



# *The* Wonder Springs Chronicle

10 August 2011; Volume 13, Number 33

## The Wonder Springs Chronicle

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## Reality Check

**When politics are used to allocate resources, the resources all end up being allocated to politics. — P.J. O'Rourke**

It's the middle of summer in the Pacific Northwest so the old adage about "keep your powder dry" is not all that difficult. But with the way things have been unfolding over the last week or so, I am reminded of our "5—Gs" God, Gold, Grub, Gumption and Guns.

Last week we added a little detail to our proposal that Federal spending should be cut to 14 percent of GDP over ten years and healthcare spending to 12 percent; with the first installment being the institution of national catastrophic illness coverage, that would be funded by a percentage of Federal tax revenues, probably administered by the individual states.

The reason for these proposals, as seems obvious to anyone outside the American political class, is that U. S. Federal spending is going to have to decrease much more rapidly and much more deeply than anyone in Washington currently believes

is necessary. The best I have heard from conservative Republicans is reductions to 18 percent of GDP; and so far Democrats have said a lot of things, but none of them seem to apply to any type of spending curtailment, or to the real world in which we live.

It is not that I am such an uber-libertarian, or a libertarian at all, but rather when you look at history, we are falling in line with all the former greats. There are multitudes of examples, but when you look at the world seriously, European countries are basically nation states formed out of the former Roman Empire.

The current European Union is basically an Act of Man to recreate that behemoth, with a little ancient Babylonian mysticism thrown in. Well, they seem to have made it through a decade, and even with some very serious financial restructuring, the Eurozone may become one of history's poorest



big experiments in human governance, led to destruction by modern Italy and Rome being to big to save.

In the Balkans, where Yugoslavia was created at the end of World War II, from 1991 and for almost a decade you saw its violent splintering into six republics and two autonomous provinces within Serbia.

The end of the Cold War also saw the relatively peaceful breakup of the former Soviet Union into the Russian Federation and fourteen other independent states, which was accomplished by design rather than waiting for total economic collapse.

Putting this into the truth of a natural law context; the Federal government of the United States needs to disengage in a lot of its twentieth century progressive political bureaucratic self-importance; or it will collapse. This is not a Democrat or a Republican problem, it is a national problem, the choice is stark and it is real.

What that really means is that the United States of America again needs to return to being the United States of America, because of natural law energetics. That should not be too difficult to accomplish for that was the history of the United States and its struggles for the first century of its existence.

The current economic debate is really about an Act of Man better known as GDP or Gross Domestic Product. It is defined in simple arithmetic by the formula  $GDP = C + I + G + N$  where C — stands for consumption; I — for investments; G — for government spending; and N — for the net difference between imports and exports.

This is a nice, simple Industrial Age formula that always yields results proving that bigger is always better, continued centralization is the dynamic, and every other factor of a universe of unknown variables and unintended consequences, can be converted into money; foreign exchange, convertible, fiat money. But when the future holds opportunities well beyond making oodles of stuff, for cheap; we need a better way to define all of human culture.

Furthermore, if that was not bad enough, this faux world of economic commerce can only be

overseen by a group of independent national finance managers, who share really one thing in common, individually and nationally, and that is evolving self-interest (financial greed); virtually independent of political human realities, especially when those realities don't fit within the universal appetite of the god mammon.

So to put this second week of August 2011 in global context, we see the future of global economic development, as defined by the twentieth century Acts of Man, coming in direct contact with a wall of natural law energetics, simply defined in common terms as "limits to growth."

Before we get into the dirty details, there is nothing in the GDP numbers that allow for human beings to be human. Your contribution will and must fit into one or more of the GDP components, but there is no way to track or estimate such human emotions such as fear, confidence, or just simple fatigue. The human personality is uniquely complex and individual, yet shares with others, multitudes of common virtues and faults.

Furthermore, there is also no way to value anything that cannot or will not be converted into money during the recorded time period. Such things such as the value of America's common lands, only count for something, if we must fix the roads, or fight a forest fire, or receive funds for timbers sales or mineral leases. It is one thing to say we can sell government buildings (which will have an established market value); it is quite another to forego maintenance on public lands because they don't generate enough toward the GDP to deserve a budget allocation, except when they become some part of a bundled line item for destructive Acts of God.

Finally, as determined in the Investment contributor, investments are only investments in the compound interest sense, because that is the way the equation can track the movement of money; like through publicly traded equity, bond markets, etcetera. So if an enterprise creates what we call herein, enterprise agricultural returns of ten, twenty or one hundred fold in short order, only the cashin' in portion contributes to GDP, while the retained earnings and the now too prevalent "money sitting on the sidelines" by their very nature increase the opportunity costs of seeking more true wealth; through a juggernaut of taxes, regulations and bureaucratic bungling.

So let's get into the global economic chaos we have seen take place since we met last week just after the "Reprehensible, Repugnant, Reactionary" extension of the U. S. Federal Debt Ceiling.

Following the unfolding global events, it is becoming clear that the Germans are not going to backstop the rest of the Eurozone, simply because they can't. We mentioned Italy is too big to save, but should the global economy continue to falter, France, Germany's strong companion(?); doesn't have the financial strength to continue to help, and may soon become another of Europe's hopeless hope. If that happens can the United Kingdom be that far behind, especially with the internal riotous unrest, the internationally acceptable, belt tightening austerity measures have just released.

The Investment money on the international GDP equation is headed to emerging markets. There, compound interest investments can more than likely be multiples beyond what you can receive in the stodgy, debt laden, developed markets of the United States and Europe. Sure there is more risk, but just look at the money you can make, and once you make it you can bring it back to America for safekeeping, just like the emerging market countries are doing themselves. Downgrade or no downgrade, U. S. Treasuries and the dollar are the bastions of security and the currency of the world and no amount of bloviating by the Chinese will change that; unless the politicians keep us from getting this house in order.

So does of future of global economic growth lie with the BRICs? (Brazil-Russia-India-China) Well if you ignore all of the human and other factors we discussed earlier, you can take it to the bank, or the hedge fund, or whatever financial instrument that floats your boat. The BRICs are the world's four largest GDP economies outside what could be called the western culture, developed world. However, at least compared to the United States, the BRICs have some problems that are not politically correct, but will greatly be a drag on resultant returns, especially if their export oriented markets have no markets (Reminder: There are certain limits too growth not associated with strictly monetary transactions.)

I realize I'm an economic heretic, but it will get worse.

Brazil is the world's seventh largest economy and eighth largest in purchasing power and the largest country in size in South America. It was colonized by the Portuguese in the fifteen century and is currently about 74 percent Roman Catholic. It is a constitutional republic with a strong president, essentially the same type of government as the United States. The current President is Dilma Rousseff who shares a similar political philosophy with Barack Obama and his love of big government central planning. It has had a reliable central government since 1992.

Russia, or the Russian Federation is the residual of the former Soviet Union, with a similar to Brazil, stable recent history dating from 1991, except for a major ruble devaluation in 1998. Russia has been somewhat associated with Europe and western culture since the Romanov Dynasty of the seventeenth-century. The major religion is Russian Orthodox, which dates back a thousand years. With the communist Bolshevik revolution in 1917 and after World War II it became the largest and most powerful country in the world, next to the United States, until the break-up. Russia, in terms of GDP is the world's eleventh largest economy.

India is the ninth largest economy, is the seventh largest in physical size and with 1.2 billion people the second most populous next to China. It is a parliamentary democracy and became independent of British rule in 1947, but was subsequently partitioned with Muslim Pakistan and finally completed its constitution in 1950. India his home of the Hindu culture tracing it's history back 4500 years, but just like Brazil and Russia, India can trace its capitalistic roots to 1991, and in 2010 its per capita GDP was US \$1,265.

China is the world's second largest economy, a little over a third the size of the United States, and the world's most populous nation with 1.3 billion people. Like India, China is one of the worlds' oldest civilizations. As the world's last major communist country, its religion is basically atheist, which dates from the Chinese Civil War in 1949. China's political climate could best be described as "market socialism" or stateism, which began in earnest in the early 1980s. In 2010 its per capita GDP was US \$4,382. Virtually all economists and others consider China the big gorilla in the room. While China still has a diverse wildlife population, none could or should be considered true gorillas.

The headline on the Drudge Report Monday afternoon read: Barackalypse Now. Much of that must be due to his belated teleprompter speech he gave earlier in the day. I still have to think that the president must believe his words create some sort of reality, for I cannot truthfully understand how anyone can talk so much and have so little of anything else to contribute; nothing else.

If we add the rest of Washington politicians to Obama's charisma, perhaps they just exhibit a spoiled only child syndrome, who was told continually you can be all you want to be, and was never given the opportunity to learn, that the outside real world requires something beyond wanting to play with your personal toys.

The BRICs are attracting investors because that is where you can make money and even create some real wealth. Why is that not happening in the USA?

We've been harping on two big deals for two weeks now, the Federal share of GDP spending needs to be brought significantly under the amounts deemed appropriate by both political parties. Barring any other circumstance, if Federal current spending were 14 percent of GDP, right now with tax receipts the lowest they have been in ages, at 15 percent of GDP, we would be running basically a \$1.5 trillion surplus.

If all Americans had basic catastrophic health coverage, the most common form of bankruptcy would be eliminated, and free natural markets for healthcare would, could, should, be available to everyone, even with preexisting (catastrophic) illnesses.

Let us continue into government regulations on virtually everything. We shall begin with the disclosure on entrepreneurial investment prospectuses which basically are forced to state: We are crooks, all we want to do is to take your money, spend it totally on ourselves, or ship it to offshore tax havens, where we will run when our Ponzi scheme comes apart, and we can retire in ease and comfort using your money.

So how is that all that much different than what is happening on Wall Street and world trading centers for the last week or so? Your money has disappeared forever, over \$5 trillion just last week, and the chance of it coming back is zero.

Furthermore this is the second time this has happened in three years.

At least with a individual investment in an entrepreneurial company you should be able to do your own due diligence and actually understand the risks that were inherit in your investment. At Wonder Springs we happen to like precious metals mining as a means to create entrepreneurial growth financing opportunities, but we just want your money after all; to buy a Bentley?

Why is Washington DC still on holiday? I know they worked so hard over the last six months passing one poor excuse of a debt ceiling increase, coupled with spending cuts to be determined in the future, that is if they don't change their minds.

How about some incentives, or better yet, no disincentives, to start new companies which I have to state again, and ad nauseam, is the only source of new jobs, not small businesses, not large corporations.

The United States was the engine that made the British Industrial Revolution happen. Likewise it still is the destination resort for all the people who want to bring change, invent, innovate, create wealth; and continues to change the world by giving the BRICs the opportunity to grow and develop. Brazil, Russia and India have almost two decades each of attempting such endeavors, with the people who stayed home. Yet are we to believe that these are now the lands of economic opportunity?

At the Firework's Concert in Spokane a couple of weeks ago, I was joined in my seating area by about a half a dozen young Russian families with very small children. Why are they not still in Russia, trying to help Putin make a modern nation out of her peasants, with over three hundred years of oppressive servitude? Similar things could be said about Brazil, who is still into creating a planned economy through social justice, and India with thousands of years of religious cultural heritage that says just let the karma happen, and be thankful in your next life you don't come back as a rat.

Finally there is the big gorilla in the room that manipulates everything, to the maximum extent possible, because that is the nature of atheistic regimes. They have so many people, they have come so far, and they make so much stuff that we cannot get anywhere else, that our leveraged credit-debt society needs to keep our people literally fat, dumb, and passive. So

is the problem with the great ape, or is it here at home, with our lazy political leaders and corporate executives?

I would submit there is nothing that the BRICs can do better or faster than the American people if they are given a chance. We have proved it over the centuries of trial and error and hard work. Rural America has become an economic wasteland over the last century, as we built all our Industrial Age toys in Babylonian urban centers, yet we still share the same culture, language and entrepreneurial heritage, which our big behemoth juggernaut enterprises seem to have lost. It is time that American enterprises begin playing in the major leagues again, and let the global farm system take care of its own!

*“Life’s greatest gift is not that you achieved your dreams, but that you enabled others to achieve the theirs.”*