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Governments Are Born Stoic And Die Epicurean

The phrase modifies an observation by Will Durant, who was an historian practical enough to appreciate the irony often found in history. More specifically, the long history of those who keep coming up with claims that financial history can be successfully altered provides exquisite irony. Over and over again.

In response to the liquidity crisis in the early 1620s, Edward Misselden, personally decided that throwing credit at a credit contraction would make it go away. Despite 400 years of history laughing at this notion, Chairman Bernanke is the latest acolyte of the desperate need to do something about an almost typical post-bubble contraction.

This time around, interventionists have more than bet the farm on the ancient notion that throwing credit at a contraction will make it go away. Misallocation of capital is the problem, not the solution. This brings us to the greatest irony of all. Only those who have not thoroughly read financial history are capable of concluding that financial history can be altered.

Two of the longest running policy blunders will help make the point. In the late 1940s as long-dated treasuries rose above 3 percent there was a concerted effort to keep rates down. The theory was that the Treasury would buy enough bonds out of the market that rates could be lowered. As the saying goes "*Nonsense so blatant that only an intellectual would fall for it*".

Not too daunted by trying to keep rates at 3 percent, a massive effort was made in the 1960s to keep rates from rising above 6 percent. Despite being aggressively promoted as "Operation Twist" and due to the currency issued rates soared to 15 percent in 1981.

The next monstrous failure was the long official bear raid on gold that culminated with the then Chancellor Brown selling UK reserves down to the low at 252 dollars. The recent high has been 1249. For a grand name, perhaps the failed policy could be called "Operation Barbarous Relic".

How could such blunders be made?

Let me illustrate with a traveling salesman story from the 1930s:

This takes place as a guy who knows little about cars is driving along a remote country road. Naturally, his troubles begin as daylight is fading and eventually the engine dies.

Compelled to do something, he lifts the hood and with a dim flashlight stares at the engine. Suddenly from the field beside him, he hears a very deep voice saying, "***Tap the fuel pump with your flashlight and if it goes click, click, click, you'll get your fuel pressure back.***"

Startled, he looks into the gloom and all he sees is a horse. Nevertheless, he tries it and before driving away looks around again and sees nothing but the horse.

Somewhat shaken, he stops at a tavern to calm his nerves. A local sitting next to him at the bar inquires about his distress and he tells the story.

The local, after a considerate pause, asks him what colour the horse was.

Our friend says "***white***". The local says "***You're lucky, the black horse knows diddly-squat about cars.***"

The guys running things know diddly-squat about the markets.

Particularly that the history of financial manias shows a methodical transition from boom to bust. As Fed chairman, Alan Greenspan, naively advised that a bubble could not be identified as such until it was over. The next official blunder was when a bubble was finally recognized judicious application of yet more credit would prevent serious adversity.

Even cartoonists during the 1720 bubble had no problem calling that speculative fury a bubble.

To be serious, the mob of policymakers are in hot pursuit of another major blunder which is "Stimulus", or as the Trillion Dollar Euro bailout is being called "Shock and Awe". With little doubt this will eventually be seen to be just as foolish as "Operation Twist" or the mindless bear raid on gold.

The reason why this mob of policymakers is in hot pursuit of yet another blunder is that from time to time society needs a "philosopher king". What's worse – there will always be someone who would be a philosopher king and the charismatic Obama literally forced Germany to go along with the scheme to bailout Greece. As Zorba said in the movie, this will be the "*full catastrophe*".

There is long history to such disastrous leadership.

In the 1970s, Barbara Bell published some papers on drastic setbacks in ancient Egyptian central government under the relentless pressure of declining harvests from declining Nile floods. She pointed out that the pharaoh was a type of divine king who "*holds his sovereignty by virtue of his magic powers*". Sounds like the regard for Greenspan and Bernanke.

At the height of the manias in 1873 and in 1929, the commanding skills of the treasury secretary were celebrated. This was the ability to buy bonds out of the market to prevent bad things from happening, or when a crash is on to prevent it from running forever. The amazing thing about the body of interventionist thought is that it does not understand that markets clear – eventually and always – no matter how arbitrary governments are.

Of course, the power behind the pharaoh was a priesthood of advisors. Who, as poorer seasonal floods brought hardship and eventually famine would promote a new pharaoh who was sure to fix the problem. What follows bears upon the fall of the Berlin Wall in 1989.

The ancient governing classes were protected by palace guards, who were not of the governing classes. With mounting popular dissatisfaction the guards joined the public and laid down their spears. Smaller and more fractured central government followed.

Authoritarian politics thrives during booms and loses ground during contractions. There was an important high in commodity prices in 1988 and the subsequent decline signaled the possibility of change. The Berlin Wall came down in November 1989 registering extreme dissatisfaction with corrupt and fat government. The underlying condition was that the guards protecting the governing classes were of the oppressed public and laid down their rifles when East Germans wanted to go shopping in West Germany. With this the dictator, Erich Honecker, had to change the law permitting the state to murder Germans when they wanted to go to another part of Germany.

That attempt to reform a murderous police state saw no bloodshed and has been remarkably successful. It marked the end of a long and particularly nasty experiment in authoritarian government.

As ugly as they are, there has been only three great experiments in bullying government. In the Third Century Rome was corrupted from a republic to a brutal police state. All it took was two great wars with the state not relinquishing its authority in between.

In the Sixteenth Century the prevailing organization was the Catholic Church and it was also corrupted by authoritarian ambition.

In the Twentieth Century, bureaucracies and their politicians in all countries became ambitious. Inspiration was provided by Marx, Lenin, Roosevelt and Keynes. Ideas of command and intervention are nothing new and one of the great examples was the New Deal run in Old Rome. Price and wage controls were backed by the sword. In a series of crackpot controls, Rome was "New Dealed" to death.

The other characteristic of each Tyrannical Century was chronic monetary depreciation. Tribute and taxation, even confiscatory taxation, could not satisfy the demands of unlimited government.

As if a century of intrusive and at times murderous governments is not bad enough. Each has been accompanied by chronic inflation. In the Third Century the best estimate is a forty-times increase in basic prices. In 1900, England was the senior economy and by late in the century prices had been inflated by a factor of forty.

There seems to be two kinds of severe inflation. Those that afflicted the Weimar Republic, or banana republics. Then there is the one that afflicts the senior economy. In their own way, each can be considered as a hyperinflation.

But before expanding this, I would like to address some comments to the liberals at this meeting, who may be upset with having Roosevelt and Keynes mentioned with Marx and Lenin.

Murray Gell-Mann, the modern physicist, crafted a remarkably elegant definition of an authoritarian or totalitarian system:

"That which isn't prohibited is compulsory."

And that pretty well describes the intrusive politics of Marx and Lenin, Roosevelt and Keynes and any other charismatic missionary of big government.

There is another common feature. Each great experiment lasted for around one hundred years. Ours started in the early 1900s which was the height of disciplined classical liberalism. In so many words, limited and therefore stoic government. It was also the end of that Great Depression and with the prospect of a long expansion ahead there would have been some trend towards collectivism of some kind.

But, even with knowledge of previous tyrannical centuries, there is no way of knowing that the next one hundred years would provide such a political horror show.

Fortunately, there is enough of a recurring pattern to recognize the symptoms of ending action. The main ending event is that even with the ability to depreciate the state will run out funds. As attributed to Margaret Thatcher, ***"Eventually, socialists run out of other people's money"***.

Our research team's approach is to anticipate change in financial markets. On April 22 we published our check list for an important top.

It seems appropriate to make a check list for the end of a Tyrannical Century.

First point, has government been expanding relative to GDP? Yes – in 1900 all levels of government were taking about 5 percent of GDP. Stoic was good, and now the take is around 40 percent, with the current administration growing at a destabilizing rate. This is becoming very much "in-your-face" as the private sector has been suffering rising unemployment and lower wages as government expands its employees and their wage rates. Government is now epicurean.

At the end of the Third Century, the population of Rome itself was almost one million, with almost 500,000 on welfare. Rome's corruption from a republic to a police state was assisted by confiscatory taxation and chronic depreciation. Much of it to support a greedy bureaucracy and its clamoring dependents. Quite like the Twentieth Century.

Second check, in the past hundred years the trend has gone through and beyond the brutality of Orwell's "**Big Brother**" in Russia to the bitter comedy of "**Animal Farm**" with the current administration.

Third, have there been signs of political excess? The left is saying that America has become ungovernable. No, it is the administration that has become ungovernable. Naturally, the Democrats and the mainstream media consider that energetic opposition is seditious or rebellious. I wonder if political scientists are working on a term to describe a popular movement determined to get the federal government back to the constitution?

Fourth, each great experiment in central control has ended when the markets would no longer tolerate deliberate currency depreciation, dislocating intrusions and confiscatory taxation. Markets are no longer tolerating endless debt issue. This is now the case for sovereign debt and will soon be the case for more senior countries.

There is an old saying from the old and notorious Vancouver Stock Exchange, and is that so long as it is going up the public will believe the most preposterous story. Then, when the price fails belief fails and is followed by remorse.

It is not too big a step to consider that so long as government credit is expanding too many will believe in its bounty and blessings. Or will be complacent. However, the changes in the financial markets that began in

2007 are reducing the market's abilities to fund ambitious government. In April our work noted the change in the money markets that would soon afflict corporate bonds, stocks and commodities.

This week's setback is likely the next step in the typical post-bubble credit revulsion, which on the near term is an impartial adjudication on the great European bailout. President Sarkozy's notion that a Trillion dollar fix would "*confront speculators unmercifully*" reveals bureaucratic hostility to market forces rather than understanding.

With considerable volatility, global markets are step by step taking away the ability to fund reckless government. In the US, the Tea Party movement is beginning to instruct Washington on the abuse of the thrifty tax payer. As the success of the movement builds, the Tea Party will find its leader. In the 1770s it was George Washington; a well-to-do farmer. Perhaps on this reformation the leader could be the equivalent of Lech Walesa in Poland; a stalwart from the union movement.

By way of summary, the forces in play are immense, and a hundred years of unfettered credit expansion culminated in the biggest financial mania in all of history. Going into the top of the bubble the establishment ignorantly boasted that the false prosperity of the boom was sustainable and problems could be isolated. The rebound out of the initial crash has been natural and exaggerated by the "stimulus" laid on by ambitious leaders.

It seems very likely that the big "Stimulus" will be as successful as earlier grand schemes such as "Operation Twist" to keep rates from rising to 15 percent, or the endless bear raid on gold now named "Operation Barbarous Relic".

The markets can no longer afford the debt that was issued during the voluntary mania and will not be able to service recent excesses that have been coercively imposed. All five previous post-bubble contractions changed the world and this one will continue to the point of forcing a bear market in ambitious government. Think of it as a bear market for epicurean governments.

On the positive side, the thwarting of centrist ambition will release another renaissance of thinking independent of serving statist ambition. In the

Sixteenth Century, ambition often use astrology to back its weighty decisions and as the one of the biggest banks in history noted in a few of its market letters – it was mainly the state that funded alchemy.

Over time, all the institutions of authority were examined. Impartial inquiry turned astrology into astronomy and alchemy into chemistry. Eventually, independent research will fully understand that interventionist economics is just a front for the ancient need for astrology and alchemy.

History is reentering an exciting period for the individual and regionalism. It will be challenging and rewarding for thrift and prudence. It will also be intellectually rewarding for those who are independent of state corruption.

What about those who are eagerly predicting the collapse of America? They will be the losers, as "America" has been the recent holder of the baton of freedom and prosperity. Originally it was held and passed on from Greece to Rome. As Rome became corrupt the baton moved to Northern Italy as the financial center also moved to Northern Italy. In the Fifteenth Century the money center voluntarily moved to Augsburg, a great silver mining camp – as was ancient Athens.

Compelled by trade, it moved to the Netherlands with Bruges, Antwerp and Amsterdam. Then the baton of freedom and prosperity moved to London and New York.

America is unlikely to collapse and be encompassed by unrelenting globalism. That is the old story.

Quite likely it will be the long experiment in authoritarian government that is exhausting itself as it demands ever-greater amounts of money as politicians jump from one crisis to the next. Quite likely this will also exhaust the thrifty taxpayer and markets that will eventually become increasingly critical of financial adventurers in policy.

As in past examples, the trappings of big government that have been so un-American will be thrown off.

These conclusions may prompt incredulity, but as we used to say on the old Vancouver Stock Exchange – ***"Remember where you heard it."***