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MACRO FOR DUMMIES

By Bill Bonner

10/23/09 WATERFORD, IRELAND

"He who goes a-borrowing, goes a-sorrowing."

The quote comes from Ben Franklin. But it was recalled to us neither by America's president, nor Britain's Prime Minister. Instead, the *Telegraph* in London reported it from the mouth of Cheng Siwei, a "top member of the Communist hierarchy."

What goes around comes around. The Anglo-Saxons have forgotten what makes a successful economy. The Chinese have remembered.

Just look up Warren Harding on Wikipedia. The first entry you will find is not the 29th president of the United States of America, but a rock climber with the same name. But what do you expect? History is nothing but a long list of disasters in chronological order. Historians love calamity. And they reserve their highest accolades for those who cause them. The same is true in financial history. Those who make it big are those who make it worse.

It is safe to assume that no one working at the Federal Reserve or at the White House has a picture of Warren Gamaliel Harding over his desk. Yet, if American presidents were ranked on the basis of how well they faced up to financial disaster, Warren G. Harding might be somebody. His handsome face would be carved on Rushmore. His likeness would grace the $100 bill. Harding was the last American president to deal honestly with a major financial crisis. Every president since has tried to scam his way out of it.

By the time Harding took office in '21 the Panic of 1920 was taking the unemployment rate from 4% to nearly 12%. GDP fell 17%. Then, as now, the president's subordinates urged him to intervene. Secretary of Commerce Herbert Hoover wanted to meddle — as he would 10 years later. But Harding resisted. No bailouts. No stimulus. No monetary policy. No fiscal policy. Harding had a better approach; he cut government spending and went out to play poker:

"We will attempt intelligent and courageous deflation, and strike at government borrowing which enlarges the evil, and we will attack high cost of government with every energy and facility which attend Republican capacity…it will be an example to stimulate thrift and economy in private life.

"Let us call…for a nationwide drive against extravagance and luxury, to a recommittal to simplicity of living, to that prudent and normal plan of life which is the health of the republic."

Within a decade, Harding's views were collectibles. But in 1921, he still saw the economic world as a moral world ordered not by man, but by God. This was not the result of long study or deep reflection on his part. He was probably the dummy everybody said he was. As Keynes pointed out, politicians are always in thrall of some dead economist. At least Harding was in thrall to the good ones.

"No statute enacted by man can repeal the inexorable laws of nature," he announced. "Our most dangerous tendency is to expect too much of government…"

Harding was not the first to see the economy as a 'natural' order…one that you disturbed at your peril.

A Taoist named Zhuangzi, who lived about the same time as Alexander, observed: "Good order results spontaneously when things are let alone."

Later, economists of the Scottish enlightenment, notably Adam Smith and Adam Ferguson elaborated. Smith, like Harding, saw the economy ordered by the invisible hand of God. Ferguson saw markets as a 'spontaneous order,' which were the "result of human action, but not the execution of any human design".

The same basic insight led Irving Fisher — the greatest economist of the 1920s — to come up with his debt-deflation theory of depressions. After people had borrowed, they needed to pay back. Busts followed booms; there was no getting around it.

Warren Harding may never have been the brightest bulb on the White House porch, but intuitively he understood that proper macro-economic policies were more the product of virtue than of genius. Debt led to trouble; that's all he needed to know.

Keynes came along a few years later. Keynes was a genius; everybody said so. And he had an answer for everything. Nature? Government could do better. Debt? Don't worry about it, he said. Why not just let capitalism sort itself out? Without government intervention, it will only get worse, said Keynes.

But Harding had already proved him wrong. Harding did the very opposite of what Keynes recommended. Instead of increasing government spending, he reduced it. He cut the budget almost in half. He slashed taxes too…and cut the national debt by a third.

Japan at the time struggled with the same downturn. But it had no Harding at the helm. Instead, its masters prefigured Keynes, trying to stay the correction using price controls and other interventions. The result was a long-drawn-out affair that lasted until 1927 and ended in a bank crisis. In America, meanwhile, by 1922 unemployment was back down to 6.7%. By 1923 it was down further — to 2.4%.

This lesson was entirely lost on the world's economists. When the next crisis hit a decade later, they turned to Keynes. Of course, it turned out to be a moral world after all. They got what they deserved.

Regards,

BILL BONNER,
The Daily Reckoning

THE DESCENT OF MONEY

By Bill Bonner

01/29/10 PARIS, FRANCE

Science and technology have produced many wondrous breakthroughs. But there are some things it cannot improve. A kiss from natural lips is still the lover's choice. Baby formula proved no match for the real thing. Ersatz money is a flop too. That last item is not so much a fact as a prediction.

The first modern competition between gold and paper money ended like the pre-modern ones. Gold won. Herewith, a short summary:

A rogue, John Law, was the protagonist of the story. He killed Beau Wilson in a duel. Then, he went on the lam…first to Scotland…then to Amsterdam…and finally to Paris. Like Alan Greenspan or Ben Bernanke, he made himself useful to people in high places — in this case the Duke d'Orleans, who needed money. Law had a way to get it:

"I have discovered the secret of the philosophers' stone," he is said to have remarked, "it is to make gold out of paper."

We need to look no further. Law may have been good with figures; it was at philosophy that he failed. A thing cannot be both one thing and a different thing at the same time. It is either gold. Or it is paper. Rarity and durability give gold value — as money. Paper's most conspicuous properties are just the opposite — it is common…and has a tendency to curl up and blow away.

Law's new, easy money helped France to an economic recovery — or so it seemed. But in the end, the philosophical error caught up with him. Gold has real value. If you can create it at will, why not create more of it? It was just a matter of time before he had created too much. Soon, there was an angry mob outside Law's office on the Rue Quincampoix. People who held his paper gold had come to see it in a different light. Where once they cherished it as paper gold…now they despised it as nothing but paper.

Law's scheme increased France's money supply — including banknotes and shares in his Mississippi company — by 300%. Prices in Paris doubled between 1718 and 1720. Then, when the new money system began to give way, the Duke d'Orleans "cranked up the printing press." By 1721, Law's money was worthless. "Banque" was a dirty word in France for the next 200 years.

The current experiment with paper money began on the 15th of August 1971. Henceforth, said Richard Nixon, foreign countries that wished to exercise their right to trade US dollars for gold could drop dead. From that point forward, the dollar was worth only what someone would give you for it. Philosophers held their breath. But nothing happened. Many have died since, waiting for the dollar to succumb first. Still, the millstones of monetary history may grind slowly, but the more slowly they grind, the more fingers they pinch.

The new paper money standard allowed for a worldwide credit boom — just as in Paris following the establishment of Law's scheme. The US created dollars. Its citizens spent them. The dollars accumulated as reserves all over the world…and every central bank raced to keep up. Soon, the exporters were producing too much. The importers were consuming too much. And there was too much money and credit everywhere.

The Japanese economy was the first to blow up — in 1989. The tech sector on Wall Street was next to go — in 1999. Finally, in 2007, the planet-wide bubble popped. Suddenly, the whole world was Japan. And now, every nation in Christendom, to say nothing of the others, is following Law's example. All issue paper gold — in the form of bills, notes, and bonds — as if they were the Banque Royale. Europe is estimated to need $2.2 trillion in deficit funding this year. America will need at least a trillion more. If the depression deepens, maybe $2 trillion. How long can this go on? Where will it lead?

"There are no means of avoiding the final collapse of a boom brought about by credit expansion," wrote Ludwig von Mises. "The alternative is only whether the crisis should come sooner as a result of voluntary abandonment of further credit expansion, or later as a final and total catastrophe of the currency system involved."

On Tuesday, the S&P rating agency issued a warning. If Japan continues in the direction it is going, it will have Hell to pay. Japan leads the way into the future. And into a monetary minefield. Her current deficit — a record — is more than her tax revenue. And her public debt is nearly 7 times as great. Her feet grow larger.

No natural life survives the lifecycle. And no paper currency standard has ever survived a complete credit cycle. It is just a matter of time until we hear the explosion and see body parts flying.

Regards,

BILL BONNER
The Daily Reckoning

GOLDMAN'S PERFECT QUARTER

By Eric Fry

05/12/10 LAGUNA BEACH, CALIFORNIA

While the European Central Bank (ECB) was busy manipulating markets and making headlines Monday, Goldman Sachs was quietly revealing a different story of market manipulation…or something that walks and quacks very much like a market manipulation duck.

In an SEC filing, Goldman disclosed its first-ever "perfect" quarter. The firm's proprietary trading desk navigated the first quarter without producing a single day of losses, the first time it had accomplished such a feat.

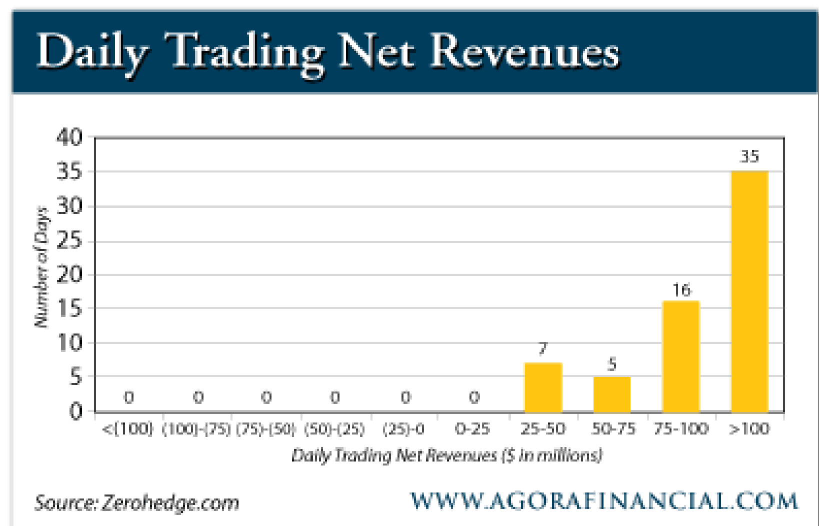
How is this possible? Please permit us to offer a simple explanation: It's not.

Imagine a poker player who competes against skilled competitors for 63 sessions of 6 1/2 hours each, then walks away with a profit after all 63 sessions. Would that be possible? Not unless the poker player is holding a stack of aces up his sleeve. But Goldman accomplished this improbable feat. Its trading desk turned a profit on each and every day of the first quarter — that's 63 trading sessions of 6 1/2 hours each, not counting whatever additional shenanigans Goldman was conducting in foreign markets.

There is something wrong with this picture…very, very wrong. And yet, Goldman trumpets this success as an example of something that is very, very right. "This is the first time we have reported zero trading loss days in a quarter," crowed Samuel Robinson, a Goldman Sachs spokesman. "We believe it shows the strength of our customer franchise and risk management."

An alternative interpretation would attribute Goldman's uncanny trading success to the strength of its "political franchise," subsidized risk-taking and various forms of de facto front-running. If, as James Howard Kunstler asserts, the US stock market has become "a robot combat arena where algorithms battle for supremacy of the feedback loops," Goldman Sachs must control the "Supreme Combat Robot." But we wonder whether this robot is abiding by all applicable securities laws, or vaporizing them with his special "Mega-fraud laser beam."

"If you ever wanted to see what a monopoly looks like in chart form," jokes Tyler Durden from Zero Hedge, "here it is:



"The firm did not record a loss of even $0.01 on even one day in the last quarter," Durden says. "The statistic probability of this event is itself statistically undefined. Goldman is now the market — or, in keeping with modern market reality, Goldman is the 'house,' it controls the casino, and always wins.

Congratulations America: you now have far, far better odds in Las Vegas that you have making money with your E-Trade account."

In fairness to Goldman, JP Morgan also produced a perfect quarter of proprietary trading. Morgan Stanley, the relative loser in the crowd, managed to produce a trading profit on only 93% of its trading days.

"The rape and pillage of the middle class was not isolated to Goldman," Durden continues. "JP Morgan also had a flawless quarter. And if the odds of Goldman making 63 out of 63 are virtually impossible in any universe in which risk goes hand in hand with return (but in those in which monopolies are encouraged and bailed out), the coincidence of the two main firms that control the world having a perfect track record is impossible. And since things in reality tend to be zero sum, when everyone makes money, someone may be tempted to ask the question, just who is losing money? And the answer, dear taxpayers, and [Goldman/JPMorgan] clients, is you."

Perfection is either a religious virtue or a devilish fraud, dear reader; it is never a financial market reality. So there's something a little troubling about the perfection achieved by Goldman's (and Morgan's) trader-bots. In fact, there might be something a lot troubling about their trader-bots, as well as their investment-bank-atrons.

Perhaps the truth will come to light in the fullness of time…or in the details of a future SEC complaint.

Goldman acknowledged in Monday's SEC filing that it still faces a large and diverse number of criminal and quasi-criminal investigations. In addition to a bevy of investigations by the SEC, Goldman is facing detailed probes by the Justice Department, the Financial Industry Regulatory Authority and the UK's Financial Services Authority related to CDO offerings and related matters.

"We anticipate that additional putative shareholder derivative actions and other litigation may be filed, and regulatory and other investigations and actions [will be] commenced against us with respect to offering of CDOs," Goldman's filing somberly disclosed, "[These probes] could result in collateral consequences to us that may materially adversely affect the manner in which we conduct our businesses."

Hmmm…we'd guess that the list of "collateral consequences" would include reducing Goldman's trading success from 100% to something much lower. And since trading revenues accounted for 80% of Goldman's revenue in the first quarter, we'd guess that much lower net profit will be another "collateral consequence."

Regards,

ERIC FRY
The Daily Reckoning

OUTING BEN BERNANKE

By Eric Fry

12/15/10 LAGUNA BEACH, CALIFORNIA

Deception in the financial markets is not always costly, but it is rarely remunerative. Investors cannot afford to ignore this tendency.

Recent disclosures from the Federal Reserve reveal that honesty was one of the earliest casualties of the 2008 financial crisis. These disclosures contain a number of juicy tidbits, like the fact that Goldman Sachs received tens of billions of dollars in direct and indirect succor from the Fed.

Thanks to these spectacularly large taxpayer-funded bailouts, Goldman was able to continue "doing God's Work" — as CEO Lloyd Blankfein infamously remarked — like the work of producing billion-dollar trading profits without ever suffering a single day of losses.

Thanks to the Fed's massive, undisclosed assistance, Goldman Sachs managed to project an image of financial well-being, even while accessing tens of billions of dollars of direct assistance from the Federal Reserve.

By repaying its TARP loan, for example, Goldman wriggled out from under the nettlesome compensation limits imposed by TARP, while also conveying an image of financial strength. But this "strength" was illusory. Goldman repaid the TARP loans with funds it procured days earlier from the Federal Reserve. Then, over the ensuing months, Goldman recapitalized its balance sheet by selling tens of billions of dollars of mortgage-backed securities to the Fed.

And the public never knew anything about these activities until two weeks ago, when the Fed was forced to reveal them.

In a free-market economy, certain precepts seem fundamental…and essential:

1) Taxpayers have a right to know who's spending their money.

2) Dollar-holders have a right to know who's debasing their money.

3) Investors have a right to know who's cheating them out of their money…by hiding the truth.

All three camps have a very large and legitimate bone to pick with the Fed's secret bailouts of 2008 and 2009. But let's consider only the case of the deceived investor…

Secret bailouts do not merely benefit recipients; they also deceive investors into mistaking fantasy for fact. Such deceptions often punish honest investors, like the honest investors who sold short the shares of insolvent financial institutions early in 2009.

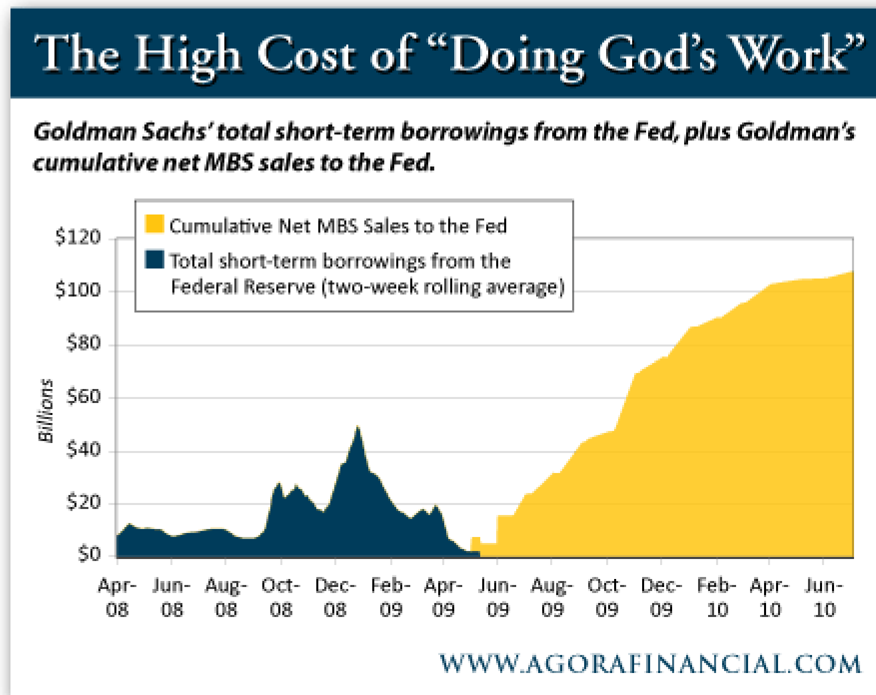
Some of these investors had done enough homework to understand that no private-market remedy could ride to the rescue of certain financial firms. Therefore, these investors sold short the shares of certain ailing institutions and waited for nature to take its course. But the course that nature would take would be shockingly unnatural. We now know why. The Federal Reserve altered the course of nature, and did so without telling anyone.

Many of the investors who sold short ailing financial firms in 2009 were alert to the possibility that bailouts by the Federal Reserve could change the calculus. In other words, the Fed could make the bearish case less bearish…at least temporarily. Therefore, many of these investors studied the Federal Reserve's disclosures, as well as corporate press releases, in order to quantify the Fed's influence.

Based on all available public disclosures, the story remained fairly grim into the spring of 2009. Accordingly, the short interest — i.e., number of shares sold short — on Goldman Sachs common stock hit a record 16.3 million shares on May 15, 2009 — about 3.3% of the public float. But over the ensuing six months, Goldman's stock soared more than 30% — producing roughly $500 million in losses for those investors who had sold short its stock. Not surprisingly, the total short interest during that timeframe plummeted to less than 6 million shares, as short-sellers closed out their losing positions.

Was it just bad luck? Or was something more nefarious at work here?

Let the reader decide. But before deciding, let the reader carefully examine the chart below, while also carefully considering a selection of public announcements from Goldman Sachs during this timeframe.



Based upon contemporaneous public disclosures, Goldman Sachs was "forced" by the Federal Reserve to accept a $10 billion loan from the TARP facility in October 2008. But Goldman's top officers repeatedly — and very publically — bristled under the compensation limits the TARP loan imposed.

Therefore, as early as February 5, 2009, Goldman's chief financial officer, David Viniar, remarked, "Operating our business without the government capital would be an easier thing to do. We'd be under less scrutiny…" And on February 11, 2009, CEO Blankfein magnanimously remarked, "We look forward to paying back the government's investment so that money can be used elsewhere to support our economy."

But at that exact moment, we now know, Goldman was operating its business with at least $25 billion of undisclosed "government capital."

In April, 2009, The Wall Street Journal observed, "Goldman Sachs group Inc., frustrated at federally mandated pay caps, has been plotting for months to get out from under the government's thumb… Goldman's managers have a big incentive to escape the state's clutches. Last year, 953 Goldman employees — nearly one in 30 — were paid in excess of $1 million apiece… But tight federal restrictions connected to the financial-sector bailout have severely crimp the Wall Street firm's ability to offer such lavish pay this year."

On May 7, 2009, a Goldman press release states: "We are pleased that the Federal Reserve's Supervisory Capital Assessment Program has been completed… With respect to Goldman Sachs, the tests determined that the firm does not require further capital… We will soon repay the government's investment from the TARP's Capital Purchase Program."

On June 17, 2009, Goldman finally got its wish, thanks to some timely, undisclosed assistance from the Federal Reserve. Goldman repaid its $10 billion TARP loan. But just six days before this announcement, Goldman sold $11 billion of MBS to the Fed. In other words, Goldman "repaid" the Treasury by secretly selling illiquid assets to the Fed.

One month later, Goldman's CEO Lloyd Blankfein beamed, "We are grateful for the government efforts and are pleased that [the monies we repaid] can be used by the government to revitalize the economy, a priority in which we all have a common stake."

As it turns out, the government continued to "revitalize" that small sliver of the economy known as Goldman Sachs. During the three months following Goldman's re-payment of its $10 billion TARP loan, the Fed purchased $27 billion of MBS from Goldman. In all, the Fed would purchase more than $100 billion of MBS from Goldman during the 12 months that followed Goldman's TARP re-payment.

Did private investors not have the right to know that the Federal Reserve was secretly recapitalizing Goldman's balance sheet during this period? Did they not deserve to know that the Fed's MBS buying was producing Goldman's "perfect" trading record during this timeframe?

Yes, would seem to be the obvious answer.

"There's a saying in poker: If you don't know who the patsy is at the table, it's you," observes Henry Blodget, the once and again stock market analyst, "Next time you feel like bellying up to the Wall Street poker table, therefore, ask yourself again who the sucker is."

To be continued…

Regards,

ERIC FRY
The Daily Reckoning

THE GREAT GRAIN ROBBERY

By Chris Mayer

08/09/10 GAITHERSBURG, MARYLAND

In 1972, Russia's wheat crop failed. Russia had to dip into the global grain markets to meet demand. Before Washington knew the plight of its Cold War adversary, Russia bought up all of the surplus wheat in the US. Dubbed "The Great Grain Robbery," Russia's purchases sent grain prices soaring around the world.

Grain prices soon hit 125-year highs in Chicago. In a 10-month span, soybeans went from $3.31 to $12.90 a bushel. Food prices around the world rose 50% in 1973.

Some of the old traders are wondering if it's happening all over again.

On Thursday, wheat prices hit $7.25 a bushel, a 71% increase since the June low. It's the biggest one-month jump in three decades. The last time prices got this high was during the food crisis in 2008. (Wheat prices topped out at $13 then.) You may recall the ensuing food riots across the globe from Haiti to Egypt to Bangladesh.

Russia is again the center of attention. The worst heat wave and drought in a century has baked crops to a crisp in Russia, Ukraine and Kazakhstan. These three are among the biggest exporters of wheat in the world. They provide critical food supplies to the largest importing regions in the world — the Middle East and North Africa.

In some areas of Russia, the heat and lack of rain killed half the crop. Withered wheat stalks litter the usually fertile fields along the Volga River. This is one of the world's breadbaskets. Russia and the Ukraine alone were supposed to supply 18% of the world's wheat. Now it looks like Russia's exports could drop to zero.

Originally, forecasts called for 81—85 million metric tons of wheat, rye, barley and other crops. Now the Russian Grain Union says 72—78 million. Skeptics abound on that number, which looks too optimistic. The head of Glencore, the giant grain-trading house, thinks the real number will be closer to 65 million tonnes.

Holy smokes, I hear you say. Yes, it is bad. But it gets worse.

It's so bad that Glencore begged Moscow to ban the export of grain — as it did in the food crisis of 2007-2008. That's because Glencore thinks that trading houses around the world won't be able to fulfill their contracts to deliver grains. When Moscow bans exports, then trading houses can declare *force majeure*, a clause that allows them to escape these deals. On Thursday afternoon, Russia did just that.

Russia's crop failure comes at a bad time. Most of the world's wheat exporters are having problems. The Aussies battle locusts. The Canadians suffer from too much rain. Even European farmers struggle with drought. The Italians' beloved tomato crop will come up 10-15% short this year. Belgian potato farmers say drought will nick their yields. Polish fruit orchards will be down by a fifth. The French wheat farmers curse the skies as their wheat fields shrivel in the sun. The English sheep farmers, short on hay and grass, have sold their flocks early. Even the Dutch expect 10% fewer tulip bulbs this year.

The market is tightening and there are ripple effects across the globe. Over the weekend, Egypt bought

180,000 metric tons of wheat — its second purchase in two weeks and more than expected. Egypt is the world's largest importer.

One key difference this time around compared to 2007—08 is that inventories are in better shape — at least on paper. But I have to wonder. In India, government officials have let their once-plentiful grain stockpiles rot in the fields. India thinks food is too important to leave to the private sector. The government is in charge of food stockpiles. In a common display of government folly, bureaucrats, apparently, threw thin plastic sheets over these supplies and let them sit in the fields to rot and wash away in the rains.

The savior in all this looks like it will be the US. Stockpiles here should be healthy, at almost 30 million tons.

It seems like only yesterday the market took a cheerful look at the grain markets and said all was well. Global harvests looked like they were going to put in another record. I warned that nothing counts until the crops hit the bin.

Now that record harvest is gone, kaput, in just a month's time.

So what are the effects of all this? Expect ripples across the food chain. Prices for everything will rise. Prices for cocoa, coffee and pork bellies have already gone up. Beer brewers will pay more for barley, as the barley crop will be down by 20%. All flour-related products — breads, biscuits and the like — will be more costly. As *The Financial Times* reported, "Food executives are also warning about surging prices for feeding and malting barley, which could push higher the retail cost of products from poultry to beer."

How will this go over with the already rattled consumer in a fragile recovery? Many companies seem reluctant to raise prices. As Domino's CEO said, "Consumers are still hurting out there." Many companies hedge their exposure to food commodities, but if these prices continue to climb, it could crimp their bottom lines.

Meanwhile, the fertilizer stocks have rallied. From July 6 lows, **PotashCorp (NYSE:POT)** shares are up 34% and **Mosaic (NYSE:MOS)** is up 31%. The logic is simple enough. High grain prices inspire more planting. More planting means more fertilizer use. Already, as we've seen, volumes are snapping back in the fertilizer business. In their last quarterly reports, both Potash and Mosaic doubled their profits from a year ago.

Recent events show you, once again, the challenges in meeting the world's demand for food. The food crisis of 2007—2008 was not a one-off event. It was a warning. And today, we see again how quickly and easily we can get to another food crisis.

Hang onto those fertilizer stocks.

CHRIS MAYER
The Daily Reckoning

THE BEST WAY TO BET ON AMERICA

By Chris Mayer

08/31/10 GAITHERSBURG, MARYLAND

There is lots of ugly economic news out there, but one key bright spot is world trade. In the US, one particular industry will enjoy windfall profits from exports this year. That industry is agriculture.

In 2009, world trade took a big hit in the wake of the financial crisis. Global exports fell 12%. Governments tried to protect their home teams and a wave of tariffs and other protectionist measures followed. This was what happened during the Great Depression, too, as the Smoot-Hawley Tariff Act raised tariffs on more than 900 goods.

As a result, world trade sank by 25% during the early years of the Great Depression. But that hasn't happened this time around. In fact, the emerging economies of the world are already exporting and importing more than they were before the 2008 crisis.

In the US, a big winner is agriculture. US farmers are looking at record exports of $14 billion this year. The heat wave frying European crops (in particular Russian crops) helps that. But even before the drought, in just the first four months of the year, the US enjoyed a $4 billion trade surplus in agriculture. For years, the US has been the world's largest exporter of corn, wheat and soybeans. It is a leading exporter of many other agricultural goods.

Today, US farmers are cashing in on demand from emerging markets, particularly Asia. China has been trying to build self-sufficiency in food. But it has a long list of hurdles, chiefly a shrinking supply of arable land and water shortages. Also, the median Chinese farm is less than one acre. This hinders the economies of scale that come from big farms.

In any event, US farmers are sending more and more goods to the Far East. So perhaps it is no surprise that first US grain export depot built in 25 years is not on the rim of the Gulf of Mexico, but on the Columbus River in Washington state, about 60 miles from the Pacific Ocean. The new Port of Longview grain terminal will handle 8 million tonnes a year. (The Port of Louisiana is the still the top grain export hub in North America, although California recently passed Louisiana as the top point of departure for US cotton.)

We'll need more depots like the new Port of Longview. American infrastructure has had a hard time keeping up with surging ag exports. Outside of Seattle, for instance, 80 rail cars filled with dried peas sat for three weeks on the train tracks waiting for a ship to unload them.

It's not an isolated example. A soybean exporter in, say, Minnesota, could normally ship 40 tons of beans to Malaysia in 15-20 days. With recent bottlenecks, it took 60 days. There are plenty of stories of everything from hazelnuts to soybeans tied up in shipping bottlenecks for weeks.

The US isn't used to such export strength. As *The Wall Street Journal* noted, "America's trading infrastructure grew imbalanced, with a huge capacity to import goods but an attenuated capacity to export them. Loads of grain or corrugated paper leaving the US took a back seat to the DVDs and toys coming in."

That's the problem. For too long, the US economy has been all about overindulged consumers. There were too many stores selling too much junk, too many houses people couldn't afford and too much debt on

all of it. This part of the economy grew to grotesque proportions, stimulated by easy credit.

But underneath it all, there is still the old world of making things. In my last issue of *Capital & Crisis*, I wrote about the surprising strength of American manufacturing. American agriculture is also a bright star in the US firmament and an appealing place to invest.

The future of American agriculture is very bright indeed, as a recent report from the FAO makes very clear. You can find the report, entitled "How to Feed the World in 2050," right here.

This excerpt from the report sums up the investment case:

> *Even if total demand for food and feed grows more slowly [over the next 40 years], just satisfying the expected food and feed demand will require a substantial increase of global food production of 70% by 2050, involving an additional quantity of nearly 1 billion tonnes of cereals and 200 million tons of meat.*

In addition to the usual assortment of resource issues such as water and soil and climate change, there are some topics you wouldn't think of otherwise, such as biodiversity. Take a look at this:

> *The gene pool in plant and animal genetic resources and in the natural ecosystems which breeders need as options for future selection is diminishing rapidly. A dozen species of animals provide 90% of the animal protein consumed globally and just four crop species provide half of plant-based calories in the human diet.*

I won't highlight too much of this report, because I'd be repeating myself. If you've read my observations for the last year or so, you know all you need to know about what's happening in the world's market for food. Still, if you need an overview, the FAO's report covers most of the issues.

Farmers with windfall profits will have more money to expand production next year. That's more money for things such as seed and tractors and fertilizers. As long as its export markets remain open, US farmers should have a great year.

As a long-term investment, **Lindsay (NYSE:LNN)** should benefit as farmers spend some of that money on irrigation equipment. The economics are attractive, as the machinery significantly boosts yields and makes more efficient use of water.

I also like the non-US ag plays, because high crop prices and the rising demand for food bode well for agriculture around the globe. In Canada, **Viterra (TSX:VT)** is a good long-term holding. It should rebound after excessive rains in Western Canada hurt grain production. In China, **Migao (TSX:MGO)**, makes fertilizers for high-end crops such as fruits, vegetables and tobacco. It's growing capacity, and as the financials reflect the additions, it should report good earnings.

Those are just a few. There are plenty more. The business of producing food should continue be a good one.

CHRIS MAYER
The Daily Reckoning

GOVERNMENT STIMULUS: THE MULTI-TRILLION-DOLLAR FREE LUNCH

By Joel Bowman

04/15/10 TAIPEI, TAIWAN

Milton Friedman got it wrong; there IS such a thing as a "free lunch." Just ask any mainstream economist.

These folks relish the opportunity to beguile anyone — whether or not they are possessed of the time and inclination to listen — with a litany of magic public programs, all designed to serve up the gratis grub. The unspoken dilemma, alas, is that "free" lunches are usually so expensive that neither nation nor individual can ever reasonably hope to afford them. Invariably, as those in the European welfare utopia are lately discovering, "free" lunches often end up costing unsuspecting diners their breakfast and dinner money, too…just as the free-market economist had warned.

Deficit spending…market meddling…price controls…subsidies…bailouts and boondoggles of every stripe… You name it; the *teleconomist* has an ill-conceived sermon for credulous acolytes everywhere. Let's start at the end of the beginning of the end…

Having totally misread the very real crisis of *over*confidence that propelled the US economy headlong into the current and ongoing economic correction in the first instance, would-be do-gooders and vote-buying politicians have since wasted no time in treating what they then misdiagnosed as a "crisis of confidence" in the markets. Their first mistake in treating the patient, as usual, was to ignore the fundamental precept of medicine: Primum non nocere. (First, do no harm.)

More maniac with machete than surgeon with scalpel, Washington, DC has poured trillions of (taxpayer- and as-yet-unfunded) dollars worth of nonsense nostrum onto a wound that, for all intents and purposes, was self-inflicted. From the disastrous Troubled Asset Relief Program of the previous administration to the current administration's $862 billion stimulus package and beyond, it appears the spendthrifts on Capitol Hill know no bounds.

Depending on where you get your figures, the stimulus syringe has thus far pumped some $10 trillion of elixir into the veins of the United States economy. And for what? Let's start with Obama's Jobs Program. His Organizing for America website, claims that the American Recovery and Reinvestment Act will "save or create 3.5 million new jobs."

Even taking last month's goosed jobs report at face value (a generous concession given that, after accounting for birth/death "adjustments," temporary census jobs, "bad weather" and those magically disappearing "discouraged" workers, the economy actually LOST jobs), the unemployment rate is still *officially* hovering a shade below 10%. Unofficial figures — i.e., reliable ones, such as those from John Williams' Shadow Government Statistics — have it at more than twice that (21.7%).

The same administration gloats that its new housing program "has stabilized the market, preventing more foreclosures and helping millions more re-finance at historically low mortgage rates."

But data supplied by RealtyTrac shows that that foreclosure filings — default notices, scheduled auctions

and bank repossessions — were reported on almost a million properties in the first quarter, a 7% increase from the previous quarter and a 16% increase from the first quarter of 2009. The Congressional Oversight Committee, charged with monitoring TARP activity, yesterday described the administration's Home Affordable Modification Program, which has a budget of $75 billion, as being totally ineffective.

Meanwhile, as "subsidy program this" and "stimulus measure that" have failed abominably, the nation has run up record debts and deficits. The national debt stands today at an unprecedented $12.8 trillion dollars. That's over $41,000 per person, or more than $116,000 per taxpayer. Total Debt (including that held by individual households, businesses, financial institutions and local, state and federal government) now exceeds $55 trillion, or just over 180,000 per person. Unfunded liabilities (as yet unallocated funds to pay for Medicare, Social Security, etc.) are fast approaching $110 trillion. With total national assets weighing in at just $72 trillion, one might fairly say the United States is "underwater" on its loan obligations.

Add in another 40 million Americans on food stamps and a debt-to-GDP ratio of 89% and the cost of a "free" lunch begins to look rather steep indeed.

A thoughtful person might be forgiven for asking the obvious question here: Why is the government — i.e. the least productive institution in any economy — charged with the duty of stimulating anything? Everyone knows DC is a veritable cash vortex. When it comes to vacuuming scarce resources from those most in need, nothing sucks quite like bureaucracy.

So how do they get away with it? Why are people sending in their tax dollars instead of rioting in the streets? Why do swindled citizens applaud trillions squandered on programs to buy small business cyanide and economy-sized nooses? The trick, as usual, lies in a carefully plotted economic public relations campaign. It's in the way these schemes are sold.

As George Orwell once noted, "Advertising is the rattling of a stick inside a swill bucket." People seldom riot while waiting in line for a free lunch. Recognizing this, politicians and their lackey economists go about convincing people that a nation really can spend its way to riches.

In this manner, the Keynesian economic theory of interventionalism enjoys a growing popularity among those it will eventually ravage. The hungry man will do well to remember, therefore, that the only thing a universal "free lunch" can reasonably guarantee is mass starvation.

JOEL BOWMAN
The Daily Reckoning

THE INCREASINGLY COMPLEX RELATIONSHIP BETWEEN MAN AND STATE

By Joel Bowman

01/11/11 BUENOS AIRES, ARGENTINA

"Whatever is true in one form of words, is true in every other form of words, which conveys the same meaning." — *John Stewart Mill*

Few and confused are the pundits lauding the vitality of the American economy. Worse still, many and confused are those who offer solutions.

More often than not, situations brought about by the wasteful ineptitude of the state are met with calls for more state involvement, as if a double dose of poison will somehow dilute the effects of its initial involvement. We see this everywhere today, as central banks shackle their present and future citizens with more debt in order to treat a problem caused by just that: too much debt.

We offered a broad-brush overview of the nation's general trajectory in the Weekend Edition:

"According to the official figures, the national debt currently stands at $14.01 trillion dollars. That's more than $45,000 per citizen, or almost $127,000 per taxpaying American. If you add in debt held by households, state and local governments and financial institutions, that number (the total US debt) blows out to well over $55.5 trillion, or more than $680,000 per average family. How much in savings does the average family have to offset this amount? $7,918.

"Letting these figures run for a few years," we continued, "based on their current trajectories, we see that, in 2015, the national debt explodes to over $22 trillion. Per citizen, we're now looking at close on $70,000, or $184,000 per taxpayer. Total debt, as measured above, has now grown to over $63 trillion and the average family's share of that stands at nearly three-quarters of a million dollars. Average savings per family, by the way, have now fallen to just $2,791."

Remarkably, the general consensus on how best to overcome this catastrophic trend invariably involves, in some form or another, additional government intervention and, by extension, spending. The debate appears centered on how best to manage this agent of coercion, the state, rather than on whether we need it at all. Indeed, the mere mention of free-market principals invokes fear, uncertainty and, usually, an abrupt end of the discussion. But look at the facts:

Back in 1903, government spending in the US, expressed as a percentage of total GDP (leaving aside for a moment the spurious nature of that measurement), weighed in at a paltry 6.8%, or $25.9 billion dollars. Although the state's "mission creep" tended steadily higher over the next couple of decades (with an conspicuous spike circa WWI), that percentage remained in or around the low teens until the Great Depression, when the combined efforts of President Hoover and FDR's New Deal effectively doubled state involvement. By 1940, government spending accounted for one-fifth (20.14%, or just over $100 billion) of the nation's GDP. Fast-forward to 2010 and spending by the state had rocketed to over 43% of the nation's total economic output.

We'll leave it to the reader to decide whether the nation's star is today rising or setting, whether her

future looked brighter at the beginning of the 20th or 21st century.

Of course, arguments from effect tend to be cumbersome and problematic, due in part to the unreliability (not to mention the sheer volume) of statistics supporting this or that outcome. "Lies, damned lies and statistics," goes the old saw. For every honest, objective, impartial statistician, there are ten million idiots who believe his lies.

It is perhaps more helpful, therefore, to return to basic, first principals. Such is the politico-doublespeak of our time that it seems fit to remind ourselves once in a while, if not constantly, of the true nature of things.

If, as William Shakespeare assures us, "a rose by any other name would smell as sweet," then the law of identity to which he refers leaves us with more than just springtime aromas and romantic iambic pentameter. If, as that law states, A really is A (and A only), then we must not forget to apply this cornerstone of logic elsewhere — even, and especially, to those things which omit a decidedly less alluring scent.

With this in mind, let's revisit the relationship between man and the state that governs him.

The state, by its very nature, is an agent of force. Allen Thornton puts it thus is his essay, Laws of the Jungle:

"What do you think 'govern' means? It doesn't mean 'suggest' or 'implore.' It doesn't mean two people sitting down, talking it over, and compromising. 'Govern' means 'force' and 'force' means 'violence.'"

Concludes Thornton: "When you advocate any government action, you must first believe that violence is the best answer to the question at hand."

While it is true that a great many individuals voluntarily enable it, that fact remains majority rule does not turn fallacy to truth. It does not morph debt into credit, liability into asset, nor wrong into right. A rose is a rose ("is a rose is a rose") whether the majority believes it to be so or not. Likewise, acts of force are exactly that, regardless of how many people vote for them and whatever name they are so given.

The expropriation of private property — which in any other domain is punishable by the very institution that holds a monopoly on such an action; the state — is commonly known as theft. Of course, when the state commits such an act, on threat of imprisonment, fine or other use of force, we refer to it by a subtler label: tax. Let us not be confused here. There exist only two possible forms of wealth transfer — one voluntary, the other coercive. One can no more be "voluntarily taxed" as one can be "partially pregnant." A = A, no more, no less and no other.

Might the problem, therefore, be the agent of force itself — the ever-expanding, increasingly costly, over-reaching arm of the state? And, if so, why are we debating how best to manage it instead of working to rid ourselves of its existence?

To paraphrase that long dead poet: What's in a name? That which we call force, by any other name still robs us of our liberty.

JOEL BOWMAN
for The Daily Reckoning