Redstone Advisors

Economic and Market Review

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"People gave ear to an upstart astrologer who strove to show that the earth revolves, not the heavens or the firmament, the sun and the moon.... This fool wishes to reverse the entire science of astronomy; but sacred Scripture tells us [Joshua 10:13] that Joshua commanded the sun to stand still, and not the earth."

Martin Luther, Protestant Reformer

There was a time in the history of scientific thought, when the movements of the heavenly bodies were explained by the "geocentric" theory of the solar system. This theory, which originated with Aristotle and Ptolemy, held that the earth was the center of the universe, with the sun, moon and planets dutifully orbiting around a stationary earth. Happily, after 1500, years the dogma of geocentricity which held sway throughout the Dark Ages was finally swept away during the Renaissance in favor of the correct theory of heliocentricity, which recognizes the sun, not the earth, as the center of the solar system. This theory was championed by Nicolaus Copernicus, a man who in our opening quote, was accused of great impiety for *"putting the earth in motion"*. What we find most revealing about this snippet from history, however, is not that the wrong theory was embraced, nor even the extraordinary length of time it was held to be true. No, the real insight here concerns **popular delusions** and how easily the masses are led astray because ultimately, as Goethe observed, *people believe what they wish to believe*.

More than any other branch of the science, popular delusions have been the mainstay of political economy. In fact no long-time reader of our work can have failed to apprehend our identification of those emissaries of the *"state"* which Hayek referred to as the **'stabilizers'**, as being the fountainhead from which most of this error originates. And no more heinous sophistry has ever sprung from the dismal science than the heresy known as the Keynesian theory of economics, an economic philosophy of **government interventionism** and **monetary inflation**. The entire Keynesian heresy rests on a central paradox: ***that by impeding the central mechanism of the free market we can restore its' prosperity***. As we discussed previously, **"scarcity**" is the natural arbiter that drives the prioritization of wants, out of which arise subjective values which become the basis for the mechanism by which the free market works – **prices**. If an economy is contracting, and unemployment is high, it means that some prices are far out of balance with others. As a result, some companies and some industries may be doing well,

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while others may be in desperate straits. What is needed is an adjustment of particular wages and particular prices within and between companies, industries, and economic sectors. And these adjustments must be ongoing and unimpeded, as each change will lead to another in a vast **feedback loop**. Yet aparadoxically the Keynesian **"remedies**" for economic downturns act to **paralyze this process of price adjustment** and so prevent prices from adjusting to market clearing levels. However, once we realize that government is not an institution dedicated to the common good and the general welfare, but is rather a group of individuals devoted to furthering their own economic interests, the paradox quickly resolves itself. For as Frederic Bastiat once so poignantly observed, *"government is that fiction through which everybody endeavors to live at the expense of everybody else."* And there is only one way to '*square that circle*', and that is to employ strong delusion.

And nowhere has that delusion been stronger than in the stabilizers' promotion of the fantastical notion of *"spending our way out of a recession"* through the magic of the mythical **Keynesian multiplier**. *"There has been,"* Keynes said, *"a chronic tendency throughout history for the propensity to save to be stronger than the inducement to invest. The weakness of the inducement to invest has been at all times the key to the economic problem."* According to Keynes then, unemployment comes not from the **disarrangement of prices**, brought on by government interference and intervention, but rather from **oversaving** and **underinvestment**. As such when unemployment appears the only cure is for government to step in and spend money. Armed with Keynes' famous money multiplier, the 'stabilizers' would be able to precisely determine just how much **dissavings** the government would have to engage in to create full employment. Interestingly, the first opportunity to intentionally apply Keynes' economic **theory of abundance** came with the implementation of the New Deal by President Roosevelt during the Great Depression. Unfortunately the Keynesian miracle failed to materialize. **Stones *were not* turned into bread** and unemployment was not cured. This disappointment, according to the faithful, however, was not owing to any fault of the theory but was due solely to the fact that the deficit spending **did not go far enough**. *If the people suffer, it is because there is not enough money. We must make more!* How much more?

If the experience of the most recent recession is any indication, the answer is "**whatever it takes**". Referring to **Figure 1**, we have reproduced a table that originally appeared in *Grant's Interest Rate Observer* which tabulates the size of the **government stimulus** employed in each of the last 13 recessions. The table denotes the NBER-determined peak (start) and trough (end) dates, the respective length of each recession in months, and the cumulative impact of the recession on GDP.

Figure 1

What Government Did - And Didn't Do

Last 13 Recessions

Peak	Trough	Length	GDP Changed	Stimulus as % of GDP: Monetary	Fiscal	Combined
Aug-29	Mar-33	44	-27.0%	3.4%	4.9%	8.3%
May-37	Jun-38	13	-3.4%	0.0%	2.2%	2.2%
Nov-48	Oct-49	11	-1.7%	-2.2%	5.5%	3.3%
Jul-53	May-54	10	-2.7%	0.0%	-1.4%	-1.4%
Aug-57	Apr-58	8	-3.2%	0.0%	3.2%	3.2%
Apr-60	Feb-61	10	-1.0%	0.7%	1.0%	1.7%
Dec-69	Nov-70	11	-0.2%	0.3%	2.4%	2.7%
Nov-73	Mar-75	16	-3.1%	0.9%	3.1%	4.0%
Jan-80	Jul-80	6	-2.2%	0.4%	1.1%	1.5%
Jul-81	Nov-82	16	-2.6%	0.3%	3.5%	3.8%
Jul-90	Mar-91	8	-1.3%	1.0%	1.8%	2.8%
Mar-01	Nov-01	8	-0.2%	1.3%	5.9%	7.2%
Sum/Average		**14**	**n.a.**	**6.1%**	**33.2%**	**39.3%**
Dec-07	**Jun-09**	**18**	**-3.3%**	**18.0%**	**11.9%**	**29.9%**

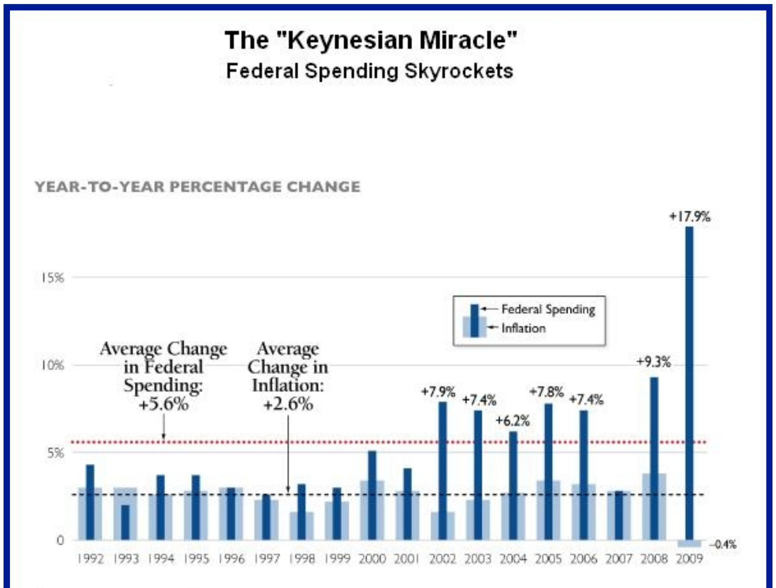
Source: *Grant's* Interest Rate Observer

Fiscal Balance = The Federal Budget Deficit As A % of GDP
Monetary = Cumulative Change In The Fed's Balance Sheet

For each recession, the table then tabulates the size of the monetary and fiscal stimulus deployed as a percent of GDP. Looking at the table, what stands out is the **disproportionate size** of the stimulus package employed during the most recent recession relative to the size of historical interventions. At nearly **30 percent**, the size of the total stimulus for the 2007-2009 Great Recession is nearly as large as that of the previous **12 recessions combined!** And that tally includes the level of stimulus deployed in the Great Depression! Yet when we look at the impact of the 2007-2009 recession on GDP, we note that at down only **-3.3%**, it pales compared to the impact of the Great Depression when GDP contracted by a total of **27%**. Does such a favorable exchange vindicate the Keynesian gambit of *"whatever it takes"* and justify the media approbation conferred upon Mr. Bernanke and his fellow stabilizers at the 2009 annual Jackson Hole retreat as ***"the men who saved the world?"*** Far from an act of deliverance, we view the exchange as an act of desperation, and so prefer to convey a different admonition to Mr. Bernanke and friends: *"Pride, Mr. Chairman, goeth before the fall."*

While the shills in the media continue their incessant debate as to whether the economy will experience a **"double dip"** or merely a **slowdown**, let us reiterate our position. There will be no "double dip" for the simple reason that there has been no **organic recovery**. That there has been a **statistical recovery**, we readily concede. Given the immensity of the size of the stimulus as denoted in **Figure 1**, there could be no other outcome. Use enough morphine and the patient will feel no pain but the underlying disease is still in full vigor. Referring to **Figure 2**, we can see that the real source of the ***"Keynesian miracle"*** has been an unprecedented increase in government spending. Federal spending for 2009 increased by nearly **18 percent** and is up **30 percent** over the past two years. Spending on such a massive scale was bound to produce a statistical blip in economic activity. In fact, first quarter GDP expanded at a modest 2.9 percent annual rate, yet according to a recent Bloomberg National Poll, **71 percent** of Americans still believe the economy is in recession. Clearly the rumors of the recessions' demise have been greatly exaggerated. And it would seem that the **great silent majority** is not alone in their dour assessment of the economy. For the group charged with the responsibility of officially dating US economic expansions and contractions, the National Bureau of Economic Research (NBER), has also been unwilling to proclaim an end to the recession that started in 2007. It strikes us as somewhat disingenuous to restrict the debate to a probability of a second recession when no consensus has been reached on the disposition of the current one.

Figure 2



Source: White House Office of Management and Budget and Bureau of Labor Statistics.

Federal Spending Chart 5 • 2010 Budget Chart Book heritage.org

Perhaps one reason that there has been no closure by either the American public or by NBER on the current recession is reflected in **Figure 3** which graphs total debt as a percentage of GDP against the ratio of people employed to the total population of the US. The employment/population ratio, a proxy for the US standard of living, has fallen markedly from **62.7 percent** in December 2007 to just **58.5 percent** today, a level that is no higher than it was in 1983. Interestingly, the employment/population ratio has been in a state of general decline even as the level of debt employed in the US economy has been on the rise. As we have discussed before, this is indicative of the **law of diminishing marginal utility** due to the impact of increasing government intervention by way of monetary inflation. In their attempt to promote full employment by overturning **scarcity** through the perpetual emission of fiat credit, the Keynesians have indirectly reduced **price flexibility** in the labor markets. While the direct cause of reduced employment is labor market inflexibility due to increased state regulation and labor legislation, minimum wage laws and other means of increasing price rigidities, the indirect cause is **monetary inflation**. This is because a fiat credit expansion initiates the entire process of widespread **discoordination** and **malinvestment** due to the **disarrangement of prices**. By interfering with the development of market-based prices, capital is misallocated within the productive structure of the economy. And unless the price of wages in certain industries or market segments can freely adjust downward to the new level of demand, the result is an increase in both under and unemployment. Nowhere can this effect be more clearly seen than in **Figure 4** which illustrates the secular decline that has taken place in manufacturing employment concurrent with the deterioration in our trade deficit. This is reflective of the long-term impact of our **faustian bargain** whereby through perpetually low artificial interest rates (the price of money) and the evergreen emission of credit, the US has secured its' place as the **consumer to the world** while mercantilistic (and opportunistic) economies such as China, have gladly stepped into the role we vacated, that of **manufac-**

Figure 3

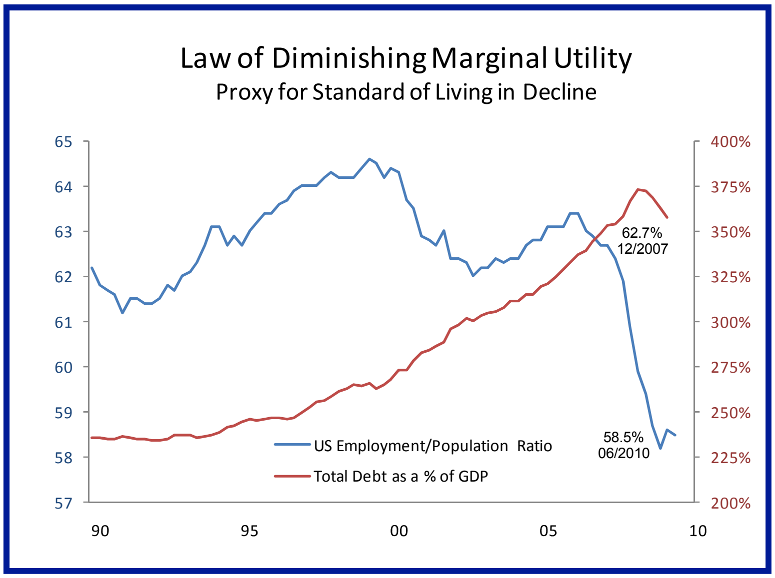
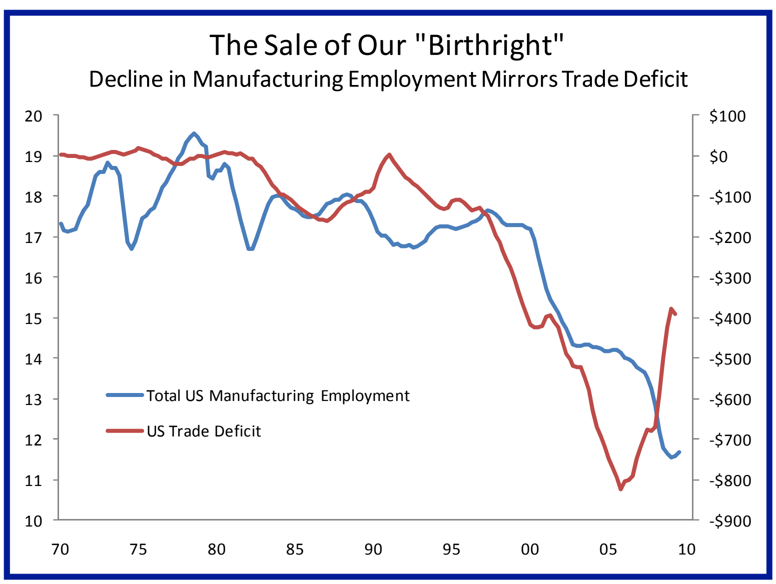


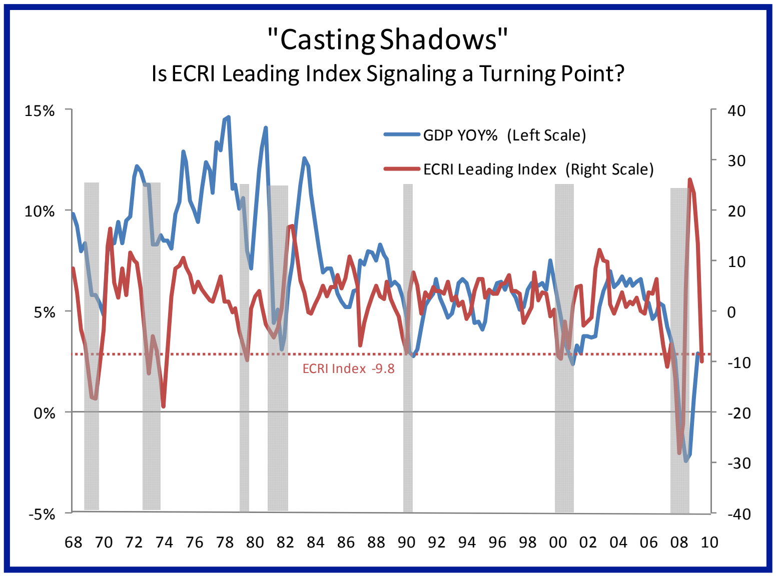
Figure 4



turer to the world. Not unlike the story of ***'Jacob and Esau'***, by living beyond our means, the US is effectively selling its' means to self-determination and sovereignty. We have spurned our birthright as a bulwark of liberty, secured by honest money, the outcome of which had been the attainment of the highest standard of living in the history of the world, in exchange for the chimera of socialism through the Keynesian doctrine of ***something for nothing***. Yet as Margaret Thatcher once observed; ***"The problem with socialism is that sooner or later, you run out of other people's money."***

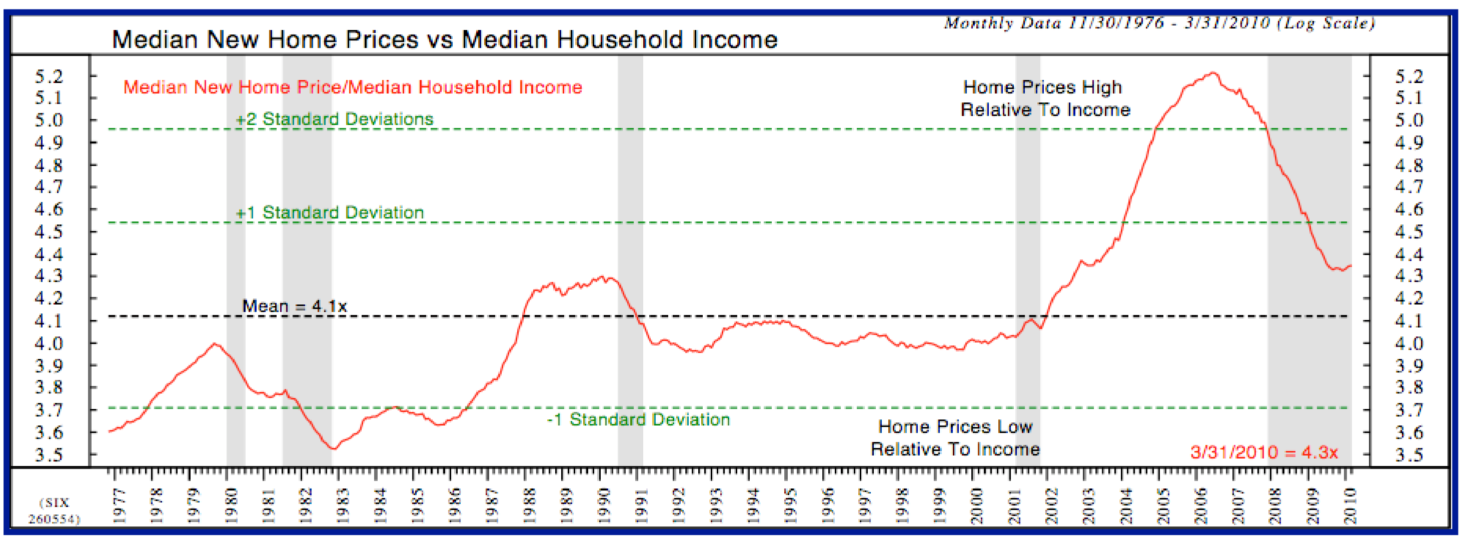
And run out we have. No we do not mean finally and ultimately, for that cannot happen as long as we have ink. No we mean that we have run out of the latest round of stimulus money and that is a political shortcoming, not a financial one. In February of 2009, with unemployment at a 25-year high of **8.2 percent**, Congress, at the baleful insistence of the President, passed a bill providing a second round of stimulus to the tune of **$862 billion**. So incomprehensible was the sum that with its' passage, a pair of White House economists famously promised that this spending would bring the unemployment rate under **8 percent**. Now seventeen months later, and despite being accompanied by the most aggressive monetary easing in history, the jobless rate is now at **9.5 percent**. Yes, the unemployment rate is down below its' most recent high of **10.1 percent**, but then so is the **labor participation rate**. The labor participation rate, which measures the proportion of the population which is in the labor force and as such, is a proxy for the degree of pessimism in the job market, was at a level of **65.7 percent** in February of 2009 and is today at **64.7 percent**. Clearly, all things being equal, a lower participation rate will translate into a lower official unemployment rate as many people unable to find employment simple drop out of the labor market. And according to the Congressional Budget Office (CBO), the impact of the $862 billion stimulus package on the economy peaked during the first quarter of 2010. As a result, the CBO estimates that marginal withdrawal of stimulus combined with the December 2010 sunset of the Bush tax cuts, will have a decidedly negative impact resulting in a net negative swing of **4 percent of GDP** by next year. Referring to **Figure 5**, perhaps these ***coming events*** are being captured by the **ECRI Leading Index** of economic growth. The ECRI Leading Index has been published weekly since at least 1968. And while the ECRI keeps the exact construction of the index proprietary, a rate of change in the ECRI Index of **-9.8 percent or lower** (dotted red line) has accurately predicted **6 of the last 6 recessions**. Ominously, as of July 16th the rate of change in the ECRI Index was exactly equal to **-9.8 percent**. Quoting the poet Thomas Campbell; ***"Coming events cast their shadows before."***

Figure 5



And nowhere has that shadow loomed larger than in the **housing market**. No other segment of the economy or financial markets has received a greater proportion of stimulus or government intervention than the housing market. The stabilizers engaged in a 'no holds barred' effort to prevent prices from falling to market clearing levels and so avoid a catastrophic collapse of the housing market which in turn, could trigger a debilitating deflation. It is truly sobering to realize that $1.25 trillion in quantitative easing (QE) dedicated to the purchase of mortgage backed securities, zero interest rates, unlimited liquidity facilities, first-time homebuyer tax credits, federal loan modification programs, and billions in taxpayer dollars squandered on the purchase of toxic mortgage assets from Wall Street banks, has delivered so little. Yes government intervention did temporarily prevent prices from finding their clearing levels, however, now that the QE and tax credit programs have ended, and the majority of mortgage modifications are failing, the prior downward trend in prices has resumed with a vengeance. The reason for this is that home prices remain too high. At first blush this may seem inconceivable, given that home prices have fallen by over **30 percent** from their 2005-06 peak levels. However, referring to **Figure 6** which reproduces a chart courtesy of Ned Davis Research, we can see that home prices relative to median household income levels are still above their long-term mean levels. From 1977 to 2010, the median US home price was approximately 4.1 times median US household income. And while this valuation metric has declined markedly from its' +2-standard deviation level of 5.2 times, it would be naïve to assume that prices will gently settle back at their long-term average. Rather 3-sigma market events are typically not resolved by

Figure 6



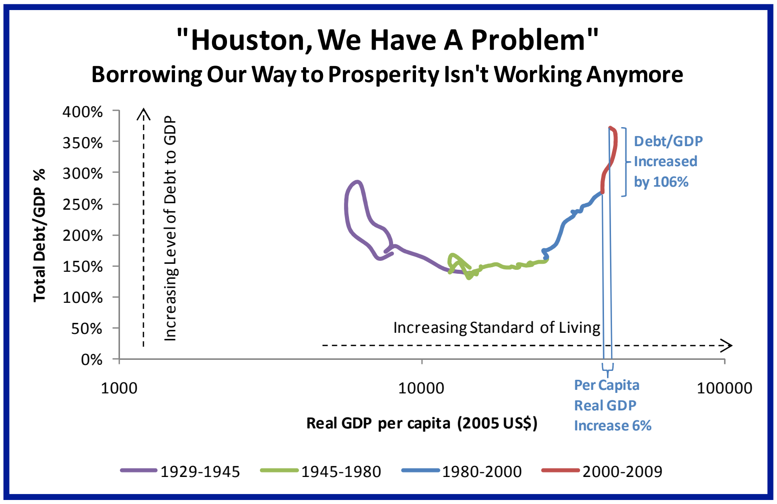
a simple reversion to the mean, but are rather "corrected" by careening far below it.

As we have discussed extensively on previous occasions, in the aftermath of the collapse of the **2000 Dot Com bubble** (itself a "creature" of the stabilizers), the Federal Reserve lowered interest rates to 1 percent and then kept them there for *"an extended period of time."* This fostered a massive **re-pricing of risk** coupled with a search for yield as investors piled into the latest in financial engineering, residential mortgage-backed securities. RMBS were complex securities consisting of a volatile mixture of prime and sub-prime mortgage loans that when combined with the miracle of financial alchemy, received a coveted triple-A rating, making them appropriate for nearly any portfolio. Given the combination of low nominal yields, the coveted triple-A stamp of fitness and a seemingly indefatigable supply of credit, the demand for RMBS became nearly insatiable. Soon ***"mortgage-brokers"*** whose sole ***raison d'être*** was to close as many loans as possible, and re-load as rapidly as possible, multiplied exponentially, giving rise to such innovative loan products as *"stated income"* or liar loans, no-doc loans, and the ultimate, the **NINJA loan** – no income, no job and no assets. Credit, once reserved for qualified borrowers, was conferred on anyone who could fog a mirror and mortgages were given to people with no legitimate prospect of servicing them. The net result was the formation of a **massive housing boom** which is aptly reflected as a near **3-sigma event** in **Figure 6**. All predicated on the ***"immaculate assumption"*** that home prices never go down, an assumption made possible only by the unprecedented expansion of credit engendered by the stabilizers and Keynes' **economics of abundance**.

That housing represents a grand experiment in the efficacy of the **Keynesian philosophy** of impeding the price mechanism of the free market in order to restore its' prosperity, is undeniable. Every effort, whether fair or foul, has been expended to prevent home prices from falling to a level where supply and demand are in balance. And while we are not blithely suggesting that the level of economic pain implied by such a rebalancing is either negligible or desirable, we are suggesting is that it is **inevitable**. The law of supply and demand will not be conned. By attempting to overturn scarcity, Keynesian economics attempts to set aside the **law of cause and effect**, of sowing and reaping. The simple fact remains that the seeds of deflation were sown in the credit expansion. Pursuing a **policy of postponement**, while politically expedient, merely *"kicks the can"* down the road, ensuring that the inevitable **day of reckoning**, when it arrives, will be more severe. Austrian economist Gottfried Haberler put it this way; *"In a crisis, what has been sown during the boom has to be reaped; a readjustment of the disjointed economic system cannot be avoided."*

Andre Gide once observed; *"Everything has been said before, but since nobody listens, we have to keep going back and beginning all over again."* Likewise, we continue to repeat our long-standing mantra, namely, **the solution *is* the problem**. All of the efforts to forestall a meaningful correction of the economic distortions and malinvestments, and so avoid the day of reckoning, has only served to subvert capital and resources which could be redirected to productive sectors, thereby delaying and ultimately jeopardizing any organic recovery. The continuing emission of liquidity has acted to increase the volume of competing credit claims outstanding without a commensurate increase in wealth, thereby heightening the degree of correlation and instability in the financial markets and, due to the overdependence on financial speculation, the fragility and inefficiency of the economy. Yet the proposed solution remains the same, *we must spend our way out of this recession*. However, the futility of the perpetual pursuit of this solution is clearly illustrated in **Figure 7**. This chart is a partial reproduction of a chart originally compiled by Robert Zielinski and found in Dr. Peter Warburton's book, "Debt and Delusion" and we originally presented this chart late last year. This is a somewhat complicated chart that requires careful interpretation. The vertical axis measures the ratio of the stock of debt in the US economy as a percentage of GDP. The horizontal axis is a logarithmic scale of real GDP per capita, measured in constant 2005 dollars. The evolution of these two variables is shown as wiggly lines. The annual data covers the period from 1929 through 2009, with the data broken down into four time intervals, each represented by a different color line segment. And while the data points are joined up in chronological order, there is nothing to prevent a line segment from folding back on itself or looping the loop. The interpretation of the chart is as follows. When the line moves from bottom-left to top-right as it did between 1980 and 2000, debt to GDP is expanding accompanied by a rising standard of living. When the line moves horizontally from left to right as it did between 1945 and 1980, the standard of living is rising in the context of a stable debt multiplier. **Both of these circumstances are praiseworthy**. The steeper the line, the smaller the benefit to living standards for a given increase in debt. In the extreme situation of a vertical line such as occurred between 2000 and 2009), **the credit system is expanding wildly without delivering any benefit to real income per capita**. And finally, a line that is moving from right to left is indicative of a **debt deflation**, a la 1929 to 1945. Here, the credit system has broken down and the living standards are falling. **Figure 7** strongly suggests we are now in a period where the credit system is expanding rapidly without any corresponding benefit to real income. This is compatible with our observations regarding the **law of diminishing marginal returns**, whereby each additional dollar of fiat credit put in place, results in an incrementally diminishing return in the form of economic activity. As we have stated previously, this outcome is directly related to the subsidy of malinvestments and the continuation of capital consuming activities. To remain on this path is to follow Japan into a slow and gradual decline into mediocrity.

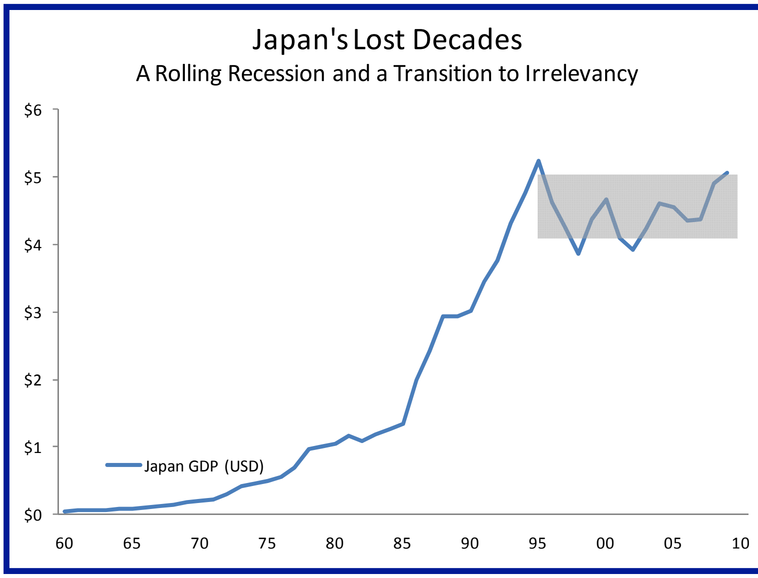
Figure 7



Japan has been locked in a multi-decade-long life and death struggle with a **debilitating debt deflation**. Their original credit bubble, manifested in hyper-inflated stock and real estate prices, succumbed to the force of inevitability and collapsed in 1990. In response, Japan pioneered the groundbreaking zero interest rate and quantitative easing programs universally employed by the stabilizers in West today. Likewise, the Japanese government responded with a dizzying array of Keynesian deficit-driven stimulus programs. However, like their western apprentices after them, their strategy was designed not to redress the massive volume of malinvestments, but rather to postpone the problem in the hope that time would turn the stones of toxic bank loans into the proverbial bread of performing assets. Unfortunately, hope is not a strategy and the ultimate result of Japan's **policy of postponement** has come to be known as Japan's **"Lost Decade(s)"**, a prolonged period of economic activity marked by an intractable **rolling recession**. This can be clearly seen in **Figure 8** which graphs Japan's GDP over the past half-century. What can also be seen is that period of near exponential economic growth during the 1980's when

"Japan, Inc." was universally hailed as an unstoppable force. America was gripped by hysteria as it contemplated a world dominated by the Japanese economic juggernaut. Americans' fear of Japan's ascendancy in the 1980's, not unlike its' fear of China today, was driven by both economics and pride. The growing bilateral trade deficit, as Japanese companies acquired leadership in industries that were once dominated by American businesses, cast a pall on America's self-confidence. The Japanese purchase of high-profile American assets, whether Columbia Pictures or the Pebble Beach golf course, just rubbed it in. Japan was the envy of the world.

Figure 8



However, as it turned out Japan had not discovered the mythical **philosopher's stone** so sought after by Keynesian divines. Instead, what Japan experienced is precisely what we earlier suggested comes before every fall. Japan, the unstoppable force finally met the immovable object: **deflation.** As a result, Japan Inc's stock market crashed in 1989 and the Japanese economy dutifully entered into recession soon thereafter. But this recession, at first indistinguishable from any previous downturn, quickly morphed into a **rolling recession**, a sequential series of expansions and contractions, replete with on-again, off again deflation, coupled with several teaser stock market rallies for good measure. Each time the economy would begin to grow, along came another setback. This has continued now for over 20 years, with Japanese authorities fighting the correction every step of the way. And thus far, the only visible achievement has been the attainment of the **largest national debt of any nation in the developed world** as Japan's public debt-to-GDP ratio has soared from **60 percent** in 1990, to **220 percent** by 2009. And along the way, "Japan, Inc.", which for a brief time was the most revered economic force on the planet, has slipped quietly into geopolitical **irrelevancy** and **anonymity**. Such is the gravitas of **decline**.

Sound familiar? It should. Not for the last time, let us repeat another of our long-standing contentions by co-opting a phrase coined by David Rosenberg of Gluskin Sheff; **Deflation is the fact, inflation is the fear**. As highlighted earlier in **Figure 1**, the stabilizers have pursued historically unprecedented efforts for one reason and one reason only – to avoid a debilitating **debt deflation**, *a la* Japan. Speaking in 2002 and parroting American Depression-era economist Stanley Fischer, Fed Chairman Bernanke warned that a *"sustained deflation can be highly destructive to a modern* [read paper] *economy because it leads to slow death from a rising real burden of debt."* Refer once again to **Figure 8** and the chart of Japan's anemic economic growth which remains mired in a slow death spiral and the motivation of the stabilizers becomes all too clear. To combat this chronic debilitating condition, Mr. Bernanke, in that same speech, insisted that the Fed had both the tools and the will to arrest deflation: *"Sufficient injections of* [paper] *money will ultimately always reverse a deflation."* And while it would appear that **"sufficient"** and

"ultimately" were both purposefully pitched for their **ambiguity**, it is, in fact, their obscure nature that raises the specter of a **sovereign debt default** in the heart of the uninitiated.

Nevertheless, we are of stouter stuff. We readily concede, and have written extensively for years, that armed with the compulsory power of the income tax, legal tender laws, and the printing press that goes with the privileged status as the world's sole reserve currency, there is no absolute, quantitative limit to the amount of sovereign debt the US can issue . . . period! Our argument against the perpetual emission of fiat credit and Treasury debt does not now, nor has it ever rested on a mathematical **"tipping point"** beyond which a sovereign default becomes inevitable. We have always insisted that the exponential increase in US sovereign debt, per se, is not the issue. We maintain they are merely a reflection of the underlying cause – the repudiation of a belief in the immutability of the relationship between work and income, in favor of the Keynesian heresy of ***"something for nothing"***. No, in our opinion, the debate is not one of **solvency**, it is one of **sovereignty**. The issue is not **default**, the issue is **decline**.

Figure 9

Call It By Any Other Name, It is Theft!

So we would affirm, Mr. Bernanke, that America, by dint of its' nearly 250-year history of upholding personal liberty, revering property rights and honoring its' debts, both public and private, has indeed been endowed with the privilege of stewardship over a technology called a printing press. And yes, we can "ultimately" create as much credit as we deem "sufficient" without any predetermined or divinely appointed limit. However, we continue to insist that it is precisely because over the greater part of its history, America has exercised this privilege with relative discretion, that we still have it. Not unlike the dogma of geocentricity which held sway over scientific thought for so long, the world remains mesmerized by the chicanery of Lord Keynes and his philosophy of monetary inflation whereby economic activity is made to **"revolve around money"**. And though we be charged with *"great impiety"* for saying so, there is no such thing as the ***"something for nothing"*** exchange promised by the Keynesian theory of abundance. For a sovereign nation issuing its' own sovereign non-convertible currency, monetary inflation occurs as the result of an intentional policy of currency devaluation. (**Figure 9**) This is theft, pure and simple! Stripping the act of theft of all moral considerations by substituting a **"sovereign"** for **"thou"**, is an act of sheer sophistry. The issue, ultimately, is one of justice and the diminution of liberty in favor of safety, and the degeneracy in the belief in self-determination in favor of the nurture of the state. If we remain committed to the Keynesian philosophy of monetary inflation, the coming collapse will not be a **sovereign default**, but rather like Japan and Britain and France before us, it will be the **long, slow decline into mediocrity** that has been the fate of all nations who have followed the siren song of perpetual prosperity promised by Keynes. Recalling the words of Ludwig von Mises; *"And then, very late indeed, even simple people will discover that Keynes did not teach us how to perform the "miracle . . . . . of turning a stone into bread," but the not all miraculous procedure of eating the seed corn."*