

Dollars: Supplied at Will, Courage: Hard to Find

by Doug Wakefield with Ben Hill

Last weekend, my wife and I went over to a friend's home to watch "The Pursuit of Happyness," starring Will Smith. During the opening scenes of the movie, Smith's character sits in despair thinking about his own struggles in medical sales, during the recession of 1981, while the television blares in the background with the voice of President Reagan discussing the financial plight of our nation. In this snippet, we hear Reagan talk about the urgent need for our national leaders to face the \$50 billion deficit. And like the swell of the bull market of the 80s and 90s, the movie goes on, drowning out Reagan's words and numbers.

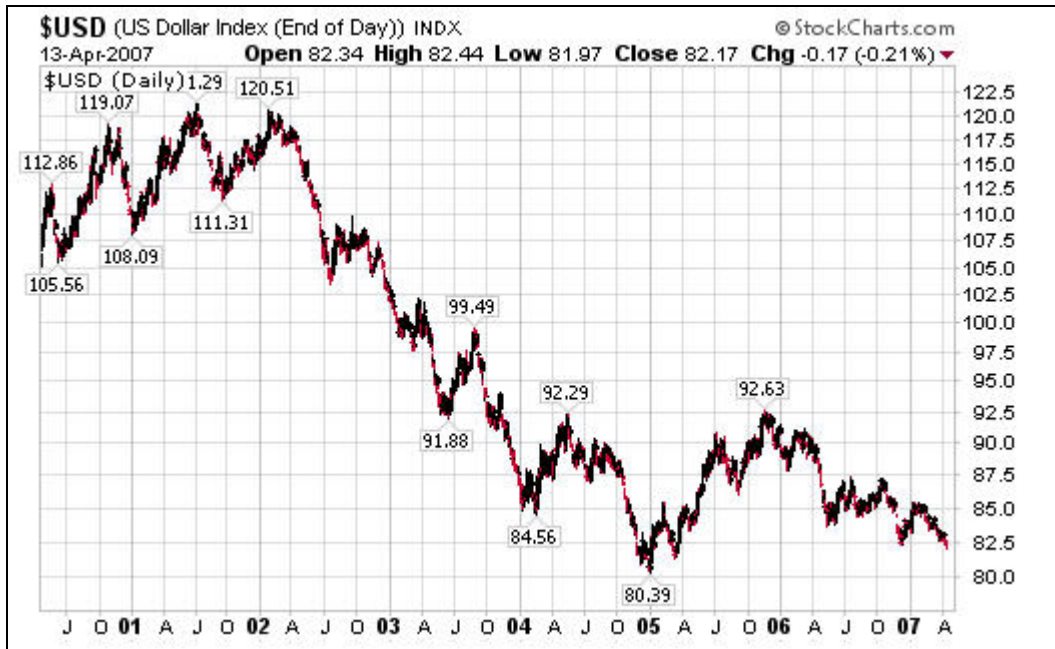
Recently we posted a document to our website developed by David Walker, Comptroller General of the United States. The title: [Fiscal Stewardship – A Critical Challenge Facing Our Nation](#). Walker opens,

"The federal government's financial condition and fiscal outlook are worse than many may understand. Despite an increase in revenues in fiscal year 2006 of about \$255 billion, the federal government reported that its costs exceeded its revenues by \$450 billion (i.e., net operating cost) and that its cash outlays exceeded its cash receipts by \$248 billion (i.e., unified budget deficit). Further, as of September 30, 2006, the U.S. government reported that it owed (i.e., liabilities) more than it owned (i.e., assets) by almost \$9 trillion. In addition, the present value of the government's major reported long-term 'fiscal exposures' – liabilities (e.g., debt), contingencies (e.g., insurance) and social insurance and other commitments and promises (e.g., Social Security, Medicare) – rose from \$20 trillion to about \$50 trillion in the last 6 years." (Parenthesis his)

So, we have seen large numbers grow astronomically larger, and as a society, we have learned to ignore the naysayers, who do not hold to our optimistic view of the financial markets. Not only does this happen in the investing public, but it also occurs at the very top of academia, in the writings of the Federal Reserve. In the July/August 2006 edition of the Federal Reserve Bank of St. Louis Review, the question "Is the United States Bankrupt?" was raised. The Editor's Introduction to the article states that Laurence Kotlikoff, coauthor of the book, [The Coming Generational Storm](#), "believes the question of the bankruptcy of the U.S. government is not only worthy of serious discussion, but that the answer to the question is clearly 'yes.'" Lest we, who've not been schooled in the complexities of economic and monetary policy, look at Walker's numbers and jump too quickly to side with Kotlikoff, we are quickly reminded that:

"The government's assets certainly are not in the process of being forcibly liquidated by creditors. For that matter, the notion of a formal bankruptcy process mediated by an outside party appears unrealistic, as well. After all, the vast majority of U.S. government's liabilities to foreigners are denominated in U.S. dollars, which can be *supplied virtually at will*." (Italics Mine) ¹

There you have it folks. David Walker and Laurence Kotlikoff are just getting people overly-concerned about our country's ever-mounting debt for no real reason. After all, as long as the guys and gals at the Federal Reserve have the "dollars supplied at will" machine, what could possibly go wrong?



The sad reality depicted by the graphs above, is that the two men at the Federal Reserve, who wrote the Editor's Introduction for this piece, apparently represent the thoughts of many in government today. While there are some who have the courage to speak out against the travesty of our nation's finances, most are a yes men, clinging to their jobs,

and the average American has lost his or her bearings. We accept as normal that a new car that used to cost \$3,000 now costs \$30,000, or that a home that used to cost \$40,000 now costs \$200,000. The fact is that throughout our lifetime, the costs of stamps, milk, health care, auto repairs, and virtually anything else that we consider basic to the American way of life, has been propelled higher by this “dollars supplied at will” machine.

According to John Williams, [Shadow Government Statistics](#), in [July 2005](#), the money supply (M3) for the U.S. was growing at 5.19 percent, and, as of March 2007, it's increasing at 11.65 percent. So, why do our nation's leaders hold [Senate hearings](#) in order to tighten lending standards, because of the reckless subprime mortgage industry, and at the same time, do nothing about the doubling of the pace of new debt, which wreaks havoc on our entire financial system? This calls us to look lower than the branches of subprime mortgages, unfunded pensions, back-dated stock options, and phantom shares of stock that are borrowed in real transactions. At the root, we must realize we have used false layers of complexity to mask outright fraud.

Murray Rothbard was known for his clear thinking, and in the years ahead, many will come to regret not having heeded his words.

“So: if the chronic [inflation](#) undergone by Americans, and in almost every other country, is caused by the continuing creation of new money, *and if* in each country its governmental “central bank” (in the United States, the Federal Reserve) is the sole monopoly source and creator of all money, *who then* is responsible for the blight of inflation? Who except the very institution that is solely empowered to create money, that is, the Fed (and the Bank of England, and the Bank of Italy, and other central banks) *itself?*” (Italics and parenthesis, his) (Page 11) ²

So as we listen to the demagoguery and divide up and declare our allegiances to individuals, institutions, businesses, churches, synagogues, and political parties, we should remember these words from Henry Bretton's book, [The Power of Money](#):

“Terms like public or private, central or dispersed, liberal or conservative, right-wing, left-wing, or center, tend to obscure the central issue: money is power, and those in control of the strategic command center in the system can use that power to their advantage.” [Page 152-Power of Money] ³

As “The Pursuit of Happiness” comes to an end, [Chris Gardner](#), Will Smith's character in the movie, celebrates finally being the one broker chosen from the grueling program at Dean Witter. In the epilogue, we learn that in 2006, Gardner sold a minority interest in his company for millions.

As inspiring as the story is, it took place over a 25-year period when Dow went up 12-fold from just under 1000, in 1981. The reality is that this period also saw the greatest destruction of our currency and the largest rise of debt in our nation's history. The next

story is just not one that any of us would want to write or read. Debt will decline, prices will contract, and reality will set in. Inspirational stories will still be there, but they will not likely be of the rags to riches variety.

At one part in the film, Gardner states to a prospective client, who is interested in increasing his yield while lowering his taxes, “So basically, you don’t want nobody’s hands in your pockets but your own.” Yet, inflation has taken more money from us than even the most exorbitant taxes. For those who doubt the destructive power of this process, consider Keynes’ words in his book, The Economic Consequences of Peace:

“Lenin is said to have declared that the best way to destroy the Capitalist System was to debauch the currency. By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. By this method they not only confiscate, but they confiscate *arbitrarily*; and, while the process impoverishes many, it actually enriches some. The sight of this arbitrary rearrangement of riches strikes not only at security, but at confidence in the equity of the existing distribution of wealth. Those to whom the system brings windfalls, beyond their deserts and even beyond their expectations or desires, become ‘profiteers,’ who are the object of the hatred of the bourgeoisie, whom the inflationism has impoverished, not less than of the proletariat. As the inflation proceeds and the real value of the currency fluctuates wildly from month to month, all permanent relations between debtors and creditors, which form the ultimate foundation of capitalism, become so utterly disordered as to be almost meaningless; and the process of wealth-getting degenerates into a gamble and a lottery.

Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose.” (Italics his) (235-236)⁴

How well these words describe our current juncture is truly a shame. Today, our greatest obstacle is that we do not understand history because we do not understand financial history, and until we understand the role that fiat currency has played, and the power of money, our interpretation of history will be skewed because we are missing a critical component to all of our lives – money. If we are like most, we feel insulted by this proposition, yet for lack of time or desire, we will not read to see if this is true.

In our society, “happyness” is synonymous with financial prosperity, so much so that many fail to see the true strength of Gardner was not found in his ultimate financial success. Rather, the enormous courage that Gardner displayed was in taking each day as it came, in his tenacity to daily move past his own pain, anger and frustration with his current circumstances, and in his resolve to never stop making decisions in his attempt to move forward, and in doing his best to provide for and protect his son.

As I reflect on the enormous sorrow of those trying to regroup from the brutal attack at Virginia Tech on April 16th, I am inspired by the actions of Liviu Librescu. Here was a man who had lived through the Holocaust and a brutal communist regime in Romania during the Cold War. He had spent the last 2 decades of his life as a college professor in a quiet idyllic campus, and may have attained little financially in his life. Yet, he blocked a door, holding it shut, paying the ultimate price to protect his students. The trait that we admire in Gardner and Librescu is called self-sacrifice. Truly, “Greater love has no one than this, that he lay down his life for his friends.”

If we are going to get past this next chapter in our nation’s story, our leaders will have to be willing to place painful truths before individuals who are reluctant to accept such realities. They must be willing to place others’ lives above their own.

Sources:

1. [Federal Reserve Bank of St. Louis Review](#), July-August 2006, Editor’s Introduction, William R. Emmons and Anthony N.M. Pennington-Cross, pg 222
2. [The Case Against the Fed](#) (1994) Dr. Murray N. Rothbard, pg 11
3. [The Power of Money: A Political-Economic Analysis with Special Emphasis on the American Political System](#)(1980) Professor Henry L. Bretton, pg 152
4. [The Economic Consequences of Peace](#) (1920) John Maynard Keynes, pg 235, 236

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