ON THE PROBLEM OF PERPETUAL RETARDATION

An Open Letter to President Barack Obama[$]

July 4th, 2010

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$ The past is secure. It is unalterable. The seal of eternity is upon it. The wisdom, which it has displayed, and the blessings, which it has bestowed, cannot be obscured; neither can they be debased by human folly, or by human infirmity. The future, is that, which may well awaken the most earnest solicitude, both for the virtue and the permanence of our Republic. The fate of other republics, their rise, their progress, their decline, and their fall, are written but too legibly on the pages of history, if indeed, they were not continually before us in the startling fragments of their ruins. Those republics have perished; and have perished by their own hands. Prosperity has enervated them; corruption has debased them; and a venal populace has consummated their destruction… They have disregarded the warning voice of their best statesmen; and have persecuted and driven from office their truest friends. They have listened to the councils of fawning sycophants, or base calumniators of the wise and the good… They have surrendered to faction, what belongs to the common interests and common rights of the country. Patronage and party, the triumph of an artful popular leader, and the discontents of a day, have outweighed, in their view, all solid principles and institutions of government. Such are the melancholy lessons of the past history of republics down to our own….

In theory, a government may promise the most perfect harmony of operations in all its various combinations. In practice, the whole machinery may be perpetually retarded, or thrown out of order by accidental maladjustments…. Every change discomposes for a while the whole arrangements of the system. What is safe, is not always expedient; what it new, is often pregnant with unforeseen evils, or attracts only by imaginary good.

–Joseph Story, *A Familiar Exposition of the Constitution of the United States*, 1840

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EPIGRAPH

When the course of civilization takes an unexpected turn – when, instead of the continuous progress which we have come to expect, we find ourselves threatened by evils associated by us with past ages of barbarism – we naturally blame anything but ourselves. Have we not all striven according to our best lights, and have not many of our finest minds incessantly worked to make this a better world?… We are ready to accept almost any explanation of the present crisis of our civilization except one: that the present state of the world may be the result of genuine error on our own part and that the pursuit of our most cherished ideals has apparently produced results utterly different from those which we expected….

How sharp a break not only with the recent past but with the whole evolution of Western civilization the modern trend toward socialism means becomes clear if we consider it not merely against the background of the nineteenth century but in a longer historical perspective. We are rapidly abandoning not the views merely of Cobden and Bright, of Adam Smith and Hume, or even of Locke and Milton, but one of the salient characteristics of Western civilization as it has grown from the foundations laid by Christianity and the Greeks and Romans. Not merely nineteenth and eighteenth century liberalism, but the basic individualism inherited by us from Erasmus and Montaigne, from Cicero and Tacitus, Pericles and Thucydides, is progressively relinquished.

—F.A. von Hayek, *The Road to Serfdom*, 1944[$]

$ In the worldwide economic contraction of the early 1930s, the inflationist arguments that appear during any economic crisis once again came to the fore. Countries worldwide devalued their currencies in hopes of solving a problem they did not understand, but their main effect was to shatter the world monetary system that had been painfully reconstructed during the 1920s….

Wasn't the Fed created to solve economic crises? And didn't it solve these crises by "lowering interest rates?" Apparently so, but only liquidity-shortage crises, not crises caused by the tax and currency disasters of the 1930s. But this distinction was already lost. The publication of Keynes's *General Theory* in 1936 gave academics a justification for inflationist arguments that had been burbling for decades, if not centuries. Keynes, in the *General Theory*, cites at length the influence of Silvio Gesell, who, writing in 1906, recommended that an interest rate eventually of zero….

Keynes, and the hordes of young economists who followed in his footsteps, had a new vision of a government solution to an apparently unstable capitalist system. The problem of recession and unemployment could be solved, they thought, by "lowering interest rates," and the mechanism by which this would be accomplished it was the open market operations of the Federal Reserve and institutions like it that had been created around the world.

Keynes himself had long been steeped in the classical system, as his earlier writing shows, and adopted his inflationist tendencies primarily as a reaction to the immediate economic conditions of the mid-1930s. He later returned somewhat to his classical roots. His friend and intellectual sparring partner throughout the 1930s, Friedrich Hayek, recalled:

> It was early in 1946, shortly after [Keynes] had returned from the strenuous and exhausting negotiations in Washington on the British loan…. A turn in conversation made me ask him whether he was not concerned about what some of his disciples were making of his theories. After a not very complimentary remark about the persons concerned, he proceeded to reassure me by explaining that those ideas had been badly needed at the time he had launched them. He continued by indicating that I need not be alarmed; if they should ever become dangerous I could rely upon him again quickly to swing round public opinion – and he indicated by a quick movement of his hand how rapidly that would be done. But three months later he was dead.

– Nathaniel Lewis, *Gold: The Once and Future Money,* 2007

> Gold still represents the ultimate form of payment in the world. Fiat money in extremis is accepted by nobody. Gold is always accepted.
>
> – Alan Greenspan, *Speech to Senate Banking Committee*, 1999

President Barack Obama
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The United States of America

CC: President Thomas M. Hoenig
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URGENT

Dear Mr. President.[$]

I am writing to inform you that you have made several great mistakes.

I emphasize the greatness of these mistakes because they wield destabilizing effects upon the global financial markets, threaten national security,[£] and, moreover, dim the prospects for long-term human survival.

On 4 July 2008, I sent a letter to President Bush (see 3), warning him of a pending global economic collapse; the previous winter, on 31 December, 2007, I left my room at The Union League Club (see **APPENDIX 1**), walked across the Federal Building courtyard, and hand-delivered a letter to Kenneth Griffin (see 4), warning likewise (and, naturally, proposing that we reap profits from the fall).

But it seems neither President Bush nor Kenneth Griffin[€] took my advice.

$ Few of the records preserved by the National Archives and Records Administration are quite as grand as the Charters of Freedom, but one type of document is both common and special at the same time—letters. Letters may be mundane, or memorable, personal accounts of our lives at a moment in time. They become noteworthy in a different way when written to public figures, especially Presidents of the United States. Without question, it requires special motivation to sit down and write: 'Dear Mr. President.' This salutation means we have something important to say, and we expect the most powerful person on earth to pay attention to our concerns (1, p 12).

£ The country we love is in trouble. In truth we are in grave danger of declining as a nation. If we do not act quickly, that decline will become dramatic.

The signs of trouble are clear for all to see. Only those in deliberate denial could fail to notice (2, p 3 ; also see Chapter 1-4).

€ Hedge-fund titan Kenneth Griffin lost $8 billion of his clients' money last year.

Now, he is trying to persuade investors to trust him with more.

"We showed a level of human fallibility," he told his staff at a late-September lunch in Manhattan.

The price of fallibility: a 55% loss in the big hedge funds at his firm, Citadel Investment Group. His funds' declines far outstripped the 19%, on average, that hedge funds lost as a whole, according to Hedge Fund Research Inc. For the past year, Citadel prevented investors from withdrawing money they wanted to take out from his two main funds (5).

Warren Buffett recently testified that he did not see the global crisis coming; in fact, it seems he couldn't even see as it was happening: On 17 October 2008 the DJIA closed at 8,852 as the headlines read: "*Buffett Says Now Is the Time to Buy U.S. Equities*"[$] (in March of 2009 the DJIA fell as low as 6,626 – but that's merely one aspect of a more sinister picture) Indeed, Buffett's 17 October 2008 "buy" recommendation was clearly not that great, but perhaps you may be saying to yourself that it wasn't *that bad*?

But it *was* quite bad. In fact, it was terrible because, naturally, we must also keep in mind that the US dollar, has, predictably, been falling like a rock – but before we go there, let's briefly recap Q2 2010 with a Market-Beat snapshot from Friday's *Wall Street Journal* – July 2, 2010, 5:46 PM ET:

Dow Industrials, down 457.33 points this week, or 4.51% to 9686.48.

- Down 7.31% over the two week period.
- Largest weekly point and percent drop since the week ended May 7.
- This is the worst five-day percent performance leading up to July 4 since 1896 when it fell 6.21%.

As if that wasn't bad enough, these data points are actually much, much worse than they appear.

As noted, on 17 October 2008 the DJIA at 8,852, or just over 11 ounces of gold,[£] with gold trading at $785 per ounce. Thus, as you can clearly see, in keeping with the highly fashionable Kensian-dollar-devaluation-strategy, an investment in the DJIA on 17 October 2008 had actually *lost about one-third of its value* by 2 July, 2010 (at 9,686, or 7.8 ounces of gold with the dollar worth $1,235 per ounce – the closing spot price of yesterday's trading in Shanghai)!

> Devaluation can have a tremendous effect on the stock market, though it is often masked by rising prices. In 1929, the DJIA hit a high of 381, or 19 ounces of gold when the dollar was worth $20.67 per ounce. The DJIA fell to 41 in 1932, or two ounces of gold. In 1966 the DJIA hit 1,000, or 29 ounces of gold at $35 per ounce. In 1980, the DJIA was around 800, or one ounce of gold with the dollar at… $800 per ounce – a decline of over 96 percent in gold terms and half the value it was in the depths of 1932! Most people still say the "stock market was flat" during the 1970s. The two-decade stock market boom of the 1980s and 1990s merely brought the DJIA back to where it was in 1966, or about 29 ounces of gold, a DJIA of 10,000 with the dollar around $350 per ounce (7, p 79).

Although this startling analysis may appear revolution and new, it's as old as our nation; as Adam Smith duly noted

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$ *Subject: Buffett Says Now Is the Time to Buy U.S. Equities*
Date: Sat, 18 Oct 2008 02:41:46-0300
From: Matt Funk
To: Warren Buffett

Funk says Buffett is wrong.

£ The most important thing about money is to maintain its stability… You have to choose between trusting the natural stability of gold and the honesty and intelligence of members of the government. With due respect for these gentlemen, I advise you, as long as the capitalist system lasts, to vote for gold (6).

in 1776:

> [Currency devaluation] occasions a general and most pernicious subversion of the fortunes of private people; enriching in most cases the idle and profuse debtor at the expense of the industrious and frugal creditor, and transporting a great part of the national capital from the hands which were likely to increase and improve it, to those which are likely to dissipate and destroy it (8).

I'm afraid the "Oracle of Omaha's" advise is worth about as much as a wooden nickel, and, since I've mentioned June 29th, I'll mention another relevant point regarding this date:

> Perhaps, the harshest critique your administration has faced crossed the wire on 29 JUNE 2010 at 4:06 P.M.
>
> *UN Report: Dollar Should Be Replaced As Main Reserve Currency*
>
> NEW YORK (Dow Jones) – The dollar should be replaced as the main global reserve currency in order to achieve greater stability in the world financial system, a United Nations report urged Tuesday.
>
> "The dollar has proved not to be a stable store of value, which is a requisite for a stable reserve currency," said the *World Economic and Social Survey 2010* [9].
>
> The report said a new system should be developed, which "must not be based on a single currency or even multiple national currencies." Instead, the report advocates the increased use of International Monetary Fund accounting units called Special Drawing Rights as a reserve asset….
>
> The U.N.'s suggestion is the latest in a series of proposals that have gained prominence since the financial crisis. Last year, Nobel laureate economist Joseph Stiglitz led a U.N.-appointed panel that also urged the replacement of the dollar as the world's reserve currency. Developing nations with high currency reserves, led by China, have also been vocal about the need to create a new global reserve currency (10).

As clearly illuminated in a forthcoming publication, *On the Origin of Mass Extinctions: Darwin's Nontrivial Error* (11), long-term human survival – and thus national security, naturally – will require unprecedented levels of human cooperation and crystal clear communication (which both require reliable information in order to be completely effective). Thus, it comes of no surprise that,

> throughout history, humans have sought the most stable money attainable, because stable money, or uncorrupted information, allows greater productivity and prosperity, while unstable money, or corrupted information, cripples productivity and prosperity. It is impossible to improve the system's productivity by corrupting the information that enables it to function. Such a corruption may result in more production—a greater volume of goods and services, a greater number of hours worked or employees hired, a blip in statisticians' charts—but much of the increased production will be wasted, or the greater effort will produce less results, and thus true productivity declines….
>
> The problem, first, is that nobody apparently knows what exactly this stable money consists of. Second, nobody knows how to accomplish the task of creating and maintaining it.
>
> But even the briefest study of history shows that today's condition of floating currencies is a very new phenomenon. It began August 15, 1971, the day Richard Nixon severed the dollar's link with gold and destroyed the world monetary system, which at the time went under the name of the Bretton Woods system. In the three centuries before 1971, the world for the most part had stable money. After 1971, or more properly after a series of steps in the late 1960s and the early 1970s, it did not. The capitalist economy since the Industrial Revolution, and a long time earlier as well, was based on stable money. The advocates of laissez-faire never ceased to support stable currencies. Their critics, the early socialists and communists, agreed with them on little other than the

necessity of a sound unit of account. Floating currencies are not a phenomenon of the free market but the market's inevitable reaction to unceasing currency manipulations by world governments. Since the system today is the exception rather than the rule, it should be easy to find a solution to the monetary problems that plague humanity on a daily basis (7, pp 14-15).

The solution is indeed easy and simple – but of course we could all use your help.

But it seems you may be unlikely to offer such cooperation if I am unable to illustrate a broad range of inter-related and systemic errors; so let's begin with this recent observation by Daniel S. Loeb:

Perceived by some to be the least important measure of overall confidence is investor confidence, also known as "sentiment." Sentiment is usually backward looking and is incorrect so frequently that it is often used by professionals as a counter indicator of market direction. While I agree that sentiment is often wrong in predicting overall market movements, it has been interesting to see how the market reacts in real time to announcements of policy or other government – driven events in today's post – crisis environment. For example, on the day of President Obama's January speech introducing the Volcker Rule,[$] markets swooned 2% and financial stocks declined by 3%. …On the day the government brought its action against Goldman Sachs for its mortgage – backed CDO activities, the S&P dropped 2% in minutes. …The indices dropped 3% on disappointing employment numbers that the Administration had gone out of its way to hype throughout the previous week. [And, your recent G7 economic stimulus strategy comments in Ontario and your curious interview with Bernacke (of which, more to follow) have, no doubt, contributed to the worst five-day DJIA percent performance leading up to July 4 since 1896]. Confronting these massive swings in the markets (still the resting place for most Americans' retirement and pension funds), many politicians minimize the significance of confidence among investors, on the grounds that Wall Street professionals are prone to be emotional, trigger happy, and unduly focused on the short run.

But confidence on the part of consumers and business managers as drivers or detractors of economic growth cannot be so readily dismissed by policy makers. Business owners make vital decisions about capital expenditures, R&D spending, inventory stocking, and hiring based not only on what they see in the rear-view mirror of their recent sales, but also on their levels of "confidence." What we are finding throughout industries and with investors, unfortunately, is that it is very difficult to maintain confidence when the rules are continually changed, and the goalposts repeatedly moved. The Administration appears unable, or unwilling, to let free-market capitalism resume. Indeed, it is neither health care nor financial reform which has stressed markets most in 2010, but rather the continued politicizing of the regulatory process and the abandonment of free market capitalist principles that have undermined investor confidence.

While the Administration seems perfectly willing to allow this "regulatory volatility" to send markets for a tailspin every few weeks, it does not seem to understand that the corresponding diminution of confidence by allocators of capital in financial markets runs a high risk of spilling over into the decisions by business people to allocate resources to the "real economy". "Main Street" is not independent of Wall Street. We are each part of an intricate ecosystem and the failure to lay out clear rules of the road in intellectually honest tones is beginning to show signs of sabotaging the overall recovery.

…. We invested your capital across markets last April when it appeared that the worst was behind the U.S. financials' sector. As most of you know, I talked about our re-initiated long positions in Bank of America and Citigroup at our annual Investor Presentation on January 20th. However, the next morning, upon seeing on a calendar of the day's Washington events that President Obama was scheduled to speak on financial reform at 11:00AM, a mere two days after the Democrats lost Ted Kennedy's Senate seat to Republican Scott Brown in a stinging defeat, I became concerned that he would take a politically popular populist (and therefore negative)

$ Because the effects of poor regulation are more readily apparent, people often focus on regulatory reform or privatization as a means to enhance economic growth and productivity. This is by all means a worthwhile endeavor, but its effect is often not great. Most regulations deal with only a tiny segment of the economy. Deregulation of airlines, for example, may cause enormous productivity gains in the airline industry, but the airline industry is perhaps only 0.5 percent of the entire economy. Also, such regulatory reforms tend to be exceedingly complex, politically difficult, may take years to implement, and may be ultimately unsuccessful (7, p 128).

> stance on the banks, and so sold our significant positions in those two financials as well as most of our position in Barclays. Although we have traded around these stocks since, at present we have no position in any commercial banks (except for a small residual position in a regional bank amounting to less than 1%).
>
> These stocks are still statistically cheap, generally trading around 6x "normalized" earnings. However as an allocator of capital, I have no confidence in the politicized approach to financial reform and worry that our legislators will enact laws that will weaken rather than stabilize the financial system. Accordingly, we have also jettisoned our position in Wellpoint, a health care company that trades at less than 7x earnings because we could not predict how legislation or regulation may affect it. We have come to the realization that from a risk management perspective, the anti-business, short-term politically motivated activities we're seeing in Washington make investments in certain industries simply impossible to evaluate (12, pp 1-3).

In short, what Loeb was trying to say, was that your administration appears unaware that Keynesianism is dead:

> Keynesianism, as a school in itself, was largely discarded after the failure of the 1970s. Nobody now believes that it is possible to finetune the economy with the judicious application of public-works spending and interest rate manipulation/currency devaluation (7, p 225).

I'll take this thread a bit further, but I should mention a crucial point first: Although *most* of what I have to say echoes ancient (and long forgotten) truths (**Chapter I**),[$] I should emphasize that I have enclosed a original solution to the single-most long-standing, open problem in economics: I began my letter to President Bush (*cf.* 3) by noting that, on 2 August 1939, Einstein sent a letter to President Roosevelt because he had recognized a solution to a national security threat; in this spirit, I have enclosed two illuminating theoretical developments (**Chapter I-II**) and two revolutionary, game-theoretical solutions (**Chapter III-IV**) to other mission-critical threats to national security and the very survival of the human race.

That is, in brief, is all that I have to say. However, I realize the significance of the words I say may not be immediately clear. Indeed, you may turn these pages with skepticism; afterall, much precedent suggests such skepticism is warranted. For example, in December of 1970, a man walked up to the White House's northwest gate and handed the following letter to the agent on duty...

$ The most difficult subjects can be explained to the most slow-witted man if he has not formed any idea of them already; but the simplest thing cannot be made clear to the most intelligent man if he is firmly persuaded that he knows already, without a shadow of doubt, what is laid before him (13, p ix).

Dear Mr. President.

First, I would like to introduce myself. I am Elvis Presley and admire you and have great respect for your office. I talked to Vice President Agnew in Palm Springs three weeks ago and expressed my concern for our country. The drug culture, the hippie elements, the SDS, Black Panthers, *etc.* do not consider me as their enemy or as they call it the establishment. I call it America and I love it. Sir, I can and will be of any service that I can to help the country out. I have no concern or motives other than helping the country out.

So I wish not to be given a title or an appointed position. I can and will do more good if I were made a Federal Agent at Large and I will help out by doing it my way through my communications with people of all ages. First and foremost, I am an entertainer, but all I need is the Federal credentials. I am on this plane with Senator George Murphy and we have been discussing the problems that our country is faced with.

Sir, I am staying at the Washington Hotel, Room 505-506-507. I have two men who work with me by the name of Jerry Schilling and Sonny West. I am registered under the name of Jon Burrows. I will be here for as long as long as it takes to get the credentials of a Federal Agent. I have done an in-depth study of drug abuse and Communist brainwashing techniques and I am right in the middle of the whole thing where I can and will do the most good.

I am Glad to help just so long as it is kept very private. You can have your staff or whomever call me anytime today, tonight, or tomorrow. I was nominated this coming year one of America's Ten Most Outstanding Young Men. That will be in January 18 in my home town of Memphis, Tennessee. I am sending you the short autobiography about myself so you can better understand this approach. I would love to meet you just to say hello if you're not too busy.

Respectfully,
Elvis Presley.

P. S. I believe that you, Sir, were one of the Top Ten Outstanding Men of America also. I have a personal gift for you which I would like to present to you and you can accept it or I will keep it for you until you can take it (1).

As if your job was not difficult enough, it seems you are also charged with the unenviable task of discerning whether letters from concerned citizens warrant "Einstein 1939" or "Presley 1970" attention.

So perhaps I should emphasize that, as appealing as a Federal-Agent-at-Large credential may sound, I table no such request – as much as I would enjoy meeting you to say hello, I beg you to lend your precious time to the remainder of this letter, instead – and, unlike Mr Presley, my motives happen to be purely selfish, because, like President Roosevelt, I happen to recognize that a great nation thrives, prospers, and survives because its interests happen to be identical with those of the individual.

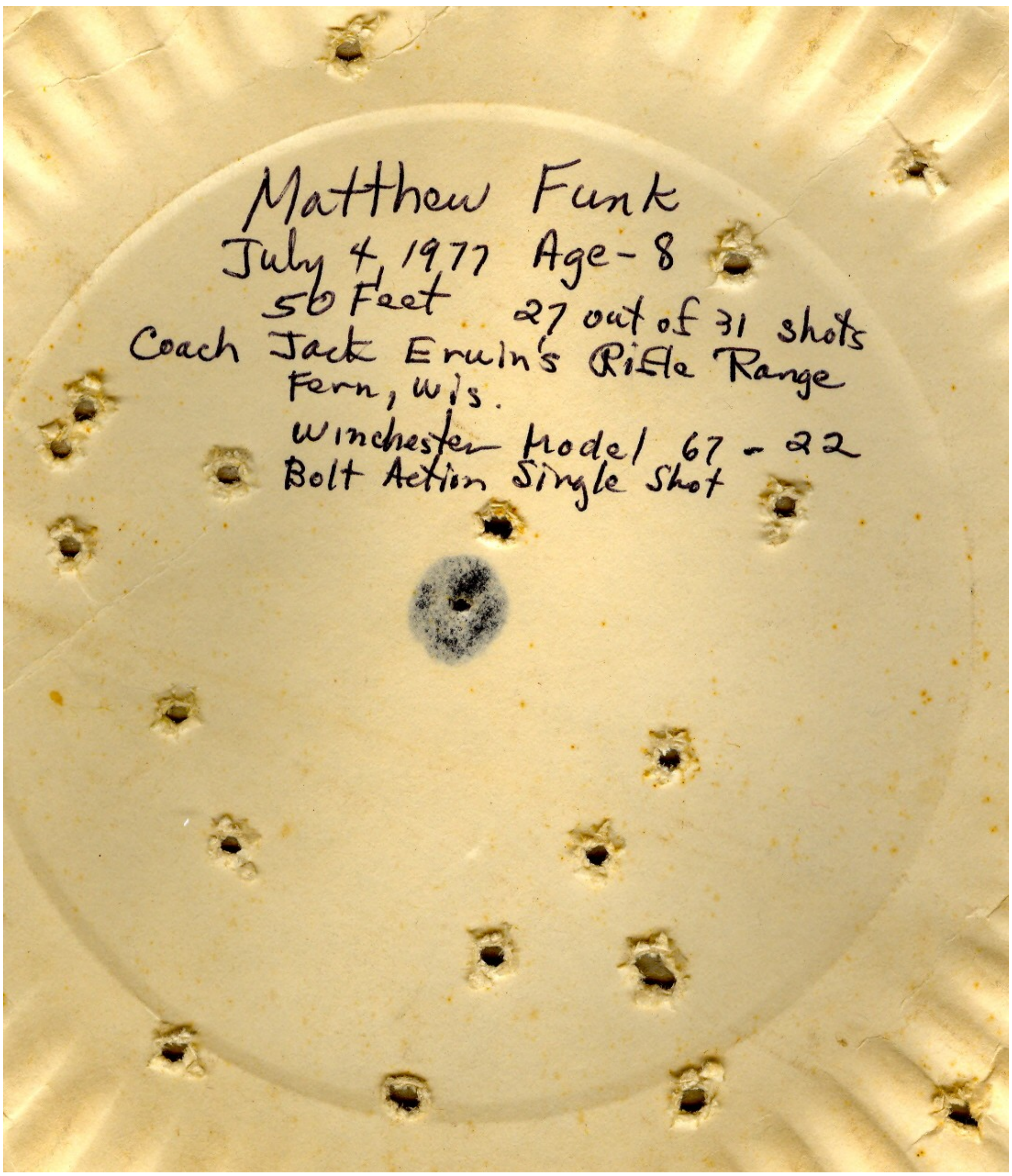
However, like Elvis, I am entertaining in certain circles, and I to have a personal gift for you, too: *On the Problem of Economic Power: Lessons from the Natural History of the Hawaiian Archipelago* – (**Chapter I**).

E Kalani e, the problems at hand are so difficult and complex that I have nearly given up trying to explain all this to anyone. With all due respect, Sir, it appears that your errors are founded in a lack of sufficient understanding of the principles of economics and the principles of evolution. Alas, it's not easy explaining the principles of economics or evolution – and it's certainly not easy to do both things at once.

And, to make matters worse, we don't have much in common. We don't share many "frames of reference".

I am a Hoosier from the very, very old school – so old, in fact, my unfashionable agrarian (and thus inherently evolutionary) worldview traces its philosophical roots to Hesiod, *c.* 750 BC (see 15).

Despite the fact that we're not that far apart in age – you were born on 4 August 1961, I was born on 13 August 1968 – we both lived in Honolulu during our early developmental years, and we both attended University in Los Angeles, it seems our most influential and fundamental childhood experiences and traditions were millions of miles and many generations away from each another, so to speak. For example, this is how I celebrated the Fourth of July in 1977:



But as my wife and I celebrated Canada Day in Ottawa (I'm a U.S. citizen who won the Canadian lottery by marring a stunning and extraordinary Canadian nurse) – as we stood before the US Embassy watching awe-inspiring fireworks light up Ottawa's mid-summer nightscape – I was moved to search for the means, method, and the power to sit down and celebrate today by writing this letter to you. And, for the past three days, as I've walked long the canals, roamed the beautiful parks, sat on the beach at Meech Lake, toured the currency museum at the Bank of Canada [see "Bank of Canada 2010" at http://www.funkisland.org], strolled by the Byward Market to pick up a maple leaf cookie, and discussed this prospect with my good friend, Dr Any Roberts (who's valuable insights have been much appreciated), I searched for common denominators with which to frame and contextualize this celebratory discourse: We're both islanders, we've both made the same mistake, we're both by-products of extraordinary feats of long-distance dispersal, and we're both fathers.

We're both Islanders. As detailed in a recent two-volume publication (16-17): *THE PRINCIPLES OF ECONOMICS & EVOLUTION: A Survival Guide for the Inhabitants of Small Islands, Including the Inhabitants of the Small Island of Earth*, I was flattered to discover that I was able to illuminate several dimly seen aspects of the Scottish Enlightenment and the University of Edinburgh to a Scottish scholar from this very university (16, pp 60-66), and thus it is my hope that if you should discover that I am able to illuminate a few crucial aspects of cultural evolution in the Hawaiian Archipelago and the true nature of economic power for you (*i.e.*, 14), then perhaps the strong arguments presented herein may warrant your careful consideration. Also, you may take special interest in the epigraph to this recent publication, which reads:

> The following essay owes its origin to a [forthcoming book, an open letter to President Barack Obama, regarding] the future improvement of society, and the Author at first sat down with an intention of merely stating his thoughts to [President Obama], upon paper, in a clearer manner than he thought he could do in conversation. But as the subject opened upon him, some ideas occurred, which he did not recollect to have met with before; and as he conceived that every least light, on a topic so generally interesting, might be received with candour, he determined to put his thoughts in a form for publication….
>
> He presumes… that the facts which he has adduced will be found to form no inconsiderable evidence for the truth of his opinion respecting the future improvement of mankind. [The Author] hopes it will appear that… he is actuated solely by a love of truth, and not by any prejudices against any particular set of men….
>
> The view which he has given of human life has a melancholy hue, but he feels conscious that he has drawn these dark tints from a conviction that they are really in the picture, and not from a jaundiced eye or an inherent spleen of disposition.
>
> The theory… he has sketched… accounts to his own understanding…, but whether it will have the same effect upon others must be left to the judgment of his readers.
>
> If he should succeed in drawing the attention of more able men to what he conceives to be the principal difficulty in… society and should, in consequence, see this difficulty removed, even in theory, he will gladly retract his present opinions and rejoice in a conviction of his error [16, *epigraph*].

Yes, in reality, I've been thinking about writing this letter for a rather long time (ever since the first few days of your Presidency, as a matter of fact), and have been diligently detailing my thoughts in one very long argument (3,000 manuscript pages), my forthcoming *magnum opus* which, naturally, I hope to share with you and my fellow Americans soon.

But, in the meantime, this letter succinctly summarizes my core findings.

We've both made the same mistake.[$] Until relatively recently (2005, to be exact), I held many – *if not most* – of your political positions, and, in general, we shared the same worldview.

Fortunately, however, I recognized, and have since endeavoured to correct my errors. I also detailed this humbling and humiliating chapter of my life within a game-theoretical exploration of *The Problem of Sustainable Economic Development* entitled, *On the Truly Noncooperative Game of Life on Earth: In Search of the Unity of Nature & Evolutionary Stable Strategy* (19).

We're both by-products of Long-distance Dispersal. This frame of reference is as complex as it is uncommon, but if you're interested in this unusual exploration, I dedicated and published a long letter on this topic one year ago, today: *On the Truly Noncooperative Game of Island Life: Introducing a Unified Theory of Value & Evolutionarily Stable Island Economic Development Strategy* (20).

We're both Fathers. After much consideration and deliberation, I've decided there may be no more powerful nor fitting connection and frame of reference than fatherhood – and, thus, I will focus upon this common denominator.

Yes, we're both fathers – and I understand today happens to be your eldest daughter's birthday – naturally I wish her all the best and a very happy birthday.

I happen to have a precious seven year-old Son, William.

Here's how we celebrated July 4th, 2009 at our family cottage in Michigan [you may find more photos in my "Lake Gogebic 2010" & "Lake Gogebic 2009" galleries at http://www.funkisland.org]:

$ If our civilization is to survive, we must break with the habit of deference to great men. Great men may make great mistakes… Their influence, too rarely challenged, continues to mislead those on whose defense civilization depends, and to divide them. The responsibility for this tragic and possibly fatal division becomes ours if we hesitate to be outspoken in our criticism of what admittedly is a part of our intellectual heritage. By our reluctance to criticize some of it, we may help to destroy all of it (18, inscription).

And, as a matter of fact, at this juncture I'll let you in on a little secret: Although we're waiting a few more days to break the great news to our families and friends, my beautiful wife, Marcy, is nine weeks pregnant; and to this point, it is my hope that the miracle of fatherhood may help bridge our considerable differences of opinion and, moreover, illuminate the difficult personal dilemma this curious letter may create for you because, as you may discover in due course, you may choose to hold your ideological ground and remain faithful to the principles of your political party, or you may choose to endeavour to struggle to increase the prospects for my childrens', my childrens' children, your children, and their childrens' survival – *but you can't choose both*.[$]

$ Our civilisation depends, not only for its origin but also for its preservation, on what can be precisely described only as the extended order of human cooperation, an order more commonly, if somewhat misleadingly, known as capitalism. To understand our civilisation, one must appreciate that the extended order resulted not from human design or intention but spontaneously: it arose from unintentionally conforming to certain traditional and largely moral practices, many of which men tend to dislike, whose significance they usually fail to understand, whose validity they cannot prove, and which have nonetheless fairly rapidly spread by means of an evolutionary selection – the comparative increase of population and wealth – of those groups that happened to follow them. The unwitting, reluctant, even painful adoption of these practices kept these groups together, increased their access to valuable information of all sorts, and enabled them to be 'fruitful, and multiply'... This process is perhaps the least appreciated facet of human evolution.

Socialists take a different view of these matters. They not only differ in their conclusions, they see the facts differently. That socialists are wrong about the facts is crucial to my arguments... I am prepared to admit that if socialist analyses of the operation of the existing economic order, and of possible alternatives, were factually correct, we might be obliged to ensure that the distribution of incomes conform to certain moral principles, and that this distribution might be possible only by giving a central authority the power to direct the use of available

And on this crucial note, perhaps I should mention why I have copied Thomas M. Hoenig with this letter.

President Bush, Kenneth Griffin, and Warren Buffett were far from the only three people I had attempted to warn about the financial crisis which has come to pass, continues to create extraordinary challenges, and threatens to toss us about in the stormy seas of uncertainty – in fact, I spent over two years trying to warn just about anybody who would listen (17, pp 455-464); and, to this point, in September of 2008, I sent out yet another SOS of sorts, relaying a communiqué President Hoenig had delivered in Argentina that day. And, by the way, if you haven't had the opportunity to review *Too Big has Failed* (22), and *The High Cost of Exceptionally Low Rates* (23), I highly recommend both; as implied by my **EPIGRAPH**, I submit Hoenig may be the only FOMC member whom has not fallen under the spell of *The Problem of Keynesian Economics*, a complex problem which may requires a long discourse of its own.[$]

I will, however, attempt to capture the essence within this rapid narrative stream.

If you surf the web a bit, visiting home-pages of our 12 Federal Reserve banks, perhaps you may notice a few distinct differences which reflect their independence. In fact, an illustrative publication linked at the top of the Kansas City (10th district) branch's homepage really says it all: *The Balance of Power: The Political Fight for an Independent Central Bank.* Although I'm not able to find it now, several years ago the 10th district's homepage also featured a great

resources, and might presuppose the abolition of individual ownership of means of production. If it were for instance true that central direction of the means of production could effect a collective produce of at least the same magnitude as that which we no produce, it would indeed prove a grave moral problem how this could be done justly. This, however, is not the position in which we find ourselves. For there is no known way, other than by the distribution of products in a competitive market, to inform individuals in what direction their several efforts must aim so as to contribute as much as possible to the total produce.

The main point of my argument is, then, that the conflict between, on one hand, advocates of the spontaneous extended human order created by a competitive market, and on the other hand those who demand a deliberate arrangement of human interaction by central authority based on collective command over available resources is due to a factual error by the latter about how knowledge of these resources is and can be generated and utilised. As a question of fact, this conflict must be settled by scientific study. Such study shows that, by following the spontaneously generated moral traditions underlying the competitive market order (traditions which do not satisfy the canons or norms of rationality embraced by most socialists), we generate and garner greater knowledge and wealth than could ever be obtained or utilised in a centrally-directed economy whose adherents claim to proceed strictly in accordance with 'reason'. Thus socialist aims and programmes are factually impossible to achieve or execute; and they also happen, into the bargain as it were, to be logically impossible.

This is why, contrary to what is often maintained, these matters are not merely ones of differing interests or value judgements. Indeed, the question of how men came to adopt certain values or norms, and what effect these had on the evolution of their civilisation, is itself above all a factual one, one that lies at the heart of the [matter]… The demands of socialism are not moral conclusions derived from the traditions that formed the extended order that made civilisation possible. Rather, they endeavour to overthrow these traditions by a rationally designed moral system whose appeal depends on the instinctual appeal of its promised consequences. They assume that, since people had been able to generate some system of rules coordinating their efforts, they must also be able to design an even better and more gratifying system. But if humankind owes its very existence to one particular rule-guided form of conduct of proven effectiveness, it simply does not have the option of choosing another merely for the sake of the apparent pleasantness of its immediately visible effect. The dispute between the market order and socialism is no less than a matter of survival. To follow socialist morality would destroy much of the present humankind and impoverish much of the rest (21, pp 6-7).

$ *Gold: The Once and Future Money* reveals truth. As the late Ferdinand Lipps wrote, "The modern gold standard [of the nineteenth century] evolved naturally and was not the result of any conference, but rather the product of many centuries of experience and practice. It grew step by step, almost by accident, through its own force and because of the logic and experience gained with debasement of currencies in the past." The United States dollar circa 2007 and beyond is not likely to escape the inevitable march of history. The story of humanity suggests we will see a new and improved gold standard once again. Nathan Lewis helps us understand how (7, p viii).

documentary narrated by Hoenig, which ended with his apt description of the economy as a living and constantly *evolving* creature. In short, I've copied Hoenig with this letter because I wanted to bring a relatively objective, independent, third-party into this discourse – someone, perhaps, with whom you may wish to confer on the conjectures presented herewith.

I believe the best way to tie this all together may be through an evolutionary analysis of guns and gold, an inter-related arena often relegated to cranks and crackpots. But, as J.K. Galbraith explained, it's all in the eye of the beholder: "The effects of Keynes's *General Theory* was to legitimize ideas that were in circulation. What had been aberrations of cranks and crackpots became now respectable scholarly discussion." Thus it may be of no coincidence that guns & gold – which hold such low esteem amongst contemporary scholars whom imagine their untenable theories float upon pixie dust, high above such crude realities in their lofty ivory towers (see 24, p 317).

But of course President Reagan recognized what I'm about to say is true. Jack Kemp recognized that what I'm about to say is true. And I have no doubt that John Paulson,[$] Jim Rogers, George Soros,[£] Ron Paul, Thomas Hoenig, and several others, including Alan Greenspan, would recognize this truth:

> "Gold and economic freedom are inseparable," wrote the former Federal Reserve chairman Alan Greenspan in 1966. "In the absence of the gold standard, there is no way to protect savings from confiscation through inflation. Gold stands as the protector of property rights. If one grasps this, one has no difficulty understanding the statists' antagonism toward the gold standard." Bring this up in a cocktail party full of Wall Street economists, hedge fund managers, or Beltway public policy wonks today and you'll be roundly laughed out of the punch bowl line. All they lack, we humbly submit, is a little imagination (7, p xiv).[€]

Or, as J.P. Morgan simplified in 1912, "Gold is money. That's it."

In fact, I'll distill Morgan's conjecture further yet:

Gold = Money.

Yes, this truth is well known and has been chronicled in such great detail that there's really little left to add to this topic. But if we build upon this axiom, we find much left to explore with the following conjecture…

$ Paulson & Co. is SPDR Gold Shares biggest investor, with 31.5 million shares, regulatory filings show.
With each share representing a 10th of an ounce of gold, Paulson's hedge fund firm controls the equivalent of about 96 tons of gold, exceeding the holdings of Australia and Kuwait (25).

£ A recent SEC filing shows Soros Fund Management LLC — which manages about $25 billion — increased its investment in the SPDR Gold Shares ETF…, the world's largest gold ETF, by 152% in the fourth quarter of last year (25).

€ CONGRESSMAN PAUL: Your point is well taken. It's interesting that the blame for the Great Depression was misplaced. They blamed the gold standard. We all remember that wonderful article that Greenspan wrote in the *Objectivist*, "Gold & Economic Freedom." He was right on that. He blamed the Great Depression on the lack of a gold standard or the abuse of the gold standard. He said all the right things. Of course, he has rejected those ideas in his later years when he was able to join the establishment (26).

Gold + Guns = Survival.

And herein lies the difficulty, because, despite the fact it seems Soros would concur with Morgan's theory regarding guns & gold, I believe he would dissent with my theory regarding guns, as would Elena Kagan, Sonia Sotomayor, and Mayor Richard Daly, for that matter. Fortunately, as confirmed by the Supreme Court last week,[$] their positions do not reflect the will of the American people.[£]

In fact, if you have the opportunity, you may wish to encourage Mayor Daly to actually *read* this historical judgement, as he has recently made it painfully clear that he is unable to grasp its central thesis.[€]

E Kalani, "the most potent defense of the Second Amendment requires the most adamant exercise of the First Amendment (28)"; and, though you may recognize that this letter may represent an adamant exercise of both Amendments, it is indeed much, much more than that – for, as I have suggested, it tables a unified theory, a solution to several of the most fundamental problems in economics (*i.e.*, **Chapter I-IV**).

So we must press on, exploring my conjecture that "Gold + Guns = Survival" in greater detail by developing an indirect proof – *reductio ad absurdum* – for this theorem.

We shall begin with a two-part post-script with which I ended an equally long and spirited letter to Daniel S. Loeb last October (the entire contents of which you may find in 17, pp 424-464)…

$ Two years ago, in *District of Columbia* v. *Heller*, 554 U. S. ___, this Court held that the Second Amendment protects the right to keep and bear arms for the purpose of self-defense and struck down a District of Columbia law that banned the possession of handguns in the home. Chicago (hereinafter City) and the village of Oak Park, a Chicago suburb, have laws effectively banning handgun possession by almost all private citizens. After *Heller*, petitioners filed this federal suit against the City, which was consolidated with two related actions, alleging that the City's handgun ban has left them vulnerable to criminals. They sought a declaration that the ban and several related City ordinances violate the Second and Fourteenth Amendments. Rejecting petitioners' argument that the ordinances are unconstitutional, the court noted that the Seventh Circuit previously had upheld the constitutionality of a handgun ban, that *Heller* had explicitly refrained from opining on whether the Second Amendment applied to the States, and that the court had a duty to follow established Circuit precedent. The Seventh Circuit affirmed, relying on three 19th-century cases—*United States* v. *Cruikshank*, 92 U. S. 542, *Presser* v. *Illinois*, 116 U. S. 252, and *Miller* v. *Texas*, 153 U. S. 535 — which were decided in the wake of this Court's interpretation of the Fourteenth Amendment's Privileges or Immunities Clause in the *Slaughter-House Cases,* 16 Wall. 36.

Held: The judgment is reversed, and the case is remanded (27).

£ *Heller* points unmistakably to the answer. Self-defense is a basic right, recognized by many legal systems from ancient times to the present, and the *Heller* Court held that individual self-defense is "the central component" of the Second Amendment right. 554 U. S., at ____, ____. Explaining that "the need for defense of self, family, and property is most acute" in the home, *ibid.*, the Court found that this right applies to handguns because they are "the most preferred firearm in the nation to 'keep' and use for protection of one's home and family," *id.*, at ____, ____–____. It thus concluded that citizens must be permitted "to use [handguns] for the core lawful purpose of self-defense." *Id.*, at ____. *Heller* also clarifies that this right is "deeply rooted in this Nation's history and traditions"(27).

€ Chicago enacted its handgun ban to protect its residents "from the loss of property and injury or death from firearms." ….The Chicago petitioners and their *amici*, however, argue that the handgun ban has left them vulnerable to criminals. Chicago Police Department statistics, we are told, reveal that the City's handgun murder rate has actually increased since the ban was enacted and that Chicago residents now face one of the highest murder rates in the country and rates of other violent crimes that exceed the average in comparable cities (27).

PS. In the meantime, Daniel, I'll leave you with two pieces of advice:

(*i*) I just received a letter from Wayne LaPierre which began: *Dear Matt: It is my great pleasure to present you with your new National Rifle Association membership card. Carry it with pride knowing that you're doing more than most Americans will do in a lifetime to promote firearm safety, share your enjoyment of the shooting sports and defend freedom today and for future generations.* Advice #1: Send the NRA $1,000 for a lifetime membership.

(*ii*) I noticed that, on 28 April, 2009, you noted that "we have closed out all of our 'doomsday,', 'fat tail risk' trades (including gold-related investments)" [29]. Thus I might suggest that, after reviewing the paper enclosed herewith, you may want to rethink your long-term position on gold; spot gold traded at $1068 and change on the 13th, which means, of course, that if you would have moved *into* gold, rather than moving *out*, theoretically you could have saved yourself 169 days of dodging bullets and drunk drivers along 8 Mile Road (and the bleary eyes and "investor fatigue" that came with it) [see 29], spent some of that time hunting or fishing, instead—and netted yourself a nifty 62.19% annualized rate of return. I might also add that any of my family members, friends, colleagues, the SEC Chairman, or readers of Forbes.com (see **APPENDIX 2**) who may have headed my advice regarding gold on the 18th of August could have (again, theoretically, of course), stood with 112.02% annualized rate of return on the same day—and, not to mention, of course, stood with much greater liquidity and faced much less systemic risk, and exposure to the rampant dollar devaluation which is presently *en vogue*.

Your job is hard enough the way it is, why make it any harder?

If you'd like to know why – *since the 1971* – the global markets have mispriced and continue to misprice gold, I'd be happy to forward a detailed explanation.

Well, first and foremost, this letter offers, to a certain extent, the explanation I had offered to forward to Loeb.

Yes, gold has indeed surged over the past year, but this observation is quite secondary to the fact that gold offers *evolutionary stability*.

Central banks were created to serve as lender-of-last resort during financial crises, and, under gold standards, that was their sole purpose. However, things became infinitely more complicated with the advent of free-floating currencies. After much trial and error, to keep this complex argument simple, the object of the contemporary central banking game is countercyclical in nature, to "lean against the wind", or, "to take away the punch bowl as the party gets going."

But as inferred by my **EPIGRAPH**, it appears Hoenig is the sole FOMC member brave enough to take away the punch.

To this point, during your recent trip to Ontario to attend the G-7/G-20 meetings, perhaps you had sensed that, not only had Bernacke, Geither, and other members of your administration pimped you out to sell punch so long after the party was over that all the other revellers had nursed their hang-overs and were hard at work on their austerity plans.

I picked up a great book at the Bank of Canada today – *By All Accounts: Outside Perspectives on The Bank of Canada*

(30) – which included a great quote from the July/August 2009 edition of *The Walrus*:

> Former Fed Chairman William McChensey Martin once quipped that the job of a central bank was to take away the punch bowl just was the party gets going – but as of 2009, bank officials the world over have found themselves setting out shooters the morning after a drunken debauch (30, p 118).

Also, it seems to be that you, Chairman Bernacke (although the Federal Reserve Bank is a rather uniquely independent institution,[$] I noted that you did say "we" several times when Chariman Bernacke posed uncomfortably with you during an interview a few days ago) and your administration remain as the last bartenders standing.

In any case, I do hope that you may have time to discuss this with President Hoenig because, despite my belief that you are indeed an intelligent man, no President of the United States has ever sufficiently grasped the esoteric realm of the Federal Reserve (see 24).

> The fundamental relationship between the supply of money and the price of money, better known as interest rates, was obvious to [some] economists – if supply shrinks, interest rates go up. It was not so obvious to many noneconomists, including the President of the Unites States. In fact, Volcker kidded the Administration economists on this point. Charles Schultze recalled: 'Paul said to us, 'It was really a meeting with Jimmy Carter that gave me the idea. Carter said to me, 'Why can't you control the quantity of credit without raising interest rates?' Volcker told us that's what gave him the idea to target money supply instead of interest rates.' Volcker's remark was facetious, of course, an inside joke among professionals about a layman's ignorance of the fundamentals....
>
> Jimmy Carter, like all his modern predecessors, did not have a strong grasp of the issues of monetary policy. Nothing in the experience of of American political leaders prepared them to deal with the subject; the tradition of Fed independence encouraged the notion that money regulation was something left to the experts, a forbidden area where politicians were not supposed to intrude. Richard Nixon, who was well trained for the Chief Executive's job as any modern President, told an interview years later that one of his greatest regrets was that he never mastered an understanding of what went on at the Federal Reserve. Most of the politicians who served in the White House, as well as in Congress, could make a similar confession. As Tony Solomon observed:
>
>> No President really understands these things, but the disturbing thing about Carter was that he tried to use the economic jargon as though he did. He tried to make it seem that he understood the technical arguments when he clearly didn't. A President like Lyndon Johnson never pretended to understand all these things – he was only interested in the bottom line. He would ask: What were the political effects? What would happen to interest rates? What did he have to do in order to deal with it? Carter would enter into technical discussions which he only partially understood.

And perhaps one of the greatest ironies (and tragedies) is that your man Volcker – arguably the most influential Chairman of the history of the United States Federal Reserve – didn't have a much firmer "grasp upon the issues" than

$ In the American system, citizens were taught that the transfer of political power accompanied elections, formal events when citizens made orderly choices about who shall govern. Very few Americans, therefore, understood that the transfer of power might also occur, more subtly, without elections. Even the President did not seem to grasp this possibility, until too late. He would remain in office, surrounded still by the aura of presidential authority, but he was no longer fully in control of his government.

The American system depended upon deeper transactions than elections. It provided another mechanism of government, beyond the reach of the popular vote, one that managed the continuing conflicts of democratic capitalism, the natural tension between those two words, "democracy" and "capitalism." it was part of the national government, yet deliberately set outside the electoral process, insulated from the control of mere politicians. Indeed, it had the power to resist the random passions of popular will and even to discipline the society at large (24, p 11).

Carter, because, despite the fact that Nixon, as previously noted, is regularly lambasted for severing "the dollar's link with gold and [destroying] the world monetary system", by Volcker own admission,[$] this was ultimately Volcker's doing, not Nixon's:

> Volcker engineered the most fundamental change in the world's monetary system since World War II – the dismantling of the Bretton Woods agreement that had made the U.S. dollar the stable bench mark for all currencies (24, p 68).

Of course Volcker was also responsible for the Carter-era Milton Friedman Monetarist Experiment, which imploded with the greatest roller-coaster-volatility that our nation's economy has ever experienced;[£] and this example happens to resonate in a special way, today, as Henry Wallich was the sole voice of reason at the Federal Reserve during Volcker Chairmanship much in the same way that Thomas Hoenig walks "The Road Less Travelled" and stands alone during the present Bernacke Chairmanship:

> In Henry Wallich's thinking, the dizzying volatility was the "pact with the devil" he had warned against – the very consequences he predicted when Paul Volcker first proposed the monetarist system the previous autumn. In theoretical terms, Wallich felt vindicated. The policy dilemma was an inevitable outcome of trying to target the fluctuations of reserves precisely while ignoring the impact on interest rates. In his judgement, this was a fundamental flaw in monetarism that its many advocates ignored or denied. As he explained:
>
>> There are only two things we can peg, interest rates or reserves. I've always believed that whichever of the two things you don't peg will move around rather drastically. If you peg reserves, interest rates will more more drastically. If you peg interest rates, then the money supply will move more. I never believed what the monetarists believe – that if you stabilize one, you will probably destabilize the other. The supply can be held stable, but the demand always varies – so interest rates are very volatile (24, pp 202-203).

Later Wallich added:

> By holding steady to the money supply, you get extreme swings of interest rates, followed by extreme swings of the money supply. The economy is kicked back and forth from the floor to ceiling by a stable money supply. This is how this method would stabilize the economy – by kicking it through the ceiling and the floor (24, p 220).

Thus you may begin to grasp why I may not share your confidence in Paul Volcker.

But in any case, perhaps President Reagan may have been the most well-versed contemporary U.S. President

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$ [The] subtleties were lost on the President who made the choice. "Poor old Nixon, Volcker said, "was not a deep thinker in these matters. He had no intellectual conviction about floating. His position was, 'You tell me which rules you want to play under, fixed or floating, and I'll play it that way, but you're to make sure the best interests of the United States are taken care of'" (24, p 339).

£ The financial markets had never witnessed anything so stark and sudden, so dizzying. In early April, the Federal Funds rate hit a peak close to 20 percent. Ten weeks later, it had fallen to 8.5 percent. Commercial paper, certificates of deposit, three-month Treasury bills – all of the many instruments of short-term borrowing followed the same steep plunge, falling by as much or more in two months' time.
The Federal Reserve, when it seized the initiative in the Fall of 1979, had forced up the prince of money by nearly 100 percent in order to combat inflation. Now the Fed was allowing the prince of money to fall, even more rapidly, back to the original level.
…. Paul Volcker would confide to colleagues later that he considered the dramatic easing of interest rates executed in the spring of 1980 as perhaps his largest mistake as Federal Reserve Chairman (24, p 206).

insofar as these complex issues are concerned, but even he was not confident enough of his grasp upon it to follow through with what he ultimately wanted to do, which was, of course, attempt to restore the stable, centuries-old institution that Volcker had hastily dismantled:[$]

> Paul Volcker's domain – monetary policy – was itself a large mystery to most of the men gathered around the President.
>
> Ronald Reagan, ironically, had a surer grasp of the subject than any of his senior political advisers – ironic because, in most realms of government policy, Reagan was a passive executive, with a weak grasp of details. He often left both the particulars and the strategic choices to his circle of advisers. They worked out a consensus among themselves, then brought the decision to him for ratification. When it came to money, however, Reagan knew what he wanted and expressed it forcefully.
>
> "Most of the major players in the White House – Baker, Meese, Mike Deaver – don't know much about monetary policy," one of their colleagues explained. "The President probably has the most developed understanding of any of them" (24, p 379).

I agree with this assessment, by the way; I once had the chance to discuss this subject with President Reagan, himself. But truth be told, I don't think you'll get it.

$ From the beginning of his campaign, Reagan was convinced that to return to full economic health, the country needed to return to a gold standard. Reagan intended to make it part of his election platform. In the primaries in 1980, when he broadcast his famous "talking head" television commercials outlining his economic plan, he had also recorded a commercial promising a return to the gold standard, which at the time had been gone for only nine years. With a gold standard, the country would avoid monetary screwups, interest rates would collapse, and there would be an even more dramatic boom as the difficulties of exchange with a floating currency evaporated.

The ad didn't run. As was the case many times both before and after, he was talked out of it by his monetarist advisers. The official 1980 Republican platform ultimately read: "The severing of the dollar's link with real commodities in the 1960s and 1970s, in order to preserve economic goals other than dollar stability, has unleashed hyperinflationary forces at home and monetary disorder abroad, without bringing any of the desired economic benefits. One of the most urgent tasks in the period ahead will be the restoration of a dependable monetary standard —that is, an end to inflation" (7, p 274).

So perhaps it may prove useful to utilize a more readily accessible analogy.

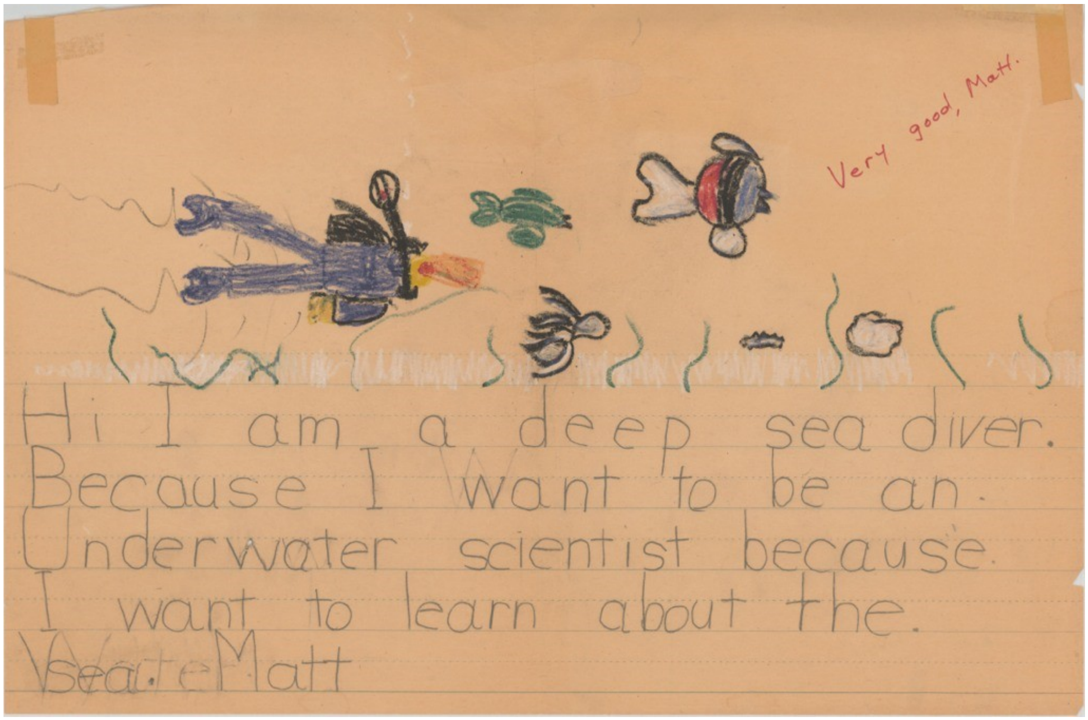
The story is told of a young boy, a precocious child prodigy. No love, no nourishment, no experience, no earthly need was left unattended. He was taught to read, think, solve problems, hunt & fish; in May of 1976 he looked like this:

and, a few years later, like this…

His wise parents broadened his horizons, sailed with him upon the seven seas, exploring our world of islands…

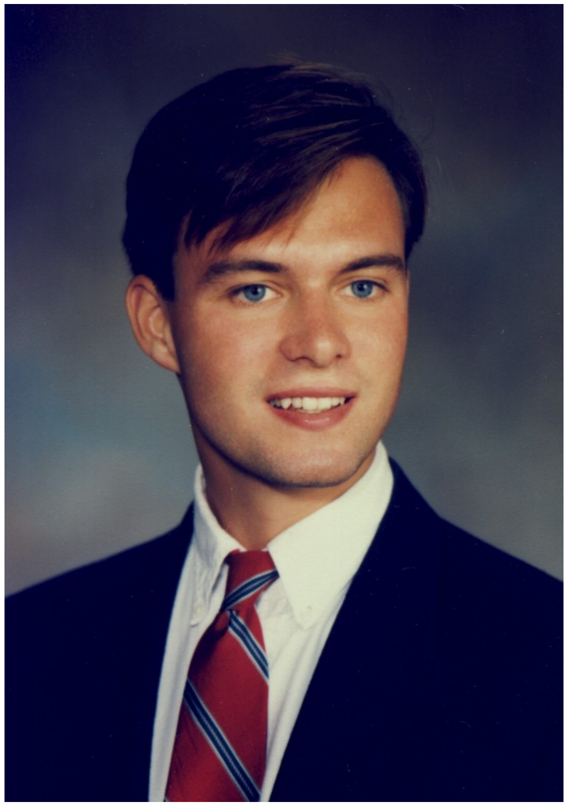
He was given brand new BMW for his sixteenth birthday because he liked to drive fast and attended boarding school in Colorado because he liked to ski even faster.

He was given a deep blue Mercedes convertible when he headed off to USC because, for as long as he could recall, he had wanted to surf and "learn about the sea":



He arrived at the University of Southern California, found fellowship in Sigma Chi,

and, generally speaking, reaped the fruits of being a young, good-looking, and privileged American…



But unexpected problems arising from unintended consequences began to surface.

He no longer yearned to hunt nor to fish; and the more refined and worldly he became – in the words of the great poet Daniel S. Loeb – the more he preferred "snacking on shrimp cocktails and sipping chilled Gewürztraminer"…

Curiously, however, his father and grandfathers continued to seek the simple pleasures of hunting and fishing, just as they had when the young man was a boy:

To make matters worse, it seems the young man's behavioural changes were accompanied other unusual traits and related behaviours.

He wanted nothing more than to read – indeed, he acquired any book his heart desired, read it at his leisure, and read it in any setting he thought most relaxing and conducive to the acquisition of truth and knowledge.

After many, many years of reading, the young man's father proposed that he may enjoy work – that is, to say, that he may wish to pursue a *career*.

The young man considered this strange proposition at length – but he had become confused, you see – and, after concluding that American industry and the American economy and American industry were causing more harm than good (see 19), decided to return to his reading instead. His father watched with curiosity. But, one day, after careful and considerable deliberation, a time-tested solution occurred:

He decided to take away the punchbowl, and see it that might help.

Needless to say, the young man was not pleased with this new arrangement, for he had developed a great taste and a considerable appetite for punch. And this is where our little story get's interesting. As it turns out, taking away punch bowls has the power to set-off the most extraordinary set of miracles, efficiencies, super-natural phenomena – including the discovery of a tenable solution to the most fundamental problem in economics (*cf.* **Chapter IV**). You may also find it curious that the young man soon found renewed interest in hunting and fishing:

And this was all, *quite naturally*, because the young man soon discovered that fishing was utterly necessary for survival…

In time, he began to reflect upon this priceless lesson, and – for powerful reasons which shall soon become quite clear – endeavoured to to help teach his own young son:

In time many memories began to resurface, present themselves in new light, and many, many new and interesting questions began to emerge.

His father had taken him on safari, but what was it that he was trying to teach him?

What value lessons from the pages of natural history, the *Struggle for Life*, had the *enfant terrible* – the prodigal son sporting black Ray Bans, white puka shells, and a Southern California tan – failed to see all those years ago?[$]

[$] Nothing is easier than to admit in words the truth of the universal *Struggle for Life*, or more difficult—at least I have found it so— than constantly to bear this conclusion in mind. Yet unless it be thoroughly engrained in the mind, I am convinced that the whole economy of nature, with every fact on distribution, rarity, abundance, extinction, and variation, will be dimly seen or quite misunderstood. We behold the face of nature bright with gladness, we often see superabundance of food; we do not see, or we forget, that the birds which are idly singing round us mostly live on insects or seeds, and are thus constantly destroying life; or we forget how largely these songsters, or their eggs, or their nestlings, are destroyed by birds and beasts of prey; we do not always bear in mind, that though food may be now superabundant, it is not so at all seasons of each recurring year (31).

More specifically, why did his father *still* love to hunt and fish?

Why would a hard-working man with more gold than Croesus sit in boat on Lake Gogebic for the opening of Walleye season every spring? Why did he spend his precious leisure hours walking fence rows and and stalking forests with a double-barrel shotgun in the crook of his arm? Why would a man with one house on North State Parkway, another on the shores of Lake Gogebic, another on Key Largo, and a beautiful *Blue Star* choose such primitive pursuits, when he could, like his wayward son, once upon a time, be "snacking on shrimp cocktails and sipping chilled Gewürztraminer"?

Why does his best friend, Ron Holden – *whom happens to have as much gold or more* – share his passion and join him on his hunting and fishing expeditions?

In short, after much time and consideration, the man who had been unable to grasp theses illusive truths during his youth, concluded at last that the answer is, essentially, because they are two of our truest patriots, two of the greatest super-heroes to walk the face of he earth, and, moreover, the very embodiment of *The American Dream*.

As the great hunter, fisher, and gatherer, Euell Gibbons, once wrote,

> Why bother with wild food plants in a country which produces a surplus of many domestic food products?
>
> With as much reason, one might ask, why go fishing for mountain trout when codfish fillets are for sale in any supermarket? Or why bother with hunting and game cookery when unlimited quantities of fine meat can be purchased at every butcher counter?
>
> Why do millions of Americans desert their comfortable and convenient apartments and split-level houses for a time each year to go camping under comparatively primitive conditions in our forests and national parks? For that matter, why does anyone go for a walk on a woodland trail when one could be speeding along a superhighway in a high-powered automobile?
>
> We live in a vastly complex society which has been able to provide us with a multitude of material things, and this is good, but people are beginning to suspect that we have paid a high price for our plenty. Each person would like to feel that he is… capable of independent existence, and this is hard to believe when everything that we eat, wear, live in, drive, use or handle has required the cooperative effort of literally missions of people to produce, process, transport, and, eventually, distribute to our hands. Man simply must feel that he is more than a mere mechanical part in this intricately interdependent industrial system. We enjoy the comfort and plenty which this highly organized production and distribution has brought us, but don't we sometimes feel that we are living a second-hand sort of existence, and that we are in danger of losing all contact with the origins of life and the nature which nourishes it?
>
> Fortunately, there is a saving streak of the primitive in all of us. Every man secretly believes that if he were an Adam, set down in a virgin world, he would not only be able to survive, but could also provide well for his Eve and any number of little Cains and Abels….
>
> There are thousands of spots in this country where, with the requisite knowledge, a man could live solely on the bounty of nature… With the judicious, if incongruous, use of a home freezer, he could stay fat the year around by 'reaping where he did not sow.'
>
> Probably very few of us will ever be faced with the necessity of living off the country for any extended period of time. The outdoor skills, necessary to the survival of our ancestors, are now utilized in the service of recreation (32, pp 1-2).

Yes, Gibbons (32) stumbled upon great truths with these words, truths that he held *intuitively*, yet did not quite fully grasp their relevance. And yes, there are countless people today – from all walks of life – *who do not feel this way, who do not believe this contact with The Struggle for Life* is important, and this finding happens to be consistent with a fundamental evolutionary principle, *The Law of Superabundance*: far more will be born than will survive. Although it is indeed true that "very few of us will ever be faced with the necessity of living off the country for any extended period of time" in the *short-term* horizon, this is clearly *not* true over the *long-term* horizon.

So, why does my father enjoy hunting?

Why does Ron Holden love hunting?

Why do they travel great distances and often at great expense in pursuit of this ‘primitive’ form of subsistence, held over from a time when man had *no* leisure time at all?

What great truth had eluded Gibbons? Why has my intense yearning to fish, hunt, forage, camp, hike, and sail as much and as often as I’m able been so vigorously re-awakened. And why, more than anything else in the world, do I want to teach my wife, young son, friends, and relatives these skills? Why should you learn and teach your daughters these skills? Why would these skills represent the greatest birthday present you, the President of the United States of America, could ever offer a family member, friend, and our fellow Americans?

I imagine neither my father nor his friend Ron have thought about this topic long and hard enough to table a specific answer to this deep question, which is quite natural, since evolution favours those who *imitate* evolutionary stable strategies without stopping to ask why (because many of our ancestors’ competitors who stopped to ask why starved, were clubbed to death, eaten by a tiger, *etc.*). In short, they didn't need to ask why, they merely needed to *imitate* the *evolutionarily stable strategies* employed by their fathers, grandfathers, and forefathers whom had, most likely, been reindeer hunters in northern Europe as the last ice-age receded.

Why imitate?

> What imitation rules… should [you] choose, when [you have] the opportunity to imitate another individual in the same player position but [you're] otherwise constrained by severe restrictions on information and memory? …If [you] want a learning rule that leads to non decreasing expected payoffs over time in all stationary environments, then [you] should (a) always imitate (not experiment) when changing strategy, (b) never imitate an individual whose payoff realization was worse than [your] own, and (c) imitate individuals whose payoff realizations are better than [your] own with a probability that is proportional to this payoff difference (33, p 9).

Yes, Gibbons had uttered great truths, truths that he held *intuitively*, yet—perhaps like most of us who hunt and fish—did not quite fully grasp their true relevance, but a very useful game-theoretical overview (*i.e.*, 19) clearly illustrates innumerable (*i*) negative externalities, (*ii*) geopolitical uncertainties, and (*iii*) astrophysical phænomena that could instantly render us all with *a'ohe nao 'ai i ka papa a*.

Please allow me to elaborate a bit on the logical implications which follow from this important point. At the outset I promised that you might discover that “you may choose to hold your ideological ground and remain faithful to the principles of your political party, or you may choose to endeavour to struggle to increase the prospects for my childrens', my childrens' children, your children, and their childrens' survival – but that you can't choose both – and this is why. If we're willing to agree that "imitate=do not change strategy" and that "do not imitate=change strategy", then perhaps you'll grasp the essence of my point because, essentially, the central thesis of the Republican party is "do not change strategy" while the Democratic party's central thesis is "change strategy". Indeed, *Change* was the touchstone of election campaign. And, with this touchstone in mind, perhaps somewhere in the Dakotas, Montana, Alaska, or New Hampshire, you may have encountered a bumper sticker on the back of a Ford F-250 or Chevy Silverado which read: "I'll keep my *Guns*, my *Money*, and my *Freedom* – you can keep the *Change*." And, if you had, perhaps you may have simply laughed to yourself and thought, "what an ignorant redneck." But that would have been dismissing evolutionary stability, because, even if the man behind the wheel didn't know exactly why what he was saying was true, the beauty of it all is that *he didn't have to*, he merely needed to trust his intuition, subconsciously realizing, perhaps, that "If you want a learning rule that leads to non decreasing expected payoffs over time in all stationary environments, then you should (a) always imitate (not experiment) when changing strategy, (b) never imitate an individual whose payoff realization was worse than [your] own, and (c) imitate individuals whose payoff realizations are better than [your] own!" He merely needed to imitate (33)!

Alas, however, this is a complex subject, and, worse yet, it appears perhaps we may lay some blame upon Charles Darwin (see 11) for your entrenched, systemic, and collective errors in this regard, since in order "to enhance the implausibility of truly catastrophic mass dying, Darwin holds that 'the complete extinction of the species of a group is generally a slower process than their production" (34, p. 1300).

In short, this has had the adverse effect of painting ourselves into a teleological corner (see 11), and, alas, has evolved into *The Problem of Keynesian Economics*. Thus it should come of little surprise that Keynes – the intellectual role-model for our most powerful and popular central bankers (including Volcker, Bernacke & Geither) – was one of the many to fall into the trap of teleological thinking. Consider a telling excerpt from *Economic Possibilities for our Grandchildren*:

> For the first time since his creation man will be faced with his real, his permanent problem-how to use his freedom from pressing economic cares, how to occupy the leisure, which science and compound interest will have won for him, to live wisely and agreeably and well....
>
> I look forward, therefore, in days not so very remote, to the greatest change which has ever occurred in the material environment of life for human beings in the aggregate. But, of course, it will all happen gradually, not as a catastrophe. Indeed, it has already begun. The course of affairs will simply be that there will be ever larger and larger classes and groups of people from whom problems of economic necessity have been practically removed.

> The critical difference will be realised when this condition has become so general that the nature of one's duty to one's neighbour is changed. For it will remain reasonable to be economically purposive for others after it has ceased to be reasonable for oneself.
>
> The pace at which we can reach our destination of economic bliss will be governed by four things-our power to control population, our determination to avoid wars and civil dissensions, our willingness to entrust to science the direction of those matters which are properly the concern of science, and the rate of accumulation as fixed by the margin between our production and our consumption; of which the last will easily look after itself, given the first three.
>
> Meanwhile there will be no harm in making mild preparations for our destiny, in encouraging, and experimenting in, the arts of life as well as the activities of purpose (35, pp 5-7)![$]

In any case, since you may be wondering just how I intend to help fix this mess, I'm pleased to report I have a rather simple solution:

Chairman Bernacke and Secretary Geither appear to me as two teenagers, cruising around in a brand new Hanna red BMW and deep blue Mercedes convertible *that someone else had paid for* – that my children, your children, and our grandchildren will struggle to *continue* to make payments on for years on end.

Thus it also occurred to me that someone had to figure out how to take away their punch bowl.

And, in fact, it may not be all that hard to do.[£]

$ The result of the continuing dominance of the gold standard through the Bretton Woods system was that the inflationist doctrine of "lowering interest rates" was never fully debunked, and instead completely saturated the academic economics establishment. The principles of economics upon which the gold standard was founded were scrubbed clean from textbooks after World War II. Frustrated by the inability to carry out their policies to their conclusion, the descendants of Keynes instead strengthened their position by indoctrinating two generations of economists to their way of thinking.

The postwar inflationists developed all manner of intellectual constructs in flavor of their arguments to "lower interest rates." One of the most enduring has been the Phillips curve, which is the assertion that more inflation leads to less unemployment. It's merely the inflationary malinvestment boom rendered graphically.

The Keynesian inflationists set about "lowering interest rates" in earnest beginning in 1970, leading to the break of the dollar's link with gold in 1971. The result, of course, was that U.S. interest rates skyrocketed to levels not seen in nearly two centuries. The resulting turmoil caused the Bretton Woods system of fixed dollar exchange rates to finally shatter in 1973, leaving each country free to "lower interest rates" as they saw fit. The era of floating fiat currencies had begun.

The predictions of the Phillips curve never did pan out. As the inflation combined with progressive tax structures to drive economies around the world into sharp contraction, inflation and unemployment rose in tandem, a condition that was known as stagflation. From the classical perspective, this was blandly predictable—currency instability and rising taxes are always the primary suspects in any serious economic downturn—but from the standpoint of a theoretical structure that touted the virtues of inflation, it was shockingly converse. Unable to conceive of the idea that 40 years of indoctrination into inflationism would deprive them of the tools for dealing with an inflationary recession, the inflationists piled on more of the same bad medicine: more inflation to take care of the unemployment and higher taxes and price controls to take care of the inflation. In the United States, this policy mix was touted by James Tobin of Yale University.

The notion of inflation itself had become queerly divorced from any concept of monetary mechanisms. By disguising the devaluation as "lowering interest rates," the Keynesians eventually fooled themselves (7, pp 204).

£ *The Gulf States' dollar peg is causing... harm. One of the world's leading international macroeconomists argues that they should "peg the export price" as this delivers automatic accommodation to terms of trade shocks while retaining the credibility-enhancing advantages of a nominal anchor.*

The possibility that some Gulf States, particularly the UAE, might abandon their long-time pegs to the dollar is getting increasing attention. It makes sense. The combination of high oil prices, rapid growth, a tightly fixed exchange rate, and the big depreciation of the dollar against other currencies (especially the euro, important for Gulf imports) was always going to be a recipe for strong money inflows and inflation in these countries.

The economic dynamism – most striking in Dubai – is admirable and fascinating, but also now clearly indicative of overheating. Indeed inflation, as predicted, has risen alarmingly. Among other ill effects, it is producing unrest among immigrant workers. An appreciation of the dirham and riyal is the obvious solution.

Most often discussed as an alternative to the dollar peg is a peg to a basket of major currencies. This would be an improvement. Kuwait, Indeed, I sympathize with young Alexander, whom, upon hearing of the infinite nature of the universe, wept. “When his friends asked him what was the matter, he replied, 'Is it not a matter for tears that, when the number of worlds is infinite, I have not conquered one?'” (37).

However, I trust that, in time, I will have the opportunity to get my message through. And, despite the fact that my plan is not exactly new news for them, I do not believe the *basis* for my suggestion has been tabled – that is, namely, to help stabilize the global economy by taking away the Fed's punch bowl.

You see, if OPEC and other oil-producing nations were able to see the merit of pegging oil to gold rather than the dollar, it would also effectively *force* G-8 nations to adopt gold-standard like monetary and fiscal policies – it would, in essence, take away the punch bowls; this argument is long and complex (see 38-45), but, naturally, I would be happy to elaborate upon request.

In the meantime, however, I'll leave you with this final thought:

> It took philosophers… John Locke and… Adam Smith to provide the intellectual leadership to bring the Western world onto a hard currency. Academics didn't fully accept today's softmoney rationalizations until after 1936, years after it had become commonplace in world governments. Even so, it took John Maynard Keynes, the self-taught writer with a bachelor's degree in mathematics, to lead the change. When ambitious academics sense that supporting hard money will advance their careers, rather than retard them, they will support it *en masse*. As the political tide flows away from soft money and toward hard money, when the wheel has turned once again as it has so many times in the past, the economic *intelligentsia* will sense the change and produce a flood of rationalizations about why the world needs a gold standard, just as they now produce a flood of rationalizations about why the world does not.
>
> Good money will once again be recognized as a cornerstone of good government. After a few years, nobody will remember that it had ever been any other way (7, pp 420-421).

Happy Independence Day, Sir.

Sincerely,

Matt Funk, FLS[$]

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for example, made this switch a couple of years ago.

But a basket peg does not address the fact that when oil prices rise generally (not just against the dollar), as in recent years, monetary policy is constrained to be looser than it should be. Similarly, when oil prices fall generally (not just against the dollar), as in the 1990s, monetary policy is constrained to be tighter than it should be (36).

$ If this [letter] shall but inspire the rising generation with a more ardent love of their country, and unquenchable thirst for liberty, and a profound reverence for the Constitution of the Union, then it will have accomplished all that its author ought to desire. Let the American youth never forget that they possess a noble inheritance, bought by the toil, and sufferings, and blood of their ancestors; and capable, if wisely improved, and faithfully guarded, of transmitting to their latest posterity all the substantial blessings of life, the peaceful enjoyment of liberty, of property, or religion, and of independence. The structure has been erected by architects of consummate skill and fidelity; its foundations are solid; its compartments are beautiful, as well as useful; its arrangements are full of wisdom and order; and its defences are impregnable from without. It has been reared for immortality, if the work of man may justly aspire to such a title. It may, nevertheless, perish in an hour, by the folly, or corruption, or negligence of its only keepers, THE PEOPLE. Republics are created by the virtue, public spirit, and intelligence of the citizens. They fall, when the wise are banished from public councils, because they dare to be honest, and the profligate are rewarded, because they flatter the people, in order to betray them (46, p 326).

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APPENDIX I

IN DEFENSE OF PRIVATE CLUBS

Subject: Objects of Association
Date: Wed, 04 Feb 2009 13:29:32
From: Matt Funk
To: Marsha Pender

> The condition of membership shall be absolute and unqualified loyalty to the Government of the United States of America.
>
> The primary objects of this association shall be:
>
> 1st. To encourage and promote, by moral, social, and political influence, unconditioned loyalty to the federal government, and to defend and protect the integrity and perpetuity of this nation.
>
> 2nd. To inculcate a higher appreciation of the value of sacred obligations of American citizenship: to maintain the civil and political equality of all citizens in every section of our common country, and to aid in the enforcement of all laws enacted to preserve the purity of the ballot box.
>
> —*Articles of Association*, The Union League Club of Chicago, 19 December 1879[$]

Greetings Marsha,

I just made a new reservation to bring my wife and my son, William, to the club to celebrate his 6th birthday this weekend, discovered President Owen's letter (2) to the former Governor on your home-page, and decided to write you a quick note.

You may recall that I'm a reciprocal member from The Halifax Club.

William and I love everything about the club – the beautiful rooms, genuine service, inspiring artwork, impressive and useful library, and your superb athletic facilities. Of course we enjoy eating in the dining rooms, the pub, and room service, too. William especially loves the pool. But your fine facilities, fabulous location, and fantastic service is not what I value the most. And, although William is still a little too young to understand, what I value most are your *Articles of Association*.

Yes, the past is secure, but that is all (*cf 3*).

Bidding you Godspeed,

Matt Funk

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$ Union College, the Union League Club. These and thousands of other familiar US landmarks, along with more than six hundred towns and cities bearing the name, testify to a once vital theme in American popular discourse. Few of those who today pass through, disembark at, or otherwise inhabit these places are likely to recognize the Union appellation as meaningful, much less as stating a profound aspiration to political unity. But from the late colonial period to the early Gilded Age, American leaders and ordinary citizens constantly expressed—in everyday talk and grand administrative planning, as well as in place names and architecture—their dreams of a 'more perfect' national union.

Beginning in the mid-1880's Americans' references to union declined sharply. So did the public testaments they left behind: of the eight states admitted since 1890, and the four lands that remain US territories today, just two included a (single) Union town or county, each established well before statehood. In succeeding years the practice was in fact reversed, as former Union cities, streets, and so forth were renamed or dismantled (1:ix).

APPENDIX II

TOP-10 BUY RECOMMENDATIONS FOR 2009

Subject: SEC Seeks Comment on Alternative Short-sale Rule
Date: Tue, 18 Aug 2009 04:37:08
From: Matt Funk, FLS
To: SEC Chairman

Dear Mr Chairman,

I am writing to inform you that you have made a great mistake.

In light of the fact that your office has "asked for comments" regarding your short-selling proposal, it seems that it may be my duty to share a few comments I emailed to family and friends, and posted at forbes.com (below) moments ago. I have spent the past several years investigating the underlying, evolutionary stability of the financial markets, and although I will certainly not impose with a long discourse, in short, I will humbly suggest that the sound and logical economic and evolutionary theories which argue "capitalism on the way up, socialism on the way down" will not work, also apply to your new proposal: "free markets on the way up, impeded markets on the way down" is inherently unstable for many of the same reasons.

If you find that there are members of your staff who are unfamiliar with the theories which inform these strong conclusions, I will humbly suggest that you refer them to FA von Hayek's The Constitution of Liberty, Adam Smith's timeless essay of 1776, or *On the Origin a Species by Means of Natural Selection, or the Preservation of the Favoured Races in the Struggle for Life* (1859), by Charles Darwin, Esq., FLS.

I realize that these are relatively difficult times (relative, that is, to the past 100 years, in terms of evolutionary time, we 'ain't seen nothin' yet), and I do appreciate your great service to our nation; if you would like to hear a more detailed argument, or if I may be of service in any way, please do not hesitate to ask.

Comment: *Posted by mattfunk | 08/18/09 03:03 AM EDT | forbes.com*

Yet another inherently destabilizing, bad idea. Needless to say, when we discover that the SEC is trying to figure-out how to bar the emergency exits shut while the markets are smouldering and full of highly combustible derivatives, run for the doors while you can.

Top-10 buy recommendations for 2009:
1) XAU and/or 2009 Ultra High Relief Double Eagles
2) US Treasuries
3) USD
4) RMB
5) WMT
6) Montana rangeland
7) South Dakota "East River" farmland/wildlife production systems (East of the Missouri River).
8) 2010 Ford F-450 Super Duty, XL, turbodiesel, 4x4, crew cab, six speed manual.
9) 2009 Winchester Model 70, .30-06, MOA trigger system, Swavorski Z6, 1-6x24 EE scope.
10) 2006-2008 Hallberg-Rassy 62 (fishing gear, hollow-keel full of Double Eagles & ammo).