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"If you live beyond your means, you'll one day have to live beneath your means." —Ron Paul, R-TX, Congressman and former presidential candidate

"If you put the federal government in charge of the Sahara desert, in five years there'd be a shortage of sand." —Milton Friedman, economist

"Government is not the doctor. It is the disease." —H.S. Ferns, author

Tax and Financial Strategies

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WEALTH CREATION STRATEGIES

A Quartet of Books for Making Sense of the Financial Crisis and Showing Ways to Protect Yourself

While countless books claim to explain and even predict financial cataclysms, few come through. Four recent books do an amazing job of explaining how bubbles happen and pop, each from a different vantage point. One discusses specific actions you can take to protect yourself from the aftermath. The books intersect and reference each other in the ideas presented, even if not by name.

Mass mood can be volatile

Niall Ferguson's *The Ascent of Money: A Financial History of the World* (2009 paperback edition) gives a fascinating history of finance and explains how financial institutions create and add to wealth. But they can also subtract: Ferguson shows that money amplifies our tendency to overreact and that booms and busts are products of, at root, our emotional volatility. **Nassim Nicholas Taleb's** *The Black Swan: The Impact of the Highly Improbable* shows that history, including financial history, is primarily driven by rare and mostly unpredictable events that have, in the end, an enormous impact. **Thomas E. Woods, Jr.'s** *Meltdown: A Free-Market Look at Why the Stock Market Collapsed, the Economy Tanked, and Government Bailouts Will Make Things Worse*, shows that government actions, particularly control over the supply and "price" of money (i.e., the interest rate paid on funds), exacerbate those emotionally volatile mood swings that create many seemingly unprecedented financial events. **Robert R. Prechter, Jr.'s** *Conquer the Crash: You Can Survive and Prosper in a Deflationary*

Depression (2nd edition), describes how emotions as reflected in prices of investment assets, especially stocks, can be quantified, measured and, to some degree, predicted. As he puts it, "shared mood trends and collective behavior appear to derive from a herding impulse governed by the [unconscious]...pre-reasoning portions of the brain." He shows that the cataclysm we have suffered so far is probably just the tip of the iceberg and explains how to increase or at least salvage some of your net worth in a deflationary collapse. In sympathy with Taleb, he also asserts that "rarity does not equate to impossibility." All four books either infer or state outright that the economy will get far worse before it gets appreciably better. (Unfortunately, I agree.)

Organized chaos

Ferguson points out that accurately predicting the timing and magnitude of financial crises is difficult at best because relationships within complex financial systems are non-linear and, even, chaotic. **Taleb** argues that such collapses are unpredictable, except for what he terms "gray swans," which can to some degree be predicted and mitigated by applying fractals to finance. (Fractals are numerical or statistical measures and patterns that are somewhat preserved across scales of size; the large resembles the small or, as Prechter puts it, a fractal is "an object that is similarly shaped at different scales." River tributaries, snowflakes and lightning are all composed of smaller repetitions of

themselves and are, therefore, examples of fractals.) **Woods** shows that credit crises are exacerbated by central banks, which expand credit to unsustainable levels. **Prechter** demonstrates that fractals can be used to show roughly where we are in both the minor and grand scheme of financial growth and contraction. While Taleb incorrectly credits the scientist Benoit Mandelbrot with the idea that stock markets can be described as fractals (he claims he independently figured this out in about 1960), Prechter correctly attributes this discovery to Ralph Nelson Elliott (who published his model of fractal market patterns as early as 1938). Since fractals look like waves and the idea began with Elliott, Prechter calls his brilliant amplification of Elliott's work "Elliott Wave Theory." (He also goes far beyond Mandelbrot in showing that a special type of fractal, which he calls a "robust fractal," appears only in life forms, not inanimate objects such as clouds, mountain ranges and seacoasts. Robust fractals are growth processes, such as the branching found in trees, lungs, circulatory systems and the upward bias of Elliott waves; they are governed by Fibonacci numbers and ratios; and their pathways are *probabilistically* predictable.)

Extinctions, economics and ecosystems

Ferguson likens the financial system to evolution and asks whether we are on the brink of a "great dying" in the financial world—which would qualify as a Black Swan, similar to the

end-Permian extinction that killed off 90 per cent of the Earth's species—and which *was* a Black Swan event. **Taleb** suggests that increasing the size and interlocking of financial institutions, while reducing volatility and giving the appearance of stability, increases the odds of a devastating Black Swan of global economic collapse. **Taleb**, too, points out we have moved from a diversified “ecology” of small banks with varied lending policies to an increasingly homogenous ecology that all but assures far graver crises. **Woods** shows that in the absence of the Federal Reserve or some other central bank, we would go through more numerous but far less devastating recessions, mirroring **Taleb's** view that we would be far better off if financial institutions were allowed to go bust on occasion. **Prechter** provides, in my view, irrefutable evidence that debt levels are so large that a great liquidation must, at this point, occur, partially via repayment of debt and largely by bankruptcy, which is immensely deflationary.

Inflations and deflations

Ferguson points out that money is a matter of belief, faith and trust and that this is even truer for debt, the foundation of which is the underlying credibility of a borrower's promise to repay. He shows that the innovation of fractional reserve banking, in which \$90 of the \$100 you deposit in your account is lent to someone else, who in turn deposits the \$90 and from which the bank lends \$81 and so on, allows the creation of credit and, hence, money (“inflation”). He points out that when the first person asks for his money back a domino-like effect can be set into motion causing the supply of money to “contract as swiftly as it expanded” (“deflation”). If this were to occur economy-wide, it would qualify as one of **Taleb's** Black Swans. **Woods** echoes the Austrian School of Economics' prediction that the system is at great risk for just such an event and that credit expansions must be inevitably followed by contraction. **Prechter**, using Elliott Waves in conjunction with the same (and arguably even deeper) understanding of the credit cycle, argues

we have seen the beginning of such a credit contraction and that it must complete itself before economic growth can begin anew.

Life is not a game

The parallels between the books are remarkable. **Ferguson, Woods** and **Prechter** all believe the age of leverage is now ending; **Taleb** infers agreement. **Ferguson** and **Taleb** argue there is inherent instability in a financial system because the future is essentially unknowable. **Ferguson** no doubt picked up from **Taleb** the idea that life and financial history are not like games of dice, where odds can be measured, but rather outside the realm of the calculable, with unmeasurable uncertainty because life and finance do not operate on bell curves. (Using bell curve or “game” methodology, the swan dive the markets took in 2008 should never have happened in the history of the universe.) I think they would all agree with **Ferguson's** assertion that we may be living through “the painful deflation of a multi-decade ‘super bubble.’”

Ferguson writes as if he's read **Prechter** when commenting that “financial markets are like the mirror of mankind, revealing every hour of every working day the way we value ourselves and the resources of the world around us.” **Taleb** and **Prechter** speak as one in **Taleb's** explanation of the problem of induction: the sometimes utter failure of forecasts when trying to predict based on past events. His story of the turkey, which is cared for and fed by the nice farmer for 1,000 days and thinking all is well before suffering a Black Swan event, echoes a major point of **Prechter's**: that stability can lead to complacency, which increases the taking of unwarranted risks, which in turn leads to disaster. They also concur in what **Taleb** calls the “fallacy of narration”: that trying to fit the past to current events (by trying to explain them, as if there is cause and effect that can be identified) is a sucker's game. The Dow didn't move up by 100 points one day because investors think interest rates will stay low; they were staying low yesterday when the Dow moved down 200 points. The Dow moved down one day and up the next because it did and nothing more

except, as **Prechter** shows, fluctuations in mass mood.

Ferguson is a great read by one of the world's great historians. **Taleb** meshes philosophy, finance, economics, psychology, statistics and literature into an elegant (even if sometimes erratic) whole. **Woods** explains more about the mortgage crisis and its larger sibling, the debt bubble, in something that could be read in a few hours than all the newspaper and magazine articles of the last few years combined—and that's assuming the articles got it right, which they didn't. But **Prechter's** work, although lacking the eloquence of a **Ferguson** or **Taleb**, is the most important from a standpoint of ideas that can actually be used to preserve one's wealth. The trouble is, without reading the other three in the quartet, you may not believe he could be correct. After all, his forecasts are, to be blunt, dire. Yet, while it's great to think positively, we must be realistic about events over which we have no control in order to give us the opportunity to prepare for them.

Reverting to the mean would be bad enough...

While **Taleb** understands the limits of prediction, he infers that a great collapse could occur. **Ferguson** gives perspective on this; there have been many such crashes throughout history. **Woods** shows how government has screwed things up badly enough to precipitate one of **Taleb's** Black Swans (and continues to do so). But **Prechter**, with clear logic and amazing charts pointing to extraordinary overvaluation and a compelling case for a reversion to beyond the mean, demonstrates that the time is now—that we have seen the final wave up in a 200-year Grand Supercycle and that a cataclysmic crash will occur. He hedges a bit—it could occur over decades like the Japanese crash (the Nikkei Dow down over 70% twenty years after its peak; real estate down over 40%)—but it might happen in a historical instant. Along the way, he debunks numerous myths about money, credit, stock market behavior, bank safety and a need for a central bank. He shows that most of what we think we know about economics, markets and

finance fly in the face of reality.

Prechter makes numerous suggestions on where to put your wealth. Most people won't act to the degree that Prechter suggests, but it makes sense to at least go part-way with some of your net worth—after all, what if he's right? He lists safe banks, jurisdictions and insurers (for annuities) and shows ways of investing that just might make money in a deflationary collapse. As he puts it, it's all confidence, and this is where he links Austrian economics to mass psychology: "So long as confidence and production increase, the supply of credit tends to expand. The expansion of credit ends when the desire or ability to sustain the trend can no longer be maintained. As confidence and production decrease, the supply of credit contracts." He then connects the dots: "The psychological aspect of deflation and depression cannot be overstated." Combining Austrian economics and Elliott Waves, all depressions originate in a change in social mood toward pessimism, which brings about deflation of the excess credit built up during the optimistic period of easy lending. No deflations, however, are exactly alike, which accounts for each of them appearing as a Black Swan event to most observers. As Ferguson shows, human economic activity is replete with such events and, as all four authors would agree, there's no reason to think that future history won't be filled with such crashes as well. The trouble this time, as you will find after reading all four books, is that this credit expansion was by far the greatest ever and, as Prechter puts it,

the bust, however long it takes, will be commensurate. We've heard the "pop" of the bubble. Now it's only a question of how quickly we get past the carnage caused by deflation and how much worse government will make it.

I first read Prechter's *Elliot Wave Principle* over 25 years ago. When he and his co-author, A. J. Frost, wrote the book in 1978, the markets were in disarray, inflation was raging and many worried that the United States might not survive. Gold was on its way to a then astounding \$800 per ounce, long-term treasury rates were headed to 16% and stocks had been stuck in a wide trading range for over a decade. Prechter called for a massive move up from about 800 on the Dow to perhaps 4,000. Almost every market commentator thought he was nuts.

A time to relearn nature's laws

The markets went far beyond this and it took much longer than he dreamed. Yet page 36 of *Conquer the Crash* shows that the form of the raging bull markets from 1921 to 1929 and from 1974 to 2000 was identical (the picture of these similar fractals is worth the price of the book for its near-perfect beauty). History repeats, but it can take longer than we might imagine. The problem at a peak is we must relearn the basics. As Prechter and Frost wrote—and bear in mind, it was 1978: "In the name of a right that does not exist within the laws of nature, man has forced acceptance of paper which represents nothing but costs everything, he has bought, spent and promised at an exponential rate, creating in the process

the greatest debt pyramid in the history of the world, refusing to acknowledge that these debts must ultimately be paid in one form or another. Minimum wages that deny employment to the unskilled, socialization of schools which smothers diversity and discourages innovation, rent control that consumes housing, extortion through transfer payments and stifling regulation of markets are all man's political attempts to repeal the natural laws of economics and sociology, and thus of nature. The familiar results are crumbling buildings and rotting railroads, bored and uneducated students, reduced capital investment, reduced production, inflation, stagnation, unemployment and ultimately widespread resentment and unrest. Institutionalized policies such as these create increasing instability and have the power to turn a nation of conscientious producers into a private sector full of impatient gamblers and a public sector full of unprincipled plunderers.

"When the fifth wave of the fifth wave tops out, we need not ask why it has done so. Reality, again, will be forced upon us. When the producers who are leeches upon disappear or are consumed, the leeches who remain will have lost their life support system, and the laws of nature will have to be patiently re-learned."

In light of this comment and the date it was written, consider the ramifications of the fact that the markets went far beyond what he thought they would. As Ferguson shows in his financial history, the bigger the bubble, the more painful is the aftermath.

Making Work Pay Credit May Result in Smaller Refunds for DINCs, Studio Employees and Others

The new "Making Work Pay Credit," or **MWPC**, slices up to \$400 off the withholding and the final tax bill per worker (\$800 off the withholding and tax bill for a married couple, even if only one works), subject to a phase-out at \$75,000-\$95,000 "Modified" Adjusted Gross Income for single filers and \$150,000-\$190,000 for joint

filers.

Since the decreased withholding takes into account the lower year-end tax, the MWPC should not change year-end results. However, it can result in under-withholding for:

1. Double-income couples (DINCs).
2. Taxpayers with wages under the

MWPC threshold but whose total income, including that from other sources, exceeds that threshold.

3. Taxpayers paid by concurrent multiple employers, such as many who receive residuals from multiple studios (e.g., actors and musicians).

Since withholding tables began to reflect this new credit in April 2009,

withholding in 2009 reflects 75% of the full-year credit. Single filers (or “married but withhold at the higher single rate”) making no changes to their W-4 and earning less than \$75,000 yearly had \$300 less withheld per employer this year than last year. Married filers earning less than \$150,000 yearly had \$600 less per employer withheld. Seemingly, they should be fine at year-end. However, if there are multiple W-2s, more than one wage earner, or additional non-wage income there could be serious under-withholding.

Take the common instance of two wage-earners, both of whom claim “married” on their W-4s. Each employer not only assumes that the wages paid are all the couple earns, but also takes into account the MWPC and withholds \$800

less. The trouble is there is only one \$800 credit per family, not two. During the year, they’re getting a double-benefit via withholding. Are you beginning to see the problem? If they normally break even at year-end and they don’t adjust their withholding, they will owe \$800 (\$600 for 2009).

Worse, there may be no credit at all. Say each spouse earns \$100,000. Each employer withholds as if the couple gets the full MWPC (\$800 for a married person claiming “married” on his or her form W-4). The trouble is the combined income exceeds the allowable threshold for the MWPC. If they normally break even, they will owe \$1,600 when filing their tax return (\$1,200 for 2009).

If a wage earner works for multiple employers at different times of the year, additional under-withholding won’t be

an issue because the credit is pro-rated as wages are paid. For example, if there are four employers in succession, each for three months, each employer takes into account \$200 of the MWPC. However, if one works for or is paid by multiple employers at the same time, each employer may withhold as much as \$800 less than without the MWPC. Many actors and studio musicians have ten or twenty employers paying residuals, which can obviously result in serious underwithholding issues. If both spouses work and one of the spouses is paid by ten employers throughout the year, the under-withholding may be as much as ($\$800 \times 10 =$) \$8,000 (or \$8,800 if their combined income exceeds the income level where the MWPC phases out).

The Wealth of Individuals: Part 6

Buy and Hold is Not Forever

Part 1 of this series explained the importance of debt avoidance, stable growth, relative stability in one’s personal life and beginning a savings and investing program earlier rather than later. Part 2 discussed the ultimate source of wealth: the protection of property, which fosters the incentive to build savings used to invest in capital equipment, the essential component in creating a standard of living magnitudes greater than in societies lacking this protection. Part 3 expanded on an idea alluded to in Part 1: that increases and decreases in wealth seem to occur in spurts, and there are times when capital preservation is so important it’s ok to earn little or nothing on your capital. Part 4 shed some light on risk management and revealed a method of assessing one’s tolerance to risk, with the goal of increasing the odds of participating in upward spurts and avoiding downward ones. Part 5 elaborated on the idea that it’s sometimes ok to earn little or nothing, especially in deflationary times when earnings can be spectacular despite wealth seemingly standing still. In this installment, we’ll briefly discuss where stability of ownership, also known as

“buy and hold,” hits a brick wall in helping one to build wealth.

Hold me forever—not

Warren Buffet became famous by buying and largely holding great franchises. Through Berkshire Hathaway, he has owned The Washington Post, Coca Cola and Wells Fargo for years. However, his oft-quoted comment, “Our favorite holding period is forever,” doesn’t mean he actually holds stocks forever. In fact, although his average holding period (via Berkshire Hathaway) is over 20 years, he has sold many stocks in less than ten because what he really does is buy and hold until the firm’s prospects change.

There are two problems with a “buy and hold forever” approach. One is the fact that growth throughout nature—including human progress—seems to follow a pattern of three steps forward and two steps back. As we have recently seen, this includes progress in the form of stock market valuations. Robert Prechter (www.ElliottWave.com) predicted the collapse in stock values in 2008 using this idea. Even though I thought the likelihood of a collapse in an election

year was remote, I resisted the temptation to invest because Prechter’s Elliott Waves helped me see the potential for such a plunge.

Nothing is forever

The other problem is that “buy and hold” is inconsistent with and contradicts the tenets of free market capitalism, even when it’s been tampered with by government. Free market capitalism is sometimes referred to as “creative destruction,” a term coined by Joseph Schumpeter in his 1942 work entitled *Capitalism, Socialism and Democracy* to denote a “process of industrial mutation that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one.” In other words, it’s a system in which competition improves productivity (and hence, increases living standards) by eliminating outmoded means of production and replacing the old with the new. A classic example is the decline of buggy-whip manufacturers during the ascension of the car. Another is the destruction of companies producing mainframe computers as prices of personal computers plummeted. It’s a

variation of the reverse of Gresham's Law —“bad money drives out the good”—which posits that in the absence of laws requiring acceptance of fiat money lacking gold or other commodity backing, good money would drive out the bad. Likewise, in free markets in which goods are voluntarily exchanged and in which contracts are adhered to, the good tends to drive out the bad. With free and open competition, less efficient and more costly goods and services are generally driven out by better goods and services.

This has everything to do with the creation of wealth. While some companies stay at the cutting edge for decades, most do not. Few adapt over the long run. There are no known instances of buggy whip dealers thinking, “We're really in the transportation business, so we'd better

start producing cars.” IBM, after it became a behemoth, was known for losing many of its most creative employees because it often refused to “think outside the box” of mainframes. You really don't want to own a buggy whip manufacturer or, even, a company like IBM that is failing to adapt to new realities.

Defenders of the buy and hold approach would likely argue that when buying stock, a fractional ownership of a business, we're buying production machines. We are purchasing capital equipment, inventory, patents, goodwill and, often most important, management, which is responsible for sustaining the value of all of the rest. After all, management can adapt and keep a business on the cutting edge. The problem is it often fails to do so. We saw in 2008 this can also be true for mutual fund managers, a number of

whose previously sterling track records were shredded.

The bottom line is nothing is forever. Of the 500 largest U.S. companies in 1957, only 74 were still among the largest just four decades later. Most shrank or went bankrupt. Five years after *In Search of Excellence: Lessons from America's Best-Run Companies* appeared a third of its spotlighted companies were having problems. Wealth is too easily lost by those who fail to adapt, especially in an era in which the mass of knowledge is estimated to double every 18 months. As emphasized in Part 3 of this series, there are times to step away from the plate. The greatest spurts in net worth occur when we are able to exclaim, “This is a no-brainer.” We need to recognize and accept the idea that those moments are few and far between.

Auto Donations: The Kars4Kids Example

When I wrote that motor vehicle donations would thankfully go away in the December 2005 issue of *Wealth Creation Strategies*, I really thought they'd, well, go away. As in stop, no more, done, over.

How wrong I was.

Kars4Kids has been airing their annoying radio jingle on talk-radio, apparently nationwide. If you haven't heard it, sing Disney's “It's a Small World After All” to yourself and you'll get the idea. Annoying though it may be, I feel compelled to share. Here's how it goes: “1-877-KARS4KIDS. . . K-A-R-S, cars for kids . . . 1-877-KARS4KIDS. . . Donate your car today.”

Worse from the point of view of intellectually honesty, the ad claims that donors will “get a maximum tax deduction allowed by law.” While technically true, they fail to inform that the maximum deduction is the “fair market value” with a cap of \$500 unless the charity sells the car for more and sends a form to the donor and the IRS stating the actual sales—price which

Congress decreed is the fair market value. In other words, the 1998 Olds that would be worth \$2,000 if the head gaskets hadn't blown will get you a deduction of maybe \$200, regardless of what you may have been led to think.

While I initially reacted to the ad by changing the station every time it started to play, I realized that my distaste wouldn't be reflected in the Arbitron ratings (the Nielson ratings of radio). So, I decided, instead, to research their organization.

At www.CharityNavigator.com I looked for their income, rating and fundraising costs as a percentage of income. I couldn't find them. So, I Googled “Kars4Kids” and found the name by which the IRS knows them: “Joy for Our Youth.” I toggled back to the Charity Navigator site and found them, with their two-out-of-four star rating, which I thought rather generous considering that almost 34% of their roughly \$16 million in gross yearly receipts are used for fundraising. That compares with an average of about 10% for the charities to which I donate (you can view a partial list of those at www.DougThorburn.com/Fall2008

on page 4). A high percentage of gross income spent on fundraising may suggest the charity is more of a business, but I could be wrong.

Charity Navigator offers “comments” and “news” on each of the charities they cover. While there was nothing under “comments,” the “news” tab more than made up for it. I learned that all the funds raised are funneled to a different (but obviously intimately related) charity, Oorah. The Kars4Kids web site claims it's “an international organization providing for the physical, emotional and spiritual needs of distressed and at-risk youth.” While it sounds non-denominational, it's misleading, since Oorah's mission, which isn't mentioned on either the Kars4Kids site or in their ads, is to increase Jewish children's awareness of their heritage. While I have no problem with the idea, the ads mislead, with which I do have a problem.

Worse, the ad claims, “What's more you'll receive a free vacation voucher good for three days and two nights.” It doesn't say where. While googling, I learned about the \$50 you must pay upfront for the opportunity

to reserve that two-night vacation. My best guess is you get to sit for a—are you ready?—timeshare sales presentation, which are confirmed in various Internet posts (even though

the charity claims otherwise). While the tax deduction of a charitable donation must be reduced to the extent anything of value is actually received, I'd argue for any client who

promised he'd never get scammed by such a charity again that nothing of value was received.

Amazing Quotes

The best of intentions...

The 1992 Federal Housing Enterprises Financial Safety and Soundness Act (known as the GSE Act) forced Fannie and Freddie to purchase loans made under pressure of the 1977 Community Reinvestment Act (CRA). Fannie and Freddie, those GSEs referred to in the GSE act (Government Sponsored Enterprises) had to loosen underwriting standards to purchase these loans, which involved 95% or greater loan-to-value ratios and borrowers with impaired credit so long as the blot was over one year old. The result “sank the GSEs, overwhelmed the housing finance system, and caused an expected \$1 trillion in mortgage loan losses by GSEs, banks, and other investors...[and] an expected 10 million or more home foreclosures.”

—Edward Pinto, former chief credit officer at Fannie Mae, “Acorn and the Housing Bubble,” *The Wall Street Journal*, November 13, 2009

...but what have we learned?

“I find it hard to distinguish between the actions of FHA and the self-denominated subprime lenders. The results are the same—unsustainable loans that prolong and perpetuate our nightmare of foreclosures.”

—Edward Pinto testifying before a House panel on FHA's increasing default problems.

Referring to FHA loans requiring only a 3.5% down payment, with nearly a quarter of loans originated in the last two years in trouble, Congressman Barney Frank, D-MA, insists these mortgages are needed to “keep prices from falling too fast.” Silly me; I thought

bad mortgages, provided by those often referred to as “predatory lenders,” got us into this mess. So, Barney, you aren't suggesting that people who can't afford to purchase a home should keep buying in order to keep prices from falling, are you? And you aren't suggesting that the FHA become a “predatory lender,” *are you?*

Crony capitalism looks like...

“We're all Democrats now.”

—GE CEO Jeffrey Imelt, a registered Republican, commenting on the pork GE will bring in from government-stimulus grants, the reason he's pushing his managers hard to devise plans for government money (crony capitalism at its finest) and why business people need to support the Democrats' stimulus package. Imelt reportedly instructed executives leading GE's major business units “to put together swat teams to get stimulus money, and [identify] who to fire if they don't get the money.” Imelt got an invitation to serve on the President's Economic Recovery Advisory Board.

The hidden agenda is...

[The cap-and-trade climate bill is] the most significant revenue-generating proposal of our time.”

—Senator Ben Cardin, D-MD (in case there was ever any doubt about their real goals).

“Every time the state assumes an additional function such as health insurance, child care or benefits for the aged, the needs for close family ties become weaker....It may be that one of the most effective ways of increasing

allegiance to the state is through national health insurance.”

—Victor Fuchs, Stanford University economist

Is it intellectual dishonesty or delusion?

“The mortgage crisis is laissez-faire gone wrong.” Professor George Reisman's response at Mises.org: With “more than one hundred federal agencies and commissions...The ability of the media to ignore all of the massive government interference that exists today and to characterize our present economic system as one of laissez-faire and economic freedom marks it as, if not profoundly dishonest, then as nothing less than delusional.”

So what's coming?

“A great crash is coming, and I don't want my name in any way connected with it.”

—Austrian economist Ludwig von Mises, explaining to his fiancée why, in mid-1929, he stubbornly turned down a lucrative job offer from an important Viennese bank.

Civil war, anyone?

“But a lot of things are unprecedented about the current push for a health care bill. Never has such a major expansion of the welfare state been passed without bipartisan support and broad approval from the public. And rarely has the corruption of a program been exposed while it is still awaiting final approval in Congress.”

—Peggy Noonan, author and columnist