



The Five Hundred Pound Baby

There is a legend somewhere that tells of a baby weighing five hundred pounds. The child was not so large at the start. He was the most blessed event to arrive to the family of his father and mother: a winsome child gurgling and cooing as babies do. He was his father's pride and his mother's consolation. His relatives beamed proudly to welcome him into their clan and the neighbors whispered admiringly when they first saw him, and their excitement was palpable when they congratulated his parents and showered him with gifts. He was in every way a blessing on all who knew him.

But from the very first day he started to grow. To grow AND grow. Then to grow some more. At a year he weighed eighty pounds and at two years he weighed five hundred pounds. Father had to reinforce the floor under his bedroom, where he sat and held forth every day. Mother was exhausted. There seemed to be no limit to his appetite. He always ate well. He never turned up his nose at any food. Sweet, tart, fashionably bitter, hot with Mexican pepper, screaming of garlic: he ate everything. I need not tell you how much his rations cost. Father worked night and day; and mother slaved almost unceasingly in the kitchen. Yet they could not stop his growth; even when he ate little he expanded. Without food however he would surely grow and starve at the same time. The

parents were almost too afraid to look into the future because it seemed only to portend a day when the cost of their son would crush them under the weight of his appetite.

That's quite a legend. Wow, what a costly gift a child like that would be! Every parent shudders to himself just to think of it. But it isn't a legend; it is a metaphor. It is the metaphor of **Too Big to Fail**.

Too Big to Fail: the Promise.

When did the government that we elect to manage public affairs become responsible for endless prosperity in our private affairs? More to the point perhaps, when did they wrench that responsibility from us and clutch it proudly to their chests? When did I ask the White House to make me feel rich? I guess it happened on the day that someone at the top in Washington – not someone at **the** top of course, where folly is still deemed shameful – discovered how grateful we would be to have a guarantor of endless prosperity. So the baby started to grow. Now, this government is the governor of Big Things, and the governor of a very big country. Its self-appointed responsibilities moreover spread out over the whole world, where it has the power to command the armies of Europe and where it claims the authority to design and institute governors for Iraq and Afghanistan.

All of these claims and all hopes of pleasing the public rests on financial and economic promises, and of all such promises that greatest and most weighty be far addresses the world of financial assets spun off by private decisions of private persons as a byproduct of their business activities. Government itself participates directly in asset creation, simply by creating money and issuing bonds on the credit of its fiat. The money

monopoly, which dates in America from the establishment of the Federal Reserve Board in 1913, is the easiest to understand. The Federal Reserve issues dollars which have the unique appeal that their face value – their value in exchange – is unshakable. One dollar will always be one dollar. Come hell or high water, every dollar in your wallet will buy you whatever a dollar will buy. The credit of the Federal Reserve is unquestionable and they can never go bankrupt; no American will refuse to take dollars, though he may insist on taking a **lot** more dollars than you had expected him in exchange for whatever it is that you are buying.

The power to issue money became in 1917 the power to go to war, a war in progress among nations that had already mastered the genius of central banking and of the perpetual font of currency it produces. A decade later, a devastating world depression inspired the federal government to take on a much more active role in managing the national economy. Great Britain and France, two nations that like America had long traditions of limited government, staggered under the weight of economic dislocations brought about by the excesses of the Roaring 20's. Both rejected traditional conservative governments in favor of Socialist experimentalism. To the east, Russia, Germany, and Italy seemed to defy gravity thanks to the vast powers of their command economies: the 30's were a period of prosperity for them. While fascism failed to attract wide support in the West, communism and its appearance of success in Soviet Russia appealed to many. It was however the economic policies of Fascist Italy and Nazi Germany that actually impressed planners in America. To treat the depression and widespread unemployment, New Deal Washington took action and made promises. Those promises were like gold

because of the profound legitimacy of the American government, and without doubt they contributed to the period of prosperity that followed.

The list of promises goes to the very heart of the nation: Social Security, public works projects (funded by Washington though carried out by state and local government), social “welfare” including programs like AFDC, public housing, unemployment insurance and, more deeply, a public commitment to put people to work. This regime was a break from the past in two ways. First, the promises and programs took action to address needs that the people had always been responsible for. They were programs to do for people things that they are – or had been – capable of doing for themselves. Second, the promised actions were in many cases specific and timely responses to immediate conditions. All government units in America had always understood their role in providing public goods. The power of eminent domain was always recognized in our Constitution, and its implications were realized in the early days of the Republic. Although the program to develop a network of national roads had its opponents in the 1820’s, the roads were laid and the frontier succumbed to the imperative to Go West. Grants of public land for railroads accelerated the process immensely. Similarly, limited and temporary actions to alleviate temporary hardships have always had a place in American government. What was entirely new was the idea of permanent programs to, as they are generally described, “manage the economy.”

Since the Truman administration packed its bags in 1953 only a few new ventures have been added to the list of promises, and a couple of administrations have actually made a credible, albeit unsuccessful, effort to prune away some of the outstanding ones. Most significant and costly amongst the new promises have been Medicare and

Medicaid, which are also amongst the most direct efforts to replace individual initiative of the citizens with mandated management from Washington. Other important promises have been the creation of the Departments of Education and Energy.

This list is by no means exhaustive but it is indicative. Washington is expected to do a lot of managing these days, and to orchestrate a lot of cost shifting. Cost shifting, in this context, simply means using public money to pay costs that individual citizens incur, relieving them of a financial burden. Programs like Social Security and Medicare, not to mention public schools, are treated as public goods – goods that by their nature have to be provided by government – but they are not public goods. Education, medical attention, and saving for old age are all private goods. What is arguably public about them is that we the citizens want to ensure that every fellow citizen is guaranteed at least a minimal ability to afford them. The only public aspect of them is a public provision of charity or income support. In fact however, the charitable aspect is usually slighted and the managerial aspect becomes the more obvious feature. Medicaid really is public charity, but it is underfunded, while Medicare is an intrusive manager of medical care and it is generously financed.

The escalation of promises, of course, brings with it an escalation of expectations on the part of the public. It is very easy to start making promises, but it is not so easy to stop. The fiscal impact of outright cost shifting programs has tended to tie the hands of Congress and the White House. As extensive as it the federal control of the hospital industry is today, and as heart-rending as the propaganda for complete national health insurance, the Congress and White House have stopped short of making that promise because the cost would be overwhelming. Yet the appeal to the public of free medicine is

too strong to simply oppose head on, so we see a long-running Kabuki theater in Washington where our leaders dance around the issue. Typically, they position themselves on the side of the angels and nationalized medicine, and it is with deepest regret that they have to admit that it isn't going to happen very soon. This concession to fiscal sanity has unfortunately been overwhelmed by new spending opportunities, like foreign wars that cost a half trillion dollars each year.

The model of these projects is probably the outlays to rebuild New Orleans. The initial appropriation was \$62.3 billion. Subsequent appropriations over the course of the ensuing two years have added to the total outlay. When the public asks how this money has been spent, a wall of obfuscation confronts the investigator. No one knows what the money bought, but it seems clear that what was done couldn't possibly have cost \$62 billion, because as it turns out the city has not been rebuilt.¹ While it might cost \$62 billion or more to build a city the size of New Orleans, moreover, American cities are not built with public money. New York, Chicago, Los Angeles and all the rest were built by private developers who recognized that if they built it, the people would come. There was public money to provide public goods of course, but everyone understands that it was the American people, acting as private citizens, that built America's cities. So if New Orleans is going to be rebuilt, it will not because FEMA or the president want to have a city there, but because people like you and I want to live and work there. This is a graphic example of a promise gone awry. The promise is that if your property is damaged by a big enough storm, Uncle Sam will step in with a kind of insurance to cover repairs. As it turns out

¹ As of the end of 2007, FEMA claims to have spent about \$33 billion in total on rebuilding efforts for the Gulf Coast as a result of damage from Katrina.

however this seems to be an empty promise because the repairs aren't going to happen and a lot of the money appropriated will simply disappear.

As costly as these promises are, the focus of attention has shifted away from them. Interest in specific programs to “manage” national affairs and national perceived “needs” has – as the example of Katrina illustrates – not disappeared entirely, but it has been superseded but one vast program: to manipulate the national credit and capital markets, including the stock market.

Bonds and the Fed.

Other financial assets are not dollars. The Treasury Department borrows money by issuing bonds that pay interest for a fixed period, and then repay the principal – the stated par value – in full. Bonds aren't money because if you want to buy something and pay for it with a bond you had bought from the Treasury, the cash value of the bond is by no means a sure thing. Whoever takes it off your hands doesn't get cash money, he gets the remaining promise of interest until the bond matures, and only then is the par value paid out. If he expects the par dollars, when they come, to buy less than dollars buy today, he will not pay dollar for dollar: today's dollars for tomorrow's dollars. In any case however, Treasury debt securities are not a very significant investment for the public. A little detective work reveals who owns them.

As of year end 2007, the Treasury has total debt outstanding – the national debt – of about \$9.1 trillion.² A large part of that is owed to other government functions that use the Treasury as their bank, the biggest of these being the Social Security trust fund. What

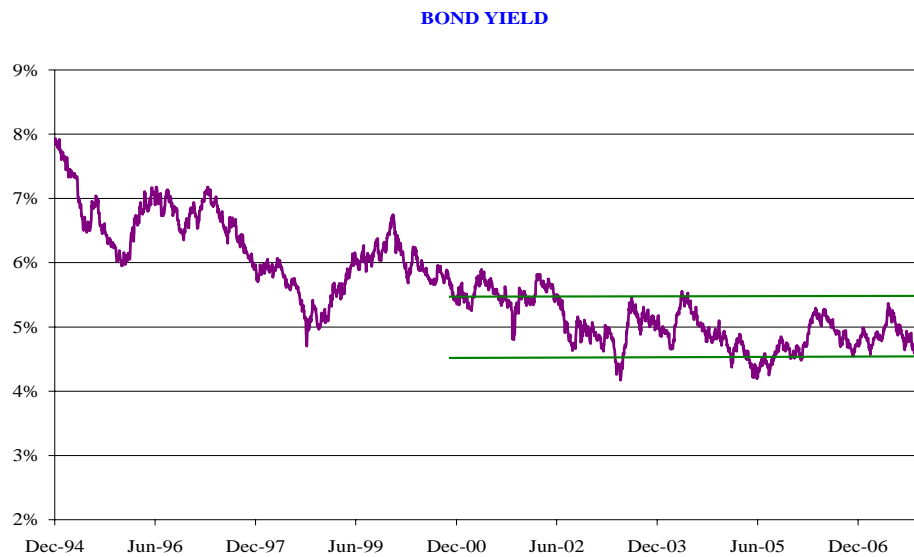
² Data on the Treasury bond market were obtained from the Treasury web site and from the Bulletin of the Federal Reserve Board. Data on open interest of Treasury futures comes from the web site of the Chicago Board of Trade.

is left over is about \$5.1 trillion as of this date. A little more than \$2 trillion is owned by the Federal Reserve Board and by foreign treasuries. That leaves about \$3 trillion in private hands. Treasury bond and note futures are traded on the Chicago Board of Trade. Every contract is a long position for some trader and a short position for some other trader. To a first approximation, the longs are simply long – they will receive Treasury securities in the future – but the shorts have to hold some actual securities against their promise of future delivery. The total amount of future Treasury securities promised is about \$6.8 trillion at this time, so in aggregate this is the liability of the shorts. It is shocking to find how leveraged they are – how small are their holdings of actual Treasuries-in-hand – but if we assume they are leveraged five times they would hold about \$1.4 trillion of Treasury debt securities to back up their \$6.8 trillion short position.³ That leaves about \$1.6 trillion in the hands of the investing public, a figure that includes both domestic and foreign investors. Since we have already accounted for bond traders, these are truly patient investors – a typical investor would be the risk reserve of a life insurance carrier – they do not participate in short term trading. Well over half of this total is held by foreign institutions, so Treasury debt owed to the American public is on the order of \$500 billion. While this total is by no means trivial, it pales in comparison with \$16 trillion of shares of stock, a like amount of taxable debt securities, and many trillions more of tax-exempt debt.

The point of this recitation is to make the case that Treasury debt has been largely “nationalized” by the world’s central banks. The public – and especially the American public – simply don’t care about Treasury securities. Unlike the American public, many

³ Small, independent traders are – to their regret – far more highly leveraged, but the large Wall Street and LaSalle Street institutional traders can not, on the one hand, afford to take fatal doses of risk and on the other hand can afford to settle for smaller profits per trade because they make it up on the volume.

foreign “investors” are subject to political pressure, so their investment preferences really don’t matter. The price of Treasury bonds surge back and forth furiously, but without rhyme or reason, so that Treasury bonds are not an interesting asset class for a speculator who plans to buy and hold them for long term price appreciation. Many of the traders of Treasury futures are certainly speculators, but for them the “long run” is measured not in years, but in weeks.



Source: Logistic Research & Trading Co.

The chart of the yield above shows the history of the yield on long Treasury bonds since the end of 1994. Initially the yield was trending down because the investing public was finally losing its fear that inflation would soon return. From the peak in 1982, yields fell consistently as, first, the expected inflation rate fell and then as low inflation persisted and the fear that it would return was wrung out of bond yields. Throughout the 1980’s and 90’s, actual inflation subsided first, leading to a steady drop in expected future inflation, and finally to the decay of the inflation risk premium. This was economic logic at its clearest, and as it was understood and enforced by market forces. Since the

stock market crash in late 2000 however, yields have surged back and forth within a rather narrow band highlighted in green on the chart. No trend emerges, but in its place a fixation on the policy decisions of our Fed and of other key Central Banks. The exogenous driver of the market is purchases and sales by government policy makers.

The yield of Treasury bonds covers three costs of borrowing: the absolute rate of time preference of the economy – how much lenders have to be paid to defer immediate spending – expected inflation, and the risk premium for unexpected inflation. The average Treasury bond yield since late 2001, roughly 5%, is a very plausible estimate of absolute time preference, suggesting that there is no fear of inflation left in yields. What is so revealing about the history is however not the average of the yields, but the large variance around the average.

It is not so easy to come up with firm dollar totals on the ever-widening circles of bonds that emanate out from the Treasury universe. Most Treasury-like are debentures issued by government agencies which have a Treasury credit guarantee. The volume of agency bonds and notes is enormous, close in magnitude to the \$5 trillion total of Treasury debt held by the public. Further out lie guaranteed mortgage securities – packages of home mortgages supported by a credit guarantee from the mortgage banking agencies: FNMA, FHLMC, and GNMA. At about the same distance, but off in an entirely different direction, is tax-exempt state and municipal debt. Even at this distance from Treasuries, holdings of these bonds by foreign central banks represent a large portion of the total, and holdings by other foreign institutions account for another large part. High grade debt has always been the special province of life insurance carriers, and

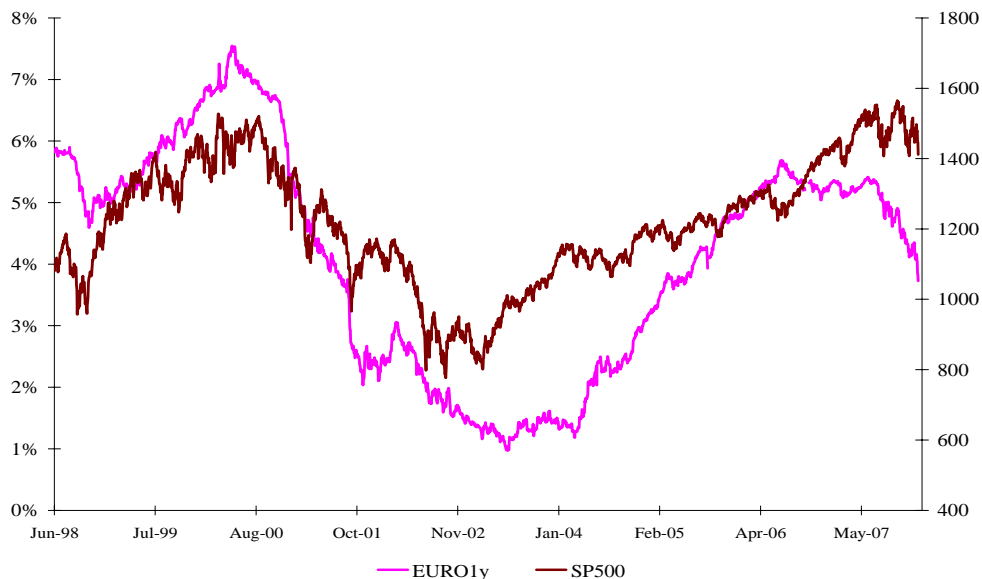
with the expansion of foreign-based insurers, the share of the total outstanding that their reserves account for has grown correspondingly.

With the exception of money market instruments like asset-backed notes, there is really not much other high grade debt besides those listed above. Whereas thirty-five years ago every major bank endeavored to keep at least a AA credit rating and many were rated AAA, there are no AAA banks left, and the highest rated bank – JP Morgan Chase – clings somewhat precariously to its AA. The average American corporation has a credit rating in the weak BB range, and this generalization applies to only the largest corporations, which issue public debt in large amounts. The only risks associated with corporate debt are the common risk that Treasury yields will rise, and the specific risk associated with the finances of the issuing corporation. There is some tendency for bonds of a given credit rating to move together, as the investing public expresses its collective taste for credit risk in general, but these shifts in demand are temporary; the spread between Treasury yields and yields of a fixed rating category have no historic trend. There has been a steady trend for corporate credit ratings to fall, so in fact the yield spread between Treasury and corporate bonds has widened over time, but that is a reflection of credit judgments at the level of individual corporate issuers which as it happens have moved in unison.

Credit-sensitive bonds and notes, as a result, are not traded actively. They are overwhelmingly buy-and-hold securities which are bought for their income yield. In the world of investment decisions regarding American corporations, those decisions are expressed not in terms of corporate debt, but in terms of shares in corporate equity: in shares of stock.

The Stock Market.

The action, the really big investment money, is in the stock market. It is above all the home to private investment, and world wide, the source of equity capital for the private sector of every modern economy. It is a tradition in America that the Federal Reserve does not own private equity, and in the narrow sense that decision still stands. Some other governments are not similarly restrained. The Bank of Japan for instance buys and holds common stock, but only in Japanese shares, and some central banks – most notably those of the OPEC states – have never had any hesitancy to invest in private equity here in America. It is revealing that the Bank of Japan only began to invest in the Japanese stock market to stop a disastrous decline in their market. This was a sign of things to come. The ultimate promise, the most valuable of all promises that Washington could make, is that our stock market will only rise and never fall for any prolonged period of time.



Source: Logistic Research & Trading Co.

The chart above documents the good work of the Federal Reserve Board to manage the stock market. The brown path represents the S&P 500 index, which is the broadest and most complete index of the whole market. The magenta path represents the yield of a one year CD; this is essentially the same as the yield of a typical money market fund. The first hump of the S&P is the stock market bubble of 1999/2000, and the simultaneous hump money market yield indicates the effort by the Fed to stop the bubble. Wise Fed leadership understood that the bubble was completely unsustainable, and would make future management increasingly difficult to achieve. The S&P fell nearly 50% from the peak in 2000 to the low in October, 2002 and the Fed raced to catch it. After lowering money market yields to one per cent and holding it there for a year, the Way was clear in March, 2004 to start chasing the S&P on the way up. The last phase – consisting of a very choppy top for the stock market and yields in free fall again – is generally believed to be the precursor of a recession.

Except for the fact that this time the Fed has started its defensive work early, while the stock market was in a typically volatile bearish top but before it had clearly started to decline, the correlation between the S&P and the money market yield is amazingly close..

What does this all mean?

What does it mean that short term interest rates are so tightly correlated with the stock market? Well, it suggests that nothing else very important is going on in the stock market or in the corporations it represents. That impression is fortified by the fact that from peak to peak – from the prior peak in summer 2000 to that latest peak in summer

2007 – the S&P 500 index hardly rose at all. From peak to peak, investors earned only the meager dividend yield, which is distinctly less than 2%. Amongst all the things that did not happen in those seven years was for the Fed policy of extremely easy money to incite any permanent improvement in the productivity of corporate America. Years of amazingly low interest rates only succeeded in lifting the stock market back to its previous peak, which it seems just brings us to the next recession. Perhaps this says something too about the astounding reports of heroic gains in labor productivity; reports that emanate from the Department of Commerce. Perhaps it says that they are fantasies. At the very least, it implies that corporate American has been employing the wrong folks. Whatever. The bottom line is that printing money never made anyone except the printer more productive.

In the long run, share prices correlate with interest rates because lower risk-adjusted yields on bonds make stocks look cheap by comparison. Assuming that in some broad sense the amount of investment money is constant in total, investors sell bonds and buy shares. If the total pool of money is not constant, the correlation is more problematical. If it is growing, both shares and bonds can rise together, and if it is shrinking, they will both fall. In the short run the correlation between short term interest rates and the stock market is much tighter and more predictable, because it does not depend on the decisions of actual investors.

In the short run, the stock market responds to buying and selling by Wall Street broker-dealers – e.g. Merrill Lynch, Goldman Sachs, etc. – who work fairly closely with the Federal Reserve. The tightness of that relationship was enhanced dramatically in the aftermath of the market crash of October, 1987. The Federal Reserve extends credit to the

broker-dealer community by way of Wall Street banks, and the broker-dealers use that credit to buy shares for their own inventory. In a crisis, the Fed is more aggressive and the inventory feasts. Any credit squeeze, correspondingly, forces dumping of inventory, and can head off the worst errors of a market bubble. An interesting sidelight, by the way, is that in recent years many huge American corporations have bought or founded their own banks so that they too can deal directly with the Fed and benefit immediately when the Fed eases. The Fed has understandably resisted that trend, which would broaden and diffuse the impact of policy changes. Credit easing and tightening are intended first and foremost to manipulate the portfolios of genuine financial institutions, and especially of Wall Street. A recent story in the Wall Street Journal revealed that after the Federal Reserve became the backstop of last resort, which Mr. Bernanke announced publicly last September, the lion's share of Fed credit has gone to the few large banks most closely tied to Wall Street and the financial markets.

This trick works in the short run, but it leaves behind a question. We asked above what lowering money market yields has to do with raising the productivity of investment, and the answer of course is a resounding Nothing! But at least it does have something to do with the logic of investment and asset allocation. Our new question is this: "What does financing Wall Street inventory have to do with investing at all?" The answer is, again, Nothing!

Current Events.

Manipulating, or attempting to manipulate, stock markets by creating money and using it – even indirectly – to buy shares is not in any sense an economic activity. It is a

political activity, intended to put off for another day the reckoning between share prices and investment value. If the stock market never retreats seriously, “we” – Washington, Tokyo, Beijing, London, whoever – must be doing a great job. The promise of endless prosperity has swallowed the well-known New Deal promises and left us at this pass: we can’t let the stock market fall. Bill Clinton and his vice president let the bubble deflate in 2000, and look where they wound up: with their noses flat against the window, looking in. Last September the Federal Reserve Board proudly proclaimed the formation of a new central bank cartel dedicated to inserting a floor under the world’s stock markets to forestall crashes.

Investors and speculators see all too clearly where this heads. Buy shares. If they go up, you win, and if they go down you sell them to the Fed. Ultimately, business productivity and stock market valuations don’t go anywhere, but the money in circulation grows uncontrollably.

Our government has throughout history contributed very importantly to the prosperity of this nation by doing those things, like promoting a network of excellent national highways: that they can do and we applaud them. The one thing they can not do is to guarantee endless prosperity. Welfare and the welfare state – even the state of middle-class welfare – couldn’t do it. Those promises can only chain Washington to a game of escalating the rhetoric and the promises. Perhaps it seemed that the unfailing cornucopia of stocks could work better, but it can not. It ends with broken promises and rising cost of living. It ends like the story of the Sorcerer’s Apprentice. He knew how to start the salt mill, churning out free salt the way the Fed churns out cheap credit, but he didn’t know how to stop the mill. Does the Fed know how to let markets fall? Yes, in the

end they will have to let bubbles rupture, but that is a reckoning that neither the Fed governors nor the administration want even to think about now.

Grown up markets for grown ups

In a recent book of mine – *Economics in the Present Tense: Dysfunctions of the Welfare State*⁴ – I carried out a thought experiment on the topic of whether it would be possible for a market like our stock market to be what I called Perfectly Inefficient. Then I investigated the related issue of what happens to a market that, while not Perfectly Inefficient, was quite inefficient. My conclusion was that it must become steadily less efficient. To back up a bit, a market is Perfectly Inefficient when pertinent information has no value and no correlation with market prices. There is still information about whatever is traded in the market, but it doesn't help the traders who are trying to make a living. They would be better off, or at least no worse off, simply ignoring what they know.

The force that makes for inefficiency is quite simply the participation by institutions that don't trade to make money; and especially those that trade to make political statements. Investors and speculators are simply buffeted by unpredictable and inexplicable waves of buying and selling: inexplicable, that is, in terms of the sort of information that investors have. For the central banks to jump into the stock market when it falls too far or too fast launches precisely those bolts of lightning that electrify, and then electrocute, investors and speculators.

The great virtue of free capital markets is that the reward innovators and speculators. A new startup comes to the stock market, looking for capital to enable it to

⁴ Joel C Gibbons. *Economics in the Present Tense*. Vantage Press; New York, N.Y. 2008.

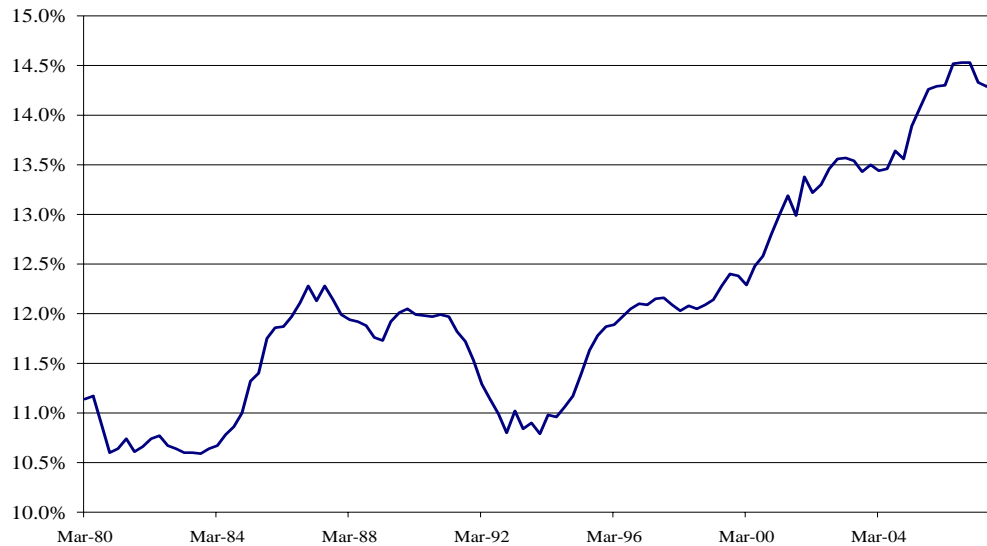
grow and accomplish its business plan. Greedy speculators flock to the new idea, kicking the tires, questioning the assumptions and questioning the innovator. In the course of the debate, knowledge emerges and rational – perhaps even wise – businessmen and women make decisions. Many things can go wrong. Above all, the innovator or his sponsor in the broker-dealer community might prop fraudulent securities or fictitious claims. It is not only the speculators that are greedy. That sort of fraud requires effective and powerful referees, public regulators committed to creating a transparent playing field. But that is a far cry from the power that central banks have to manipulate asset pricing by means of the way they manage credit. All that does is to punish the informed and reward the foolish.

Debt: The Last Frontier

The heavy burden of debt hanging over the American household has added another dimension to the welfare state: bailing out the debtor. For the most part, and excepting financial institutions of course, corporate American is not highly leveraged with debt. States and local governments are, and the federal government is wildly indebted, but at the moment at least the perceived need is to make it possible for the average citizen to accommodate debt service that has grown astonishingly in the last fifteen years. The following chart, based on data from the Federal Reserve, shows how indebted the American public is. In 1980, when Treasury bonds were paying fourteen per cent interest and the public was paying a lot more, debt service of the average household was running around 10%. Today, when mortgage rates are in the six per cent, debt

service is above fourteen per cent of income. The income that that is a percentage of, moreover, is several times higher. This is a debt machine grinding inexorably upward.

Household Debt Service as Per Cent of Income



Source: Federal Reserve Board, Logistic Research & Trading Co.

The latest addition to the household debt load was adjustable rate mortgages, also called sub-prime mortgages, which initially charge a low interest rate, which grows over the life of the mortgage. These mortgages were an extremely attractive option for the cautious. A home buyer could start with a 4% mortgage, which carried a correspondingly low monthly payment. As long as he did not overpay too excessively for the house, the monthly outlay was bearable. Only one bit of discipline was then needed. As the interest rate adjusted higher, he had to pay down enough of the principal in order to hold the monthly outlay constant. Well, how many people did that?

Instead, as the Federal Reserve data makes clear, the public let itself fall into a trap of escalating debt service. Now Washington struggles to find a way to make this

hardship go away: welfare for homeowners, with extra consideration for those who overpaid most egregiously for their homes.

Here again the Federal Reserve has a key role, because control over interest rates gives it the capacity to solve the adjustable rate mortgage problem unilaterally. The deeper problem – the seemingly uncontrollable appetite of the American public for debt – remains to be addressed. For decades Washington has manufactured “prosperity” by inducing the American public to spend more than it earns, piling up capital goods like homes and automobiles at a dizzying rate. There is no way to dodge dysfunctions of the Welfare State in this matter either. Unrealistic promises induce unsustainable expectations.

So, what’s next?

It is no secret that it is a lot easier to fall into a trap than it is to get out. The promise of prosperity that issues from Washington inevitably becomes too big to fail. It goes without saying that it also becomes too big to succeed. At that point it is also very embarrassing to have to deal with the question of “what’s next?”

This was the state of affairs in 1980, when a noble president had to concede that what he was doing just wasn’t working, and a new direction – a direction that he could not prescribe – was called for. The new direction was dramatic, but in the end it does not appear to have been the solution. The noble voice from 1980 still speaks to us about the present times, and the message is not reassuring. Nor is it welcomed by the powers that be in Washington. He does not claim to have a solution this time either, not do I. But until we stop the promise machine, the consequences are only going to grow fatter and

fatter, and the capacity of the tools of private enterprise and of freedom itself to serve us and to be preserved by us will weaken beyond recognition.

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