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Nelson Nash's live seminars for the next two months (The seminar sponsor or contact person is listed with phone and e-mail address in case you want to attend)

Friday-Saturday, April 3-4, Pittsburgh, PA -
Leah Stussy, 866-316-5071, leahn@quixnet.net, or
Tom Young, 724-728-6820, firedupt@comcast.net or
Donn George, 724-452-0481,
donn@georgefinancial.net

Thursday-Friday, April 9-10, Austin, TX -
Paul McDonald 512-345-2734, paul@econwbs.com
or Ben Waggoner 512-965-0391,
tbwaggoner@gmail.com

Friday-Saturday, April 17-18, Honolulu, HI -
Jennifer McTigue, 808-636-4199,
jenn.mctigue@gmail.com

Friday-Saturday, May 1-2, Hillsboro, TX -
Nancy Jackson, 254-582-3565, 254-582-3037,
nancy@bcbstexas.com

Tuesday-Wednesday, May 5-6, Nacogdoches, TX -
Ricky Heard, 936-564-1735, rickyh@cbhins.com

Tuesday-Wednesday, May 12-13, Little Rock, AR -
Becky Rice 501-221-7400, ricerw@rebeccarice.net

Friday-Saturday, May 15-16, Helena, AR -
Joe Hart, 417-343-6518,
becomeyourownbank@gmail.com

Here is a listing of Nelson's newly added Book Recommendations

The Regulated Consumer by Mary Bennett Peterson
Red Hot Lies by Christopher C. Horner

Nelson's Favorite Quotes of the Month

"It is a necessary part of the business of a banker to profess a conventional respectability which is more than human. Lifelong practices of this kind make them the most romantic and least realistic of men."
- John Maynard Keynes

"People who will not turn a shovel full of dirt on the project nor contribute a pound of materials will collect more money ...than will the people who supply all the materials and do all the work."
- Thomas Edison

"I suppose if I were to give advice it would be to keep out of Wall Street." - John D. Rockefeller

"Banking establishments are more dangerous than standing armies." - Thomas Jefferson

"All truths are easy to understand once they are discovered; the point is to discover them."
- Galileo Galilei

The following articles are Nelson's favorite finds from the last month's reading

Federal Firefighters to the Rescue!

by ***Bill Bonner***

London, England – Investors are “bloodied and confused,” says Warren Buffett, “much as though they were small birds that had strayed into a badminton game...”

By the end of 2008, \$30–\$40 trillion had been lost, in stocks, housing and derivatives. Investors breathed a sigh of relief when December 31 finally came. But then came 2009! World markets have fallen 18% so far this year...2009 is on track to lose far more than even 2008, which was the worst year in stock market history.

What has gone wrong?

Today, we're going to retrace our steps. In order to understand where we're going, we have to spend a minute remembering where we've come from.

First, the biggest bubble in history sprang a major leak in the summer of '07. Then came the autumn of 2008, and it was losing air from every seam. The biggest bubble in history might be expected to lead to the biggest bust in history. And so it has...

"Let it burn itself out," was our advice. Instead, the feds sounded the alarm, slid down the pole, and rushed to put the fire out. But the more money and credit they pumped on the flames, the worse the fire seemed to get.

The Federal Reserve, under the leadership of Ben Bernanke, called out all the fire trucks and opened up all the hoses. Rates were cut to zero...and the Fed expanded its balance sheet – increasing the amount of credit available to the banking system – by nearly \$1 trillion.

And the Federal government – under the leadership of George W. Bush – rushed out a tax rebate...and then a rescue bill. Together, they cost a bit more than \$1 trillion.

None of this rescuing has done any good. Every bank and business that has gotten help has deteriorated, as near as we can tell. The feds let Lehman go bust and we were done with it. But they saved insurance giant, AIG. Now, AIG is in trouble again. And today's paper tells us that the feds have stepped in...this time to put in a further \$30 billion and "take a controlling stake in two of the stricken insurer's largest divisions."

Hey...so now the feds are in the insurance business too.

And here comes the new administration with another \$825 billion bailout and the kind of budget that takes our breath away.

If Mr. Obama gets his way, he will soak the rich and squeeze the military; everyone else will be showered with benefits. There's a health care initiative, for example, that will cost more than \$600 billion. And there's even a plan to provide higher education for everyone.

Republicans are gearing up for a fight. They owe many of their careers to military contractors and are looking forward to cushy jobs with defense businesses should the voters ever catch on and boot them out of office. They'll fight to keep the U.S. spending money as if we were at war. The Republicans don't appreciate it much either when people on their high-dollar-donor lists are hit with higher taxes.

Democrats are readying for a dust-up too. They've dreamed of moments like this – it is as if the police and the alarm companies had all gone on strike at the same time. They're planning to rob every bank in town – and expect to get thanked for it. It is not often that they can divvy up trillions in boondoggles...and pretend it is in the national interest.

With this worldwide financial meltdown you can get away with anything. People have come to believe things so absurd you'd think even a Democrat would laugh at them. Most think you can give money to failing companies...and somehow they'll be healthy businesses again. Some believe that you can print up paper money – and that it will be as good as the real thing. Almost all of them think spending money on anything, no matter how stupid, actually helps the economy. If it were only that easy!

Obama says he's preparing for a fight too. Which is fine with us; we like a good fight. Even one that is rigged. And this one surely is. Just look at a chart of government spending over the last 30 years. What you see is that there is nothing extraordinary about

what Obama is doing. Every year, through Republican and Democratic administrations...from Ronald Reagan to Barack Obama...the Republicans and Democrats pretended to fight about how much money the government spent. And every year the trend continued: higher spending, higher deficits. It didn't seem to matter who was president, or what was going on. Each year, spending rose...and so did the real deficits. That too is a feature of the post-war consumer economy. And that, too, is probably coming to an end.

After all this firefighting...you might think that the blaze would be under control by now. Not at all.

On Friday, the Dow lost a further 119 points. It's clearly ready for a rally...but there is none in sight – yet.

Oil is at \$44. Gold lost ground too...it's down to \$942.

We recall that last December, as stock prices were collapsing, Warren Buffett stepped up and put his money and his mouth in the same place. He was buying stocks, he said.

But buying stocks proved a bad place for both his money and his mouth. Stocks continued falling. And so did the economy that is supposed to support them. Economic output in the United States is falling at a 6.5% rate – the fastest drop in 26 years. And now Buffett says the economy will be a “shambles” this year. His own company, Berkshire Hathaway, reported profits down 96% from the year before...and is trading at only about half its peak. In other words, Berkshire shareholders have lost half their money.

And here's a good question for you, dear reader: If the smartest investor in the world can't make money in this market, how do you expect to?

If we were you, we wouldn't even try. You see, this is not a recession...and it's not a buying opportunity. It's a depression. And at this stage in a depression, the best thing to do is to sell stocks, not buy them. Because they have further to fall...and because they

could take a long, long time to recover.

We've explained the difference between a recession and a depression before. But we'll do it again. A recession is a pause in an otherwise healthy, growing economy. A depression is when the economy drops dead. And when it drops dead, the assets that people owned – stocks, bonds, houses, derivatives, debt – are called into question. What are they worth, now that the economy that created them no longer exists? That's the big question. The U.S. economy has been expanding for the last 60 years – largely by increasing consumer spending and debt. Now, neither consumer spending nor debt is increasing. In the last 6 months, consumers have suddenly reversed their free-spending ways. Borrowers and lenders have repented too. But if it is no longer an economy that grows by increasing consumption and debt...how does it grow at all? And what about all those businesses that are set up to provide products and services to the consumer economy? And what about all the debts and obligations that the consumer economy produced; what are they worth?

That's what everyone wants to know. So the markets have entered into a period of vigorous price discovery. Some things are still valuable, of course. A house, for example. But many things aren't as valuable as they used to be. The house won't be worth as much if people can't borrow to buy it...or if potential buyers can't get a job. And the mortgage debt that the house carried...which was recycled into a leveraged debt instrument...is bound to be worth a lot less than people once thought.

But it takes time to sort out the good assets from the bad ones. How much does the business owe? To whom? Who owes it money? Will the debtor be able to pay? And what about those strange pieces of paper – CDOs, MBOs, SIVs – in the company vault? What are they worth?

For a while, people are so afraid of making the wrong move that markets freeze up. No one wants to lend when he doesn't know if he's going to get his money back. That's called a “credit crunch.” And no one wants to buy when he has no idea what things are

worth. That's when markets go "no bid."

But eventually – unless the feds stop the process – things sort themselves out. Businesses go broke. Homeowners are defenestrated. Automobiles go back to the dealers' lots. Prices sink to a level where people are able to buy. And the whole process starts over again.

This can take a long, long time...especially when government is trying to stop it.

"We must kill zombie banks or face a lost American decade," says James Baker, U.S. Treasury Secretary under Ronald Reagan and U.S. Secretary of State under George Bush I. Japan is still trying to adjust to the realities of its post-bubble world...after the initial crash 19 years ago. It propped up banks instead of fixing them, he says. The banks were kept alive...but not performing their function. Result: a lost decade. Maybe two.

In the United States, in the '30s, on the other hand, the zombie banks were allowed to die. More than 1,000 banks were buried. Still, the economy didn't really recover until after WWII – some 2 decades after the crash of '29.

Maybe killing the zombie banks isn't enough. Zombie companies must be allowed to fail, too. And zombie homeowners. And all the zombie investments made in the preceding bubble years.

Of course, that is what is needed. A period of creative destruction. But in this period of discovery, we don't know who's a zombie and who's not. Not yet. It will take time to find out. A new economic model must take shape. Then, the markets must tell us what things are still valuable...and what they are worth.

An example: a mall. Shopping malls were designed for an economy in which consumption increased at a more-or-less predictable rate. As consumption increased, mall owners could project how much retail space they could let out...and what yield it would produce. Based on those figures, banks could lend

against the value of the mall...and investors could put their money to work building new malls.

But that economy is missing and presumed dead. Consumption is no longer increasing, it's declining. And the biggest consuming group – the baby boomers – seem to be changing their habits forever. From here on out, they are likely to be saving money for their retirements...not spending.

What is that mall worth now? What do the projections show? The commercial property loans used to build the mall were based on projections made years ago; what are those loans worth now?

We're all waiting to find out. A new economy needs to arise, step over the corpse of the dead one, and get moving. What kind of economy? We don't know... When will it happen? We don't know that either. What companies will prosper...which ones will fail?

We wish we could tell you.

In the meantime, all we have is guesses...

March 3, 2009

Bill Bonner [[send him mail](#)] is the author, with Addison Wiggin, of [Financial Reckoning Day: Surviving the Soft Depression of The 21st Century](#) and [Empire of Debt: The Rise Of An Epic Financial Crisis](#) and the co-author with Lila Rajiva of [Mobs, Messiahs and Markets](#) (Wiley, 2007).

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How to Save the World

By Bill Bonner

This week marks the two-year anniversary of the financial crisis. It was on the 12th of March 2007 that New Century Financial, one of the biggest sub-prime lenders in the US, sprang a leak. Trading in its shares was halted as the company headed to bankruptcy.

The problem was pronounced "contained," by then-US Treasury Secretary Hank Paulson on April 7th.

And then, on July 20th, Fed chairman Ben Bernanke admitted that the crisis could bring losses up to \$100 billion.

But there was no container large enough to hold the sub-prime losses. Each time one was set out, it quickly overflowed. The latest reports tell us that the bilge is now 500 times deeper than the Fed head forecast... and still rising. And this comes after \$11.7 trillion has been committed in the US alone to pumping it out. Whether the plumbers are plain idiots or clever rogues, we can't say, but it should be obvious after two years of watching them, their pumps don't work.

It is not often that we are called upon to advise the world's government. In fact, we can't remember a single time. But we can't resist a lost cause. So, we offer the Daily Reckoning Plan to Save the World, or DRPtStW for short.

We begin with a brief rehearsal of what went wrong: The economy as it was before the spring of 2007 was too wonderful for words; whenever you tried to describe it, it sounded ridiculous. For example: "The richest get richer and richer by borrowing from the poorest."

"We think; they sweat," said one analyst, explaining how Americans could live beyond their means year after year. The West was just recycling the East's "savings glut," added Bernanke. Meanwhile, derivatives – based on mortgage debt from people who couldn't pay – "helped to make the banking and overall financial system more resilient," said the IMF in 2006.

Each sentence must have made the gods choke... groan... and then laugh. But beginning in 2007, came a correction. Suddenly, the big spenders saw their houses fall in value. Lenders watched their collateral collapse. The end was nigh. Two years later, \$50 trillion has been lost, according to an estimate from the Asian Development Bank. After a slap in the face like that, you'd expect a little clarity. Instead, the public seems to have acquired a taste for bamboozle; now they can't get enough of it.

Just read the Financial Times. This week it has a windy series on the "Future of Capitalism," inviting readers to imagine how the decaying old creed might be reformed. Alas, for capitalism, it's out of the frying pan, into the toilet. Larry Summers, Obama's number one financial advisor, voiced the prevailing view: "This notion that the economy is self-stabilizing is usually right, but it is wrong a few times a century. And this is one of those times... there's a need for extraordinary public action at those times."

The gist of his program can be expressed in another wistful absurdity: The consumer economy died because of too much spending; now we will revive it by spending more. "Give me your cunning bankers, your hopeless CEOs, your huddled masses of chiselers, spendthrifts and boondogglers," says the Obama team, "and we'll give them other peoples' money!"

"There's no place that should be reducing its contribution to global demand right now," explained Summers. "The world needs more demand." But it was demand that the world recently had too much of. English speakers took on too much debt to create it... and built too many houses and too many shopping malls to satiate it. And despite the ready cash offered by Bush, Bernanke, and Paulson, demand has sunk. Because the real problem is not an absence of spending, but a surfeit of debt. In America, for example, total debt went from 150% of GDP in the '80s to 350% in 2007. The financial markets panicked when it became clear that debtors didn't have the cashflow to pay off the debt... and that an entire world economy had been fizzed up to supply products to people who couldn't afford them. Investors have been discounting debt-soaked assets ever since.

The fix is obvious – reduce the level of debt. About \$20 trillion worth of debt, in the US alone, needs to disappear. Then, consumers can go back to doing what they do best – consuming. But how do you reduce the debt level? Former Treasury Secretary Andrew Mellon had the right idea in 1929: Liquidate labor, liquidate stocks, liquidate the farmers, liquidate real estate... It will purge the rottenness out of the system.... Values will be adjusted, and enterprising people will pick up the wrecks from less competent

people.”

What's the cure for a depression? It's a depression. Let willing buyers and sellers mark debt down to what it is really worth. Mellon's plan was not followed by the Hoover or Roosevelt administrations. Instead, they introduced elaborate bailouts, stimulus programs, and boondoggles. That is why the depression is known as the Great Depression, rather than the So-so Depression. By the end of the 30s, the US economy was almost exactly the same size it had been at the beginning. Likewise, in Japan, holding off liquidation brought a "lost decade" in the '90s. Bush followed in Hoover's footsteps. And now, the Obama administration follows in Roosevelt's and Miyazawa's.

Here's our advice: forget it. Let the depression do its work. Let the bad times roll!

America's Ivy League College: The Dumbass Factory

By C.J. Maloney

The world is full of fools and faint hearts; and yet everyone has courage enough to bear the misfortunes, and wisdom enough to manage the affairs of his neighbor.

~ Poor Richards Almanac, 1743

I recently received e-mails from a couple of college students; they wondered where the previously smooth path to Wall Street riches was taking them and asked my advice if they should maybe take a detour into a career with more potential and less risk, like professional bull riding. Even worse for the young men, they had the bad luck to stumble across Hayek and Mises at the tender age of college; they have lost the intellectual blind spots necessary to drink from Wall Street's cup without grimacing – for them, the party's over before it had even begun.

Unfortunately, there is really no way for me to answer their question about staying on the path to Wall Street, to follow a Yellow Brick Road that no longer gleams with gold. I don't know their circumstances;

only they do. But, with me being a modern day American, having no clue what I'm talking about will not turn me away from running my mouth, so stuffed to the gills with the hollow omniscience a top post-graduate degree grants to the owner I'll give my advice anyway.

The Search for Knowledge

I have never let my schooling interfere with my education.

~ Mark Twain

Many years ago, during the dark times before the GI Bill and Sallie Mae, the overwhelming majority of Americans never earned a college degree. To become a "college man" meant having parents wealthy enough to ship you off to Princeton, Harvard, or some such place, where the progeny would earn themselves a lifetime of steady, well-remunerated employment through four years of intensive networking, drinking, rowing, debutante balls, and intercollegiate football matches accompanied by rousing fight songs. The finished product of this process was marked not with wisdom but its pale substitute – wit.

Included among "all the rights, privileges, and immunities thereunto appertaining" in the top school degree was an arrogance or, at best, a condescending sympathy towards all those not familiar with the interior of the University Club, all those poor cabdrivers, waiter staff, and subway riders who never even heard about that favorite famous professor of our memory, let alone took lessons at his feet.

The ideas birthed by our elite colleges in the late 1800s morphed America into a socialist democracy, this sea change has had a boomerang effect on our university system – it now operates under the premise that college equals education and everybody has a right to it. Politicians at all levels have borrowed against tomorrow to boost college attendance, and before all the seed corn ran out the university system gorged to its content – more Americans now hold college degrees than at any time in history. Yet, the industry's outsized growth did not improve the product, but diluted what little it had to offer to begin

with.

At the top rung of the system (in reputation, at least) are the Ivy League colleges, which have long been diploma mills producing legions of dumbasses, schemers, and charlatans by the bushel, every graduated brain stuffed with the irrational ravings of select madmen and emptied of any shred of humility. Chock full of an insatiable urge to "plan" and the ignorant arrogance to see it through, they are released upon humanity like a viral plaque to assume their rightful positions of leadership, forever after to blunder the world into one disaster or another.

From Princeton graduate Woodrow Wilson, who gave us World War One, the War on Drugs, and the income tax, to Yale and Harvard product George W. Bush, who gave us Iraq, Afghanistan, the Patriot Act, and turned America into a pervasive surveillance society, the mark of the Ivy League graduate has been nothing but bloodshed and fields filled with skull and bones, corruption of the idea of education, and a vast wasting of wealth and liberty.

The best we can do for our nation's future greatness and posterity is to take Harvard, Princeton, every one of the Ivies in fact, and turn them all to more useful pursuits, such as teaching auto repair or plumbing. As for the poor saps who have already graduated and are running brain damaged about the globe, proudly waving their Ivy League degrees and causing untold mayhem, they are likely too far gone to be much use to anyone, though they might, after years of de-programming, make decent fry cooks.

Home Schooling

Education is a progressive discovery of our own ignorance.

~ Will Durant

If it's one thing I got from my foray into America's college system, one thing that my outsized bloated paycheck granted me, it is my extensive home library, my pride and joy. Lehman's former CEO Dick Fuld got a mansion in Florida from the boom, and goody for him – I wish him well and envy him not a dot. What I got for my part in the whole stock-jobbing

frenzy was my refuge, and you might honestly say that everything I have ever learned I learned on my own, under my own direction.

A person will only become as educated as they make themselves. There are multitudes of Americans with post-graduate degrees who have never cracked open a book under anything but outside direction, that have lived a life that has shown no urge towards that pursuit of knowledge which is always, when all is said and done, a process that is and must be self-directed.

To say that self-education leaves holes in your overall views of things, that it can lead to a stunted mind that will only dive into what it is sure to agree with can be correct, but there is an easy way around that. Every book, at least every decent book, is full of footnotes and a bibliography that can lead the reader more deeply into the subject at hand, to look at the thing from a variety of angles.

The financial advantages to self-education can't be emphasized enough, either. When Matt Damon's character in [Good Will Hunting](#) mocked the arrogant Harvard student, asking him why he spends tens of thousands of dollars to be told to read things he could read by choice in the library for free, he was on to something.

Yet, if you insist on becoming a college man anyway, citing the salary discrepancies between the have degrees and the have not degrees, my advice to the young men who wrote to me, those holed up in college libraries clutching Mises and Rothbard to their furrowed brow, is to take stock of where you are and what college is really about. Think about what position you are in.

A recent blog post by Lew Rockwell sums up that position perfectly – "as I walked on a university campus this morning...the girl-boy ratio was overwhelmingly girl." Haven't you watched Animal House? What in God's name are you doing in the library? Who the hell goes to college to *learn* anything? Understood properly, America's college system is not a haven of learning; it is a four-year party with the background noise provided by tenured

hacks giving *their* interpretations of foolish utopian schemes culled from other long-dead hacks.

In college happy hour is every hour, so remember to ignore your professors and let your dog off the leash; it's hunting season. You are there to network, drink, smoke, and build up the fond, blurry memories that will allow you in later years to watch a porn movie and reminisce about when *you* used to get up to such wondrous madness. Stop wasting valuable college time reading Mises and Hayek – they'll be plenty of time for that later – and cease frittering away a once-in-a-lifetime opportunity.

Book Burning

It is possible to store the mind with a million facts and still be entirely uneducated.

~ Alec Bourne

Yet, while the Ivy Leagues – and all American universities, for that matter – are like a dark blot on the sun of knowledge, even if everyone avoided college this would by no means protect society from disaster.

It must be admitted that a self-educated man can be as much a Hindenburg as the college man; he too can be encumbered with a favorite crackbrained theory. Abraham Lincoln, a self-educated one-man wrecking crew of historic proportion, is the perfect case in point. So I can take my library and my footnotes and bibliographies and my self-education and go stuff it.

Therefore, it would seem that what's best for America, what's best for our youth in general, is to stay away from books and learning completely. Like the quip that sex is too good for the common people, the authoritarian fear that books and ideas are too dangerous for the rabble holds a lot of credence, as well.

A little bit of learning is a dangerous thing, and a lot of it is clearly beyond the bounds of most. We need less college graduates and more people like Guy Montag from [Fahrenheit 451](#), burning every book within reach. And when almost everyone's brain is empty and dull, when calls by our educated elite to

invade, forbid, or regulate will bring forth no response from the dull herd, when the only utopian crusade the American people can get worked up for or understand is one where we sit back on the couch, smoke, and play *Madden NFL* until the heart's content and the lungs blacken – when that day comes we can all exhale, because only then will we will be happy, high, and safe from the mad ravings of the Ivy League graduate.

March 17, 2009

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Supporters of Capitalism Are Crazy, Says Harvard

Mises Daily by [Thomas E. Woods, Jr.](#) | Posted on 3/17/2009

Last weekend, Harvard University sponsored a conference called (I am not making this up) "The Free Market Mindset: History, Psychology, and Consequences." Its purpose was to try to figure out why, since *everyone knows* the current crisis amounts to a failure of the market economy, the stupid rubes continue to believe in it. The promotional literature for the conference opened with That Quotation from Alan Greenspan — the one in which he suggested that there was, after all, a "flaw" in the free market he hadn't noticed before.

Well, that does it, then! If our Soviet commissar in charge of money and interest rates says the free market doesn't work, who are you to disagree?

The promotional material continues:

If the current state of the U.S. economy makes clear that former Federal Reserve Chairman Alan Greenspan's faith in free markets was misplaced, the

question remains: what was it about free markets that proved — and still continues to prove — so alluring to economists, scholars, and policy-makers alike?

Because, of course, if there's one guiding principle behind the largest government in world history, it's *free markets*. Ahem.

This conference, we were told, brings together leading scholars in law, economics, social psychology, and social cognition to present and discuss their research regarding the historical origins, psychological antecedents, and policy consequences of the free market mindset. Their work illustrates that the magic of the marketplace is partially an illusion based on faulty assumptions and outmoded approaches.

The speakers then spent the day, I am sure, laying out their own faulty assumptions and outmoded approaches, and studiously ignoring the Austrian School of economics.

In short, the conference was about this: *Why do people still think the interaction of free individuals is a superior economic system to one directed by Harvard Ph.D.s like us? I mean, apart from the failure of central planning in every case in which it's been tried, a failure so staggering that only a blockhead could miss it, why would people cling to the idea that being herded into a collective run by the experts isn't the best way to live?*

So by assuming from the outset the very thing that needs to be proven — namely, that the current state of the economy just occurred spontaneously, as the result of wicked market forces — our betters relieve themselves of the need to consider that central banking, a government-established institution, just might have had, you know, a little something to do with what happened.

George Reisman has already [demonstrated](#) the absurdity of referring to our present system as a "free-market" one. Naturally, of course, none of the participants bothered to notice that a Soviet commissar in charge of money and interest rates amounts to something like the opposite of the free

market, or that the economic distortions he causes cannot, therefore, be the fault of the free market. This is exactly why, in my book [Meltdown](#), I call the Fed "the elephant in the living room." We're not supposed to notice it, and we're supposed to pretend the damage it causes is the result of wildcat capitalism, unfettered free markets, or whatever other juvenile phrase is currently in vogue to describe the usual bogeyman.

Now I don't want to list all the paper topics at this conference, since it'd be a shame to make all of you feel stupid for having frittered away your weekend when you could have listened to, say, Stephen Marglin's paper on "How Thinking Like an Economist Undermines Community." Now *there's* a topic I haven't heard quite enough platitudes about. (If you must, you can view the whole schedule [here](#).) You could also have heard a bunch of totally conventional polemics about how the market economy allows for "too much" pollution, when in fact a genuine free market — which, I need hardly point out, is not actually considered in any of these alleged papers — would punish polluters and bring about the internalization of so-called externalities. Murray Rothbard dealt with this matter in an [extremely important article](#) none of the participants had read.

I wonder if anyone at the conference asked questions like these:

- When Greenspan flooded the economy with newly created money and brought interest rates down to destructively low levels, thereby distorting entrepreneurial calculation as well as consumers' home-purchasing decisions, was that the fault of the free market?
- Do you think the Fed's creation of cheap credit out of thin air makes market participants more careful or less careful in how they allocate borrowed funds?
- When Alan Greenspan bailed out Long Term Capital Management in 1998, was that a "free market" phenomenon? Do you think he thereby encouraged more or less risk taking among other major market actors?
- The *Financial Times* spoke in 2000, in the wake of the dot-com boom, of an increasing

concern that the so-called "Greenspan put" was injecting into the economy "a destructive tendency toward excessively risky investment supported by hopes that the Fed will help if things go bad." "All the insane dot-com investment we've seen, all this destruction of capital, all the crazy excesses of the past few years wouldn't have happened without the easy credit accommodated by the Fed," added financial consultant Michael Belkin. Did the free market cause that?

- Do lending standards decline for no particular reason, or could this phenomenon have a teensy weensy bit to do with (a) government regulation aimed at increasing "homeownership" and (b) loose monetary policy by the Fed? (When the banks get the additional reserves the Fed creates, they naturally want to lend it out — and in order to do so, they wind up lending it to people they either have or would have rejected previously. As I show in *Meltdown*, the phenomenon of lax lending standards in the wake of an inflationary boom by a central bank is traceable all the way to the 19th century. There is nothing even slightly unexpected — or market-driven — about it.)

Questions like these could go on and on. Not one, you can be certain, was raised at this conference.

Now if you really wanted to sponsor an event whose purpose was to try to understand why people believe inane things that have been falsified by reality, you'd do much better to hold a conference on socialism, or on Keynes and his school. It would be fascinating to learn the psychological motivation behind the persistence of Keynesian economics, whose popular version is a nonfalsifiable, ersatz religion.

Is Japan's economy still suffering? Why, that's because Japan didn't spend enough — even though it spent so much that it became the most indebted country in the developed world.

Have people spent so much that they're now burdened with debt they can't possibly repay? Then we need

more spending.

Is the economy a distorted mess after an artificial boom? Then instead of letting the economy restructure itself along sustainable lines, let's instead "stimulate" the system just as it is, with the goal of bringing about more "consumption," more "labor" employed, and higher "income," without bothering to disaggregate any of these things and deciding *what kinds* of labor need to go where, *what kinds* of consumption are sustainable and what are figments of the bubble economy, or how the capital structure needs to be reassembled in order to cater to genuine consumer demand. In fact, let's actually boast about neglecting capital theory altogether (as indeed Keynes did in a 1937 article in the *Quarterly Journal of Economics*).

Here's another thought: given how many Keynesian economists predicted a return to depression conditions when World War II spending came to an end, and that what we instead got was *the single most robust year the private economy has ever seen*, isn't it a little strange that not one of these economists went back and reexamined his premises?

On the other hand, consider the names Jim Grant, Peter Schiff, Ron Paul, and Jim Rogers. Apart from having predicted the current crisis — unlike anyone at the Harvard conference and indeed unlike the paper-tiger economists they unsurprisingly preferred to spar with during their deep-thinking session last weekend — one thing these men have in common is that they are all Austrian economists, they all believe in the Austrian theory of the business cycle, and they all pin the blame for the crisis on the Fed, a nonmarket institution. These men believe in the *real* free market, not the centrally planned market of Alan Greenspan, Ben Bernanke, and the Federal Reserve. And they saw a crisis coming at a time when everyone else was predicting new highs for the Dow and singing the praises of a world economy that was more robust than it had ever been.

Maybe that's why people believe in market economics: unlike the Rube Goldberg models of their counterparts in the profession, the things Austrian economists write and say actually have some

connection to the real world.

People who believe in the market economy support a social order in which free individuals make voluntary contracts with each other, and no one can initiate physical force against anyone else. Is that vision so obviously unattractive that we have to refer its supporters for psychological evaluation?

We might instead wonder at the psychological condition of those who would denounce such a system: might they be motivated, for all their noble talk, by nothing but base envy of those with more material wealth than they, or by a pathological desire to dominate other people?

I'm sure that will be covered at next year's conference.

Thomas E. Woods, Jr., is a [resident scholar](#) at the Mises Institute. He is the author of [Meltdown: A Free-Market Look at Why the Stock Market Collapsed, the Economy Tanked, and Government Bailouts Will Make Things Worse](#). His other recent books include [33 Questions About American History You're Not Supposed to Ask](#), [The Church and the Market: A Catholic Defense of the Free Economy](#), and [The Politically Incorrect Guide to American History](#) (a *New York Times* bestseller). Send him [mail](#). Visit his [website](#). See his [article archives](#). Comment on the [blog](#).

"Tom DiLorenzo has the courage to describe the real reason for the financial debacle we witness today."

- Nelson

Greenankeism (Or, Beware the New Yellow Peril)

by [Thomas J. DiLorenzo](#)

Ever since the crash, Alan Greenspan has been almost as hard to spot in public as bin Laden has been. Like bin Laden, we hear from Greenspan every once in a while via a well-scripted speech. Unlike bin Laden, however, Greenspan does not take responsibility for

his actions.

The "maestro" of worldwide prosperity (as he was called during the boom) first blamed the crisis on an undue or irrationally exuberant faith in capitalism. The Fed had nothing whatsoever to do with the real estate bubble, he informed a congressional committee. More recently, he blamed the whole mess on Asians who, unlike most Americans in recent decades, tend to save some of their income. Greenspan's replacement, Ben Bernanke, also embraced this "Yellow Peril" explanation for the crisis in a March 10 speech before the Council on Foreign Relations. This latest rendition of what might be called Greenankeism goes as follows, quoting Bernanke:

[I]t is impossible to understand this crisis without reference to the global Imbalances in trade and capital flows that began in the latter half of the 1990s. In the simplest terms, these imbalances reflected a chronic lack of saving relative to investment in the United States . . . , combined with an extraordinary increase in saving relative to investment in many emerging market nations [especially] East Asian economies Like water seeking its level, saving flowed from where it was abundant to where it was deficient, with the result that the United States and some other advanced countries experienced large capital inflows for more than a decade

The problem with this, says Bernanke, is that "the risk management systems of the private sector" failed to "ensure that the inrush of capital was prudently invested." In addition, there was too little government "oversight of the financial sector of the United States."

Every bit of this is wrong. As economist Robert Murphy has discovered, there indeed was an increase in savings in the "emerging economies" during the housing boom in the U.S., *but it continued on during the bust as well*. How can increased savings by East Asians cause both an increase and a decrease in interest rates?

In addition, Murphy found that the *global savings rate* actually *declined* during the early 2000s

compared to what it was during the preceding fifteen years. Thus, if one counts *all* capital flows, economic reality is the opposite of what Greenankeism says it is.

In addition, it is worth noting that the Fed employs hundreds of economists both as direct employees and as contract employees, and many of them are supposed to keep track of international capital flows. If Greenspan and Bernanke are so certain of the calamitous effects of such "influxes" of capital, why weren't they warned about it? Why didn't they warn *us* before the bust? These are rhetorical questions, of course.

As Frank Shostak has noted, Greenspan and Bernanke define "savings" merely as the amount of U.S. dollars that "emerging economies" held. What this represents is a change in who owns the dollars, not an increase in dollars. The fall in long-term interest rates that fueled the boom (and the accompanying massive mal-investment) can only be caused by the Fed's money creation, which increases the total amount of dollars in circulation.

Bernanke's statement that there was too little regulatory oversight of financial institutions is preposterous nonsense. The Fed itself exerts massive regulatory control, as do myriad other regulatory institutions, from the FDIC to the IRS, Office of Thrift Supervision, SEC, Comptroller of the Currency, Congress itself, and dozens of state regulatory agencies.

For more than thirty years the Fed has enforced the Community Reinvestment Act, which has forced banks to make hundreds of billions of dollars in bad loans to un-creditworthy, "sub-prime" borrowers in the name of the government's overall policy of "affordable housing." Fannie Mae and Freddie Mac, two government-sponsored enterprises, "securitized" these loans to take the risk away from lenders (supposedly). Even banks and other lenders that were not under the thumb of the Fed regulators and the CRA participated in the sub-prime lending spree because if they didn't, their government-controlled competitors would – at least during the boom – out-earn and outcompete them. As Bernanke himself said

in a March 30, 2007 speech entitled "The Community Reinvestment Act: Its Evolution and New Challenges," so-called securitization of bad, sub-prime loans "expanded . . . in part reflecting a 1992 law that *required* the government-sponsored enterprises, Fannie Mae and Freddie Mac, to devote a large percentage of their activities to meeting affordable housing goals" (emphasis added).

The Fed also threatened mortgage lenders with gigantic fines for violating the equal opportunity lending laws in a widely-distributed (to lenders) publication entitled "Closing the Gap: A Guide to Equal Opportunity Lending," published by the Boston Fed. This government publication instructed mortgage lenders to: 1) ignore traditional measures of creditworthiness for "minority and low-income consumers"; 2) ignore traditional underwriting standards for the same group; 3) ignore traditional ratios of mortgage payments to monthly income as well; 4) ignore "lack of credit history" for minority and low-income consumers; 5) seek Fed assistance in finding a different property appraiser if the original appraisal does not "come out right"; and 6) rely on Fannie Mae and Freddie Mac to purchase the bad loans. This is one example of how Bernanke defines "not enough oversight of financial institutions."

Either Ben Bernanke has no understanding of how markets work and is equally ignorant of the massive regulatory influence the government has on housing and financial markets, or he is lying through his teeth when he says that under-regulated markets have run amok. The former is a possibility since Bernanke is a "macroeconomist." So-called macroeconomics has never been real economics but rather an endless series of engineering-type models purporting to guide politicians in centrally planning an economy. In the bizarre world of macroeconomics all capital is the same, and all workers are the same, as one big lump, expressed as "K" and "L" in the models. Relative prices and their role in allocating resources in a market economy are mostly ignored, while "economic aggregates" are said to influence "the" price level.

In macroeconomics it is taken as a given that markets are incapable of allocating resources in an acceptable way; that's why there is supposedly a need for

macroeconomic central planning in the first place. No such "failures" are assumed on the part of the macroeconomic central planners.

The opportunity cost of studying macroeconomics during one's formal education is that that time is not spent learning real economics – the economics of human action and the market process. Nor is it spent studying political economy or the effects of the interaction between the economy and the state. Instead, one spends one's time trying to make sense of obtuse mathematical models and graphs that sometimes take ten or more weeks of a college semester to "build" and interpret. Such is the witchcraft of macroeconomic "models." Models that utterly failed to predict or explain the current crisis, I would add.

During the Q&A session after Bernanke's Council on Foreign Relations speech he took on an extraordinarily smug and arrogant tone as he explained that, during his academic career at Princeton, he was aware of "a few" people in the economics profession who believed that markets did a better job than central planners like himself, but that he hoped "there are no longer any people like that around." "We're all socialist central planners now" is essentially what he was saying, some two decades after it was proven beyond all doubt that attempts to centrally plan an economy invariably lead to nothing but economic and human catastrophe.

The main purpose of Bernanke's speech before the Council on Foreign Relations was to promote the creation of a new super central-planning agency that he called the "Systemic Risk Authority." This central planning agency would pursue "close supervisory oversight" of all risk taking by financial firms. It would be one big monopoly regulator with "consolidated supervision of all systematically important financial firms." Of course, the government itself would determine which firms were "systematically important," and empire-building bureaucrats would eventually decide that ALL firms qualified to be "supervised" by them.

Either Ben Bernanke is completely ignorant of the vast literature on the causes of the failures of socialist

central planning, the economics of bureaucracy, the economics of public choice, the economics of regulation, the field of law and economics, and of markets, risk taking and entrepreneurship, or he is simply another evil, opportunistic, egomaniacal, empire-building bureaucrat who lives in a world of delusions surrounded by equally delusional sycophants. No group of government bureaucrats could ever conceivably possess and process the millions upon millions of pieces of information that go into the day-to-day risk assessments of thousands of financial institutions in an economy the size of the U.S. And even if they could, there would not be any market feedback mechanism, whereby good risk assessments are rewarded with profits and bad ones penalized by losses. There are no profit and loss statements in government, and thus no means of measuring success and failure. In fact, in government, failure is success: the worse the performance, the greater amount of funds that is "thrown" at the problem.

Such an "Authority" (and its congressional sponsors) would be relentlessly lobbied by financial corporations to prohibit the risk-taking and investing by their rivals and to allow their own equally risky ventures. "Rent seeking" (or plunder seeking, if you will) would become even more rampant than it already is, becoming a major engine of wealth destruction. Bernanke is oblivious to all of this, even though it is something that any graduate student in economics should know. To paraphrase P.J. O'Rourke, author of [Parliament of Whores](#), a book about Congress, giving Ben Bernanke – or any Fed chairman – money-printing ability and regulatory power is like giving whiskey and car keys to teenage boys.

March 21, 2009

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