefits of that player's performance are weighed against the assorted costs to determine whether ot not that player will advance the performance of the team, as a whole, while at his position. Apparently, he finds that using simple, incremental analysis adds to his problem-solving ability, which he relies on for both personnel and game plan decisions. Belichick, in my opinion, though not necessarily the finest coach in the NFL, is the game's greatest master in terms of the particulars of planning and game day management, and he accomplishes this as an economist and field academic.

---

## DELATION HAS ARRIVED

By Bob Prechter

"The deflationary potential is historically large... we risk overwhelming deflation in every corner of the globe."

- Conquer the Crash (2002)

Virtually everyone - and I do not use that word lightly - believes that inflation will accelerate. Stock-market bulls think that the economy is going to boom, bringing inflation. Economic bears expect an inflationary, if not hyperinflationary, monetary crisis. Economists believe that the Fed can inflate at will and is committed to an inflationary policy. The general population is convinced that prices of their homes and property can only go up. The few articles mentioning deflation in recent months have declared the prospect for it "dead."

This consensus is not merely overwhelming but reflects a belief as vast and deeply held as a religion. Investment News in September reported a survey by the National Association for Business Economics in Washington. It revealed, "None of the respondents to the May survey, all of whom were responsible for making macroeconomic predictions, predicted a decline in the consumer price index during the next two years." USA Today confirmed the fact, reporting, "Not one economist [of 67 surveyed] said it was 'very likely' the economy would slip into deflation." That is a consensus!

Against this backdrop of opinion, M3 since September has fallen over two percent, its largest decline in 60 years. This is different from a lack of inflation. It is real, actual, deflation. What's more, M3 has declined despite the strongest quarter of economic growth in decades, the lowest interest rates in half a century and a central bank committed verbally and by action to facilitating the expansion of credit! There is no interest rate spike or recession to explain away the decline in the money supply.

The dichotomy between what is happening and what people think will happen is colossal. Inflation is dead. Deflation is here, now. The monetary trend is no longer close to the edge of the cliff; it is beginning to slide down its face. As this is written, not a single major newspaper, magazine or TV network has done a story on the dramatic contraction in M3. People are so drunk with inflationary certainty that they can't even see that deflation is happening. And if they do, they don't believe that it is meaningful.

Why is there such a consensus that deflation is unlikely, if not impossible? Many people believe that the Fed is virtually omnipotent and can manipulate the money supply (and therefore the stock market and the economy) at will. Is that so? On June 25, 2003, the Fed lowered the federal funds rate for the 13th time in a row, to one percent.

Most observers think that the Fed still has that one percentage point of "ammo" left. But consider: The U.S. has a thriving money-market fund industry, which costs one percent of assets per year to administer. As it stands now, investors are getting extremely low returns from money-market funds. If the Fed were to let its funds rate drop to zero and other short-term rates fell along with it, money- market investors' return after fees could go negative. This event would make holding cash more attractive than holding debt, a situation the Fed surely wants to avoid. The monetary system appears to have reached the point at which pesky reactionary forces will come into play if the Fed tries any more "deflation fighting," no matter what the mechanism.

Why did I put the term "deflation fighting" in quotes? Commentators tell us that the Fed is fighting deflation by aggressively lowering its interest rates, but is that an accurate assessment? After all, the result of deflation -

its primary outward symptom - is lower prices. And what has the Fed been doing? It spent over a year lowering the price of renting money. Within that period, in fact, the Fed lowered prices more than anyone! It has participated in the initial phase of the deflationary process as if it were a merchant on the street discounting its wares to a disinterested public. It did so in response to slack demand for its product - credit - just as the auto manufacturers and others are doing with their products. Deflationary psychology brings about lower prices, and the Fed has been lowering its prices. It is powerless to stop the trend.

A persistent decline in the money supply will have consequences. Some things will have to give. One of them will be prices for goods and services. To the astute observer, a change in prices has been in the wind for some time. The PPI has been flat for three years, and now even the CPI has had a down quarter. A severe deflation will also devastate the economy, as it has done in each of the rare times it has occurred over the past 300 years. With M3 dropping, it should be only a matter of months before the economy follows suit.

Are economists concerned? Well, besides the deflation opinion cited above from last year's polls, the only other time that I have ever seen a 100-percent consensus in a survey was... a few weeks ago! In separate year-end surveys of economists, The Wall Street Journal and Business Week independently reported unanimity that the U.S. economy would expand throughout 2004. That's right: not one dissenter. If it is usually wise to bet against a large majority in finance, what does it mean when there is no detectable minority?

I think that the continual denials that deflation can happen, against a backdrop of evidence to the contrary, appear to be part of a typical social psychological progression toward a credit crisis, which in turn will lead to economic contraction. The money supply might rebound for a quarter or two as the stock market and economy top out this year, but at the largest degree of trend, the credit bubble - 70 years in the making - has burst.

In 2001, there was little talk of deflation. Statistics relating to newspaper stories show that by late 2002/early 2003, it had become a commonly used word, even if most writers used it simply to dismiss the idea.

The next word that should begin to slide into the public lexicon is depression. I would like to offer quotes from authorities on the low likelihood of depression, but my diligent staff can find literally no mainstream economists, academics or Wall Street strategists even discussing the possibility. It is too remote even to mention! The term "depression" is where the word "deflation" was a few years ago, i.e., outside the general consciousness. Although no one is using that term now, in coming years it will be everywhere. The first phase will be widespread insistence that a depression can't happen, which will be a big clue that it is happening.

The two "d" words at the end of the subtitle to Conquer the Crash, i.e., "Deflationary Depression," were anticipatory. The book was published at a time when the likelihood of these two events occurring was (and still is) considered - as one economist said at the time about deflation - as remote as "being eaten by piranhas." My advice: Keep your toes on the riverbank.

Regards,

Bob Precher,
for The Daily Reckoning

Editor's note: Founder and president of Elliott Wave International, Robert Prechter has been publishing market commentary since 1976. After a successful career as an analyst and trader - during which Financial News Network (now CNBC) dubbed him the "Guru of the Decade" for the 80's - Bob expanded his firm in the '90s to provide analysis for institutions on every major financial market in the world. Bob is the author of 13 books on finance, of which his most recent title is Conquer the Crash - an international, New York Times and Wall Street Journal bestseller.