Austerity is a Consequence, not a Punishment

By John Mauldin | April 20, 2013

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Austerity Is a Consequence, Not a Punishment
San Francisco, Carlsbad, Tulsa, Nashville, and Brussels

Two seemingly different questions and comments from readers and friends crossed my path the last few days, but I saw a definite connection between them. The first question was, Why do we pursue austerity when it seems not to work? And then many readers wrote to ask this week, What do I think about the real problems that are surfacing in the Rogoff and Reinhart assertion that debt above a ratio of 90% debt to GDP seems to slow economic growth by 1% (especially since I have quoted that data more than a few times)? We'll deal with each question separately and then see if we can connect the dots.

The first question comes from correspondence I have had with Ms. Aga Barberini, who works in the investment world in Milan, Italy. She came there from Poland some 20 years ago. The first part of her note contains the question on austerity, but I'll pass along more of her letter, as I think it will give us all some insight into the seeming chaos that voters are facing in choosing a path for Italy. (And I hope my editors leave some of the charming grammar in her letter. You can almost hear the musical tones of her Italian English.)

> I am worried for Italy, too. When I came here 20 years ago Italy was beautiful and rich; it was very good for a girl from Eastern Europe. Nowadays a lot of Italians go to Poland and settle down.
>
> I guess it's going to get worse, the austerity will be tighter. Please tell me why should we go ahead with austerity when IMF last month came out saying that for every point of tax lifting in Italy we lose 2.5 points of GDP? First they said that the tax lifting would produce only 0.5 points of GDP slip, now they say they were wrong.
>
> The political chaos is lasting. My husband says, why don't we vote for the comedian in June (as it is almost sure we are going to vote again soon)? Sure, Grillo is right in a lot of things and would clean the politics a lot. (By the way, did you know that the oldest bank in the world, Monte dei Paschi di Siena's mess is reaching 20 billion euros? They took away the money doing ... the bank transfers ;-) The Banka d'Italia didn't see; CONSOB, the Italian SEC, didn't see...). But how can a serious person vote for the comedian?

> But I say sometimes the one who is good for the revolution isn't necessarily good to rule the country. Do you remember the guy called Lech Walesa? Thanks to him the communism [in Poland] was fallen – we all agree. Polish people were so thankful to him that we appointed him for the first democratic president. Than we found that he didn't have enough background to rule the country and enough culture to represent us on the international stage.
>
> I will vote Berlusconi again. I can't stand communists even if they call themselves "the left."

(Sidebar: I was in Siena last summer and visited the ancestral home of the bank mentioned above, the world's oldest, founded in 1472. I marveled that any bank could last so long. At the Palio *last summer we met one of the senior managers of the bank.* It turns out that it was local politicians who ran the board of the bank, and now the authorities are saying management hid the problems from them.)

So let me try to answer you, Aga.

Austerity has come to have a rather bad name of late. The complaint is that it just doesn't work. Which is somewhat like complaining that the roof is leaking because someone else hassn't fixed it. If by "working" we mean that austerity is supposed to produce growth, then of course it doesn't work. By definition, austerity means you are reducing a fiscal deficit, and doing so will reduce growth in the short term. That begs the question, why would you want to do that? Don't we want growth? Let's look at why a country might need to endure austerity.

"Austerity" is now the name we give to the situation where a government has to limit its spending during an economic downturn or recession. The governments of the developed world amassed huge sovereign debts in the course of what is known as the Debt Supercycle. As interest rates fell, borrowing to finance consumption and spending became easy. But now that decades-long supercycle has ended.

One way of looking at the problem of swollen sovereign debt is to tsay that it goes back to Keynes (although one cannot actually blame the current problems on his economic theory). Keynes argued (roughly) that when there is a normal business-cycle recession a government should spend money to counterbalance the private-economy slowdown. That means that the government should borrow money and run fiscal deficits to help boost spending and the economy. According to his theory, this would make the recession not as deep and help bring the economy back to recovery sooner.

This was tried after World War II in numerous countries in the developed world, and it seemed to work. "We are all Keynesians now" is a famous phrase uttered by Milton Friedman and attributed to US President Richard Nixon. It is popularly associated with the reluctant embrace of Keynesian economics in a time of financial crisis, by individuals such as Nixon, who had formerly favored less interventionist policies. (The phrase was first attributed to Milton Friedman in the December 31, 1965, edition of *Time* magazine. In the February 4, 1966, edition, Friedman wrote a letter clarifying that his original statement was, "In one sense, we are all Keynesians now; in another, nobody is any longer a Keynesian.") (Wikipedia)

The problem that arose was that most countries rarely followed through on the second part of Keynes's prescription, which was to pay back the debt when times were good. Rather, the debt just continued to accumulate. But, because interest rates were dropping, the size and cost of the debt became less of an issue.

The *Bang!* Moment

And, as Rogoff and Reinhart showed through their massive data collection and work on sovereign debt crises, published in *This Time Is Different* and elsewhere, debt is not a problem until it becomes one. And then it reaches a critical mass and you have what they called the ***Bang!*** moment.

I want to review some of their work, which will help us understand the reasons for austerity, but first let's deal with the controversy of the moment. There has been some considerable debate this week among economists about a paper Rogoff and Reinhart published *after* they wrote their book. Recent detailed work suggests the analysis in that paper is flawed and that there are actual programming errors in their spreadsheets. My inbox almost exploded the last two days as friends and colleagues sent me links to multiple sources talking about the problems with Rogoff and Reinhart's work and asked for my thoughts. Given that I find *This Time Is Different* one of the more important books of the last decade, let me provide some context.

In 2010, economists Carmen Reinhart and Kenneth Rogoff released a paper, "Growth in a Time of Debt." Their main result was that "… median growth rates for countries with public debt over 90 percent of GDP are roughly one percent lower than otherwise; average (mean) growth rates are several percent lower." The work suggested that countries with debt-to-GDP ratios above 90 percent have a slightly negative average growth rate.

This has been one of the most cited stats in the public debate during the Great Recession. Paul Ryan's Path to Prosperity budget states that their study "… found conclusive empirical evidence that [debt] exceeding 90 percent of the economy has a significant negative effect on economic growth." The *Washington Post* editorial board takes the R&R conclusion as an economic consensus view, stating that "… debt-to-GDP could keep rising – and stick dangerously near the 90 percent mark that economists regard as a threat to sustainable economic growth." (from the Next New Deal site and many other links sent to me)

> Next New Deal (nextnewdeal.net) had this analysis:
>
> In a new paper, "Does High Public Debt Consistently Stifle Economic Growth? A Critique of Reinhart and Rogoff," Thomas Herndon, Michael Ash, and Robert Pollin of the University of Massachusetts, Amherst successfully replicate the results. After trying to replicate the Reinhart-Rogoff results and failing, they reached out to Reinhart and Rogoff, and they were willing to share their data spreadhseet. This allowed Herndon et al. to see how how Reinhart and Rogoff's data was constructed.
>
> They find that three main issues stand out. First, Reinhart and Rogoff selectively exclude years of high debt and average growth. Second, they use a debatable method to weight the

> countries. Third, there also appears to be a coding error that excludes high-debt and average-growth countries. All three bias in favor of their result, and without them you don't get their controversial result.
>
> (You can get further details at http://www.nextnewdeal.net/rortybomb/researchers-finally-replicated-reinhart-rogoff-and-there-are-serious-problems. And there are other sources here and here.)

I and many others who are concerned about the growth of debt quoted that research. As we approach that 90% level in the US, it has become a prominent feature in certain circles. But I want to emphasize that The Rogoff and Reinhart paper mentioned above is a later work than their book. To my knowledge, no one is disputing the work in their book. Their book, *This Time Is Different,* is basically just an analysis of their very large and masterful accumulation of data about sovereign debt crises.

For the last two weeks I have talked about economists and their use of data. I pointed out that inflation as measured by the CPI is an average for the country and not reflective of any one person's actual experience.

Something similar can be said about the later work of Rogoff and Reinhart. Yes, there was an unfortunate formula in one cell of their rather complex spreadsheet; but more importantly, they made assumptions about what is important and what is not in creating their analysis, and the assumptions in their model gave one set of results. If you make different assumptions, you get other results that show that 90% is not all that bad. Just as economists argue about how we should compute inflation, there will now be arguments about what the debt-to-GDP numbers really mean. I am willing to bet that by this time next year we will see several studies, all arriving at different conclusions.

But in any case, whether in their original work or in the later paper, R&R describe a problem with excessive debt that is true *on average.* Actual experience shows that in some countries debt will create a problem at quite low levels, while Japan climbs toward 250% debt to GDP (and will get there all too soon) and hardly anyone blinks. Different pokes for different folks.

I'm going to toss in a quick note as I sit here in Hong Kong waiting for my next plane. I read the *Financial Times* while on the way up here from Singapore. There were several articles that seemed to rejoice in the fact that Rogoff and Reinhart's later paper has some flaws. They jumped on those errors to discredit the whole idea of austerity, the association between too much debt and a lack of growth, and the need to bring one's fiscal house into order. Why pursue austerity when it does not lead to growth, which everyone knows is the only real way to deal with debt?

You can almost hear the critics wanting to dismiss Rogoff and Reinhart's entire book, which clearly establishes the link between excessive debt and sovereign debt crises – a pattern that has played out some 266 times over the last few centuries, if I remember correctly. The point is that there is no magic number that says "This far and no farther." There is a mythical line where

confidence and trust is lost, but no one knows where that line of demarcation is until it is crossed. And right up until the last minute, there are always those who look for ways to add more debt, who assure us, "This time is different." But it never is. A country *can* restore its fiscal house to order, pay back its debt, and grow its way out of the problem over time; there are numerous examples. But continuing to grow that debt-to-GDP number is to court a disaster that looms right in front of you.

If politicians want to keep the borrow-and-spend party going "just one more election cycle" and if no one takes away the punchbowl, the ***Bang!*** moment will most certainly arrive. That is the clear lesson of history. It is almost irrelevant whether that number is 90% or 120% or 80%. It will be a different number for each country, depending on the confidence that investors have in the ability of a country to pay back its debt. Investors in sovereign debt are almost by definition the most risk-averse investors there are. You do not invest in a country's debt to increase your risk exposure; you expect to get paid. There are other factors at play in determining the critical threshold, too: What was the purpose of the debt? How fast is the economy growing?

Can Italy, beset by recession, high unemployment, and a political crisis, grow its debt-to-GDP to Japan's 240% level? I think any serious observer would say no. Can it get to 130%? 140%? Maybe. We will not know until it's too late whether Italy or any other country (Spain, Japan, France, or the US) has more debt than the market is willing to absorb. But that is a line any politician should want to avoid crossing.

To cobble together an understanding of why Italy needs to deal with austerity – and to give Aga a good answer – we first need to revisit something I wrote in my own book, *Endgame.* One of the most important sections of *Endgame* is a chapter in which I review (and compare with other research) *This Time is Different* and include part of an interview I did with Rogoff and Reinhart. This chapter turned into a real economic epiphany for me, because the R&R data confirms other research about how things seem to go along swimmingly, and then the end comes all at once – the ***Bang!*** moment. Let's review a few paragraphs from my book, starting with a paragraph from the interview I did:

> KENNETH ROGOFF: It's external debt that you owe to foreigners that is particularly an issue. Where the private debt so often, especially for emerging markets, but it could well happen in Europe today, where a lot of the private debt ends up getting assumed by the government, and you say, but the government doesn't guarantee private debts, well no they don't. We didn't guarantee all the financial debt either before it happened, yet we do see that. I remember when I was first working on the 1980' Latin Debt Crisis and piecing together the data there on what was happening to public debt and what was happening to private debt, and I said, gosh the private debt is just shrinking and shrinking, isn't that interesting. Then I found out that it was being "guaranteed" by the public sector, who were in fact assuming the debts to make it easier to default on.

Now back to the book [quoting Rogoff and Reinhart]:

> If there is one common theme to the vast range of crises we consider in this book, it is that excessive debt accumulation, whether it be by the government, banks, corporations, or consumers, often poses greater systemic risks than it seems during a boom. Infusions of cash can make a government look like it is providing greater growth to its economy than it really is.
>
> Private sector borrowing binges can inflate housing and stock prices far beyond their long-run sustainable levels, and make banks seem more stable and profitable than they really are. Such large-scale debt buildups pose risks because they make an economy vulnerable to crises of confidence, particularly when debt is short-term and needs to be constantly refinanced. Debt-fueled booms all too often provide false affirmation of a government's policies, a financial institution's ability to make outsized profits, or a country's standard of living. Most of these booms end badly. Of course, debt instruments are crucial to all economies, ancient and modern, but balancing the risk and opportunities of debt is always a challenge, a challenge policy makers, investors, and ordinary citizens must never forget.

And the following is key. Read it twice (at least!):

> Perhaps more than anything else, failure to recognize the precariousness and fickleness of confidence – especially in cases in which large short-term debts need to be rolled over continuously – is the key factor that gives rise to the this-time-is-different syndrome. Highly indebted governments, banks, or corporations can seem to be merrily rolling along for an extended period, when *bang!* – confidence collapses, lenders disappear, and a crisis hits.
>
> Economic theory tells us that it is precisely the fickle nature of confidence, including its dependence on the public's expectation of future events, which makes it so difficult to predict the timing of debt crises. High debt levels lead, in many mathematical economics models, to "multiple equilibria" in which the debt level might be sustained – or might not be. Economists do not have a terribly good idea of what kinds of events shift confidence and of how to concretely assess confidence vulnerability. **What one does see, again and again, in the history of financial crises is that when an accident is waiting to happen, it eventually does.** When countries become too deeply indebted, they are headed for trouble. When debt-fueled asset price explosions seem too good to be true, they probably are. But the exact timing can be very difficult to guess, and a crisis that seems imminent can sometimes take years to ignite.

> How confident was the world in October of 2006? John was writing that there would be a recession, a subprime crisis, and a credit crisis in our future. He was on Larry Kudlow's show with Nouriel Roubini, and Larry and John Rutledge were giving him a hard time about his so-called "doom and gloom." "If there is going to be a recession you should get out of the stock market," was John's call. He was a tad early, as the market proceeded to go up another 20% over the next 8 months. And then the crash came.

But that's the point. There is no way to determine when the crisis comes.

As Reinhart and Rogoff wrote:

> > Highly indebted governments, banks, or corporations can seem to be merrily rolling along for an extended period, when **bang!** – confidence collapses, lenders disappear, and a crisis hits.

> ***Bang!*** is the right word. It is the nature of human beings to assume that the current trend will work itself out, that things can't really be that bad. The trend is your friend … until it ends. Look at the bond markets only a year and then just a few months before World War I. There was no sign of an impending war. Everyone "knew" that cooler heads would prevail.
>
> We can look back now and see where we have made mistakes in the current crisis. We actually believed that this time was different, that we had better financial instruments, smarter regulators, and were so, well, modern. Times were different. We knew how to deal with leverage. Borrowing against your home was a good thing. Housing values would always go up. Etc.
>
> Until they didn't, and then it was too late. What were we thinking? Of course, we were thinking in accordance with our oh-so-human natures. It is all so predictable, except for the exact moment when the crisis hits. (And during the run-up we get all those wonderful quotes from market actors, which then come back to haunt them.)

The Purpose of Debt

Countries and governments, small and large, can go into debt for numerous reasons. As noted above, Keynes advocated going into debt during business contractions. But there are different types of debt.
There is debt that is used to build productive assets such as roads, airports, bridges, schools, and civic centers.

Then there is debt that is used for current consumption. When debt creates assets, future generations at least get some benefit when they have to participate in paying the loan back. In the

case of current consumption, they get none. In essence, debt applied to consumption is spending today rather than spending in the future. You are borrowing money to spend on goods and services in the "now," with the promise to pay for that consumption later.

Next week, if all goes right, I am going to borrow money to buy two apartments in a high-rise in Dallas that will become, after we do a little remodeling, my future home. I will get an asset that I hope to pay off in about ten years. If I am lucky, that asset will then be worth more than I paid for it.

That is different from borrowing money to go on a vacation or to buy food or other goods that will have no future value.

Austerity Is a Consequence, Not a Punishment

But borrowing against the futureis what Italy has essentially done, Aga. Just like other countries all over the world, Italy borrowed for consumption and ran up a rather large debt. And then the crisis came, and lenders were not as willing to provide Italy money at low rates. That is the nature of investors who buy government bonds: if they perceive higher risk, they want higher rates.

The crisis arrived, and Italy lost cheap access to the bond market. The ECB had to step in and begin to buy bonds to lower their rates. But Italy had to promise to lower its deficits, and the way to do that is called austerity.

Italy is in a currency union called the Eurozone. A currency union cannot allow its members to run up debts beyond what the market is willing to finance, or the whole currency union will collapse. The central bank (in this case the ECB) can only print so much money before inflation and valuation becomes an issue. If the ECB allows Italy to run whatever debt it wants to, then it must allow everyone else the same privilege.

Eurozone officials may elect to help a smaller state like Greece paper over some of its problems, but at the end of the day countries must be able to handle their own debts you are going to keep your currency union up and running.

Italy must deal with austerity because if they don't they will lose access to the bond market. They ran up a huge debt and now must figure out how to pay it back. They borrowed money to spend, on the pledge that future generations would pay for it. Unfortunately, the future is now.

Yes, Germany and other countries could lend the Italians money, but they have their own problems. Egan Jones, the only truly independent rating agency, downgraded Germany this week. The Dutch too are having "issues," as my kids would say. Europe in general seems to be slipping into recession.
Some would argue that the ECB should just fire up the presses and print money, as Japan is going to do. Outright monetization. But that approach is highly problematic. Why should Finland want to see that happen if they are not also running large deficits? What about countries with lower debt ratios? The documents everyone signed when they joined the euro dictated that each country would be responsible for its own debt and that the ECB would not monetize debt.

It is one thing for a country to fall on hard times and for its fellow currency-union members to agree to help, but it is another thing to make that help open-ended. Italy has come a long way toward getting back to a sustainable fiscal situation in the last few years. I know it has been hard. I have always maintained that Italy has its own fate in its own hands. Aga, if you just cut the number of cars and drivers you provide to every small-time politician, you could eliminate about 20% of your deficit. Everyone in Italy knows there is a lot of waste and corruption. That is why a comedian like Grillo can get almost 25% of the vote!

The neo-Keynesians are right about this. In the short term, austerity will result in less growth. All but the mathematically challenged will agree with that. The scholarly literature seems to suggest that the short term is about 4-5 quarters, but that estimate is based on averages for a number of countries. Whether the actual interval is longer or shorter, it means that austerity will not produce growth in the short term. And if you have to cut 1-2% a year for several years, then that means little or no growth for those years. But the reason you have to do it is that you did not reduce your debt during the good times.

Austerity is a consequence, not a punishment. A country loses access to cheap borrowed money as a consequence of running up too much debt and losing the confidence of lenders that the debt can be repaid. Lenders don't sit around in clubs and discuss how to "punish" a country by requiring austerity; they simply decide not to lend. Austerity is a result of a country's trying to entice lenders into believing that the country will change and make an effort to restore confidence.

If Italy or any other country does not inspire confidence, then it must suffer the consequences when it loses access to the credit markets. Sure, the ECB or the IMF could lend you money, but their members are essentially investors as well. If there was unlimited money available, I can think of a country or two that might choose to run 10% and then 20% deficits. Why choose to tax when you can borrow and not repay? That is what politicians would all love to be able to promise.

Argentina has pursued such a policy for almost a century. After multiple devaluations, their currency is now a fraction of one billionth of a cent of what it was 100 years ago. It is rather hard to operate as an investor or businessperson in such an environment. One of the reasons why Italians wanted to get into the euro, Aga, was to take away from your politicians the opportunity to run up large debts and then devalue. The lira was a byword for fleeting value, not a currency for long-term investment.

You avoid austerity by not borrowing and consuming in the first place. After the market loses confidence, your choices are rather stark. If you default, then you are clearly out of the market for some time and suffer a very quick and deep recession as the government loses its ability to pay the salaries of government workers, provide healthcare, etc. If you elect to try to keep borrowing, you will have to implement a change in policy that will restore confidence – or find someone who will lend you money on better terms. Bluntly speaking, Germany and the EU might do that for Italy for a while but not unless they see the country actually controlling its deficit.

The problem Italy now faces is that any government that is elected will have to make hard choices. Trying to reverse the austerity already agreed to will almost certainly result in loss of access to the bond market. Is it possible to develop a plan to cut spending at a slower pace? Sure, if you can get

the rest of the EU to agree, at the same time that Spain, Portugal, Greece (and soon France) all want the same policies.

If Italy were in control of its currency, might it make sense to print a little in the meantime, as the US, Great Britain, and Japan are doing? There is certainly a school of thought that says yes. But in a currency union of multiple countries that are all at different places on the economic journey, it is almost impossible to have a one-size-fits-all monetary policy. If the spigot is opened for Spain, Italy, et al., then Germany and others get inflation. That is a tough sell to German and Finnish voters (among others).

You cannot force the rest of Europe to fund your deficits. You can negotiate with them to try to lessen the severity of the crisis, but there is no pain-free path ahead from where Italy is today, Aga. Your debt to GDP is 126% and rising. Without ECB support, you would have already lost access to the bond market. If you want to stay in the euro, you just have to deal with it.

By the way, leaving the euro would be a VERY expensive option. The "new lira" would drop in value like a stone in Lake Como (Italy's deepest lake, for those not familiar with it, and one of the most beautiful lakes in the world). The cost of borrowing would skyrocket. The banks would be bankrupt overnight, requiring massive infusions of new currency that would further drive the lira down. You are frustrated with politicians now, Aga? What would it be like in the chaos of a depression? No one can manage well in such an environment. There would be no good choices, only a choice among disasters.

Tiny Cyprus might choose in the next few weeks to exit the euro. With bank accounts frozen and the economy shutting down, they might feel they have no choice. Pay close attention to what happens; it will not be pretty. (As an aside, I am seriously tempted to go to Cyprus in late June, just to see the country firsthand. I will be in Europe between speaking gigs and have not yet decided where to go.)

Italy must first of all choose a government. Cleaning up its political corruption and wasteful spending would be a good move, but even clean new politicians (if there is such a thing) will be faced with the same economic choices. Which, I should note, is roughly the same choice voters everywhere are faced with.

The US is also approaching an uncomfortably high debt level. It was less than ten years ago that I was writing about what the US investment market would look like with no government debt. Yes, that possibility now seems a distant memory, but we were paying down the US debt that fast. And then came the Iraq war and larger deficits and a Republican Congress that got drunk on spending increases. Cheney told them that deficits don't matter, and they took it to heart. They doubled down on debt.
If the US had entered the 2008 crisis with little or no debt, we could have spent that $1 trillion a year (or even several trillion and made Krugman and McCulley ecstatic), and no one would have really cared, from a total debt perspective. (We would have cared what the money was spent on). But we didn't. We squandered our surplus with new programs and spending. We borrowed and consumed. We wasted the good times by running up even more debt. And now we are close to paying a price.

So, Aga, I don't have any easy words for you, but I do think Italy will pull through. I will visit your country again and again in the future, because I love Tuscany. But if you can take comfort in the company of others in similar situations, then there are a host of countries in the developed world that are going to have to face austerity in one form or another. That is just what happens when you reach the end of the Debt Supercycle. You are no longer left with merely difficult choices; they are more like very tough, bad, and disastrous. The worst choice is not dealing with the problems as soon as possible. I only hope my own country can make the difficult choices soon, before we too are faced with a crisis.

San Francisco, Carlsbad, Tulsa, Nashville, and Brussels

I finish this letter in the Singapore airport before I begin the rather long journey back to San Francisco, where I will rest and recover from jet lag at the Fairmont, one of my favorite hotels over the years. I speak in SF Monday morning before heading back to Dallas and my "home hotel" for a week. As noted above, I am buying a property as my primary residence and had to move out of my leased home early, so I'm between places. As I have promised, when the deal for the new place gets done, I will write about my experience – the terms and negotiations and why I decided to buy now after all these years.

This is a bit of a first for me, as I fly to Hong Kong to catch a plane to San Francisco. I will leave very early Friday morning and arrive late on Thursday night, crossing the international date line and arriving the "day before" I left, getting back the day I lost coming here.

My Strategic Investment Conference is almost here. I am so looking forward to catching up with old friends. And I'm just as excited about the exchange of views we will have on how to navigate the coming economic transitions. It seems everyone is on the "short Japan" side of the boat, including me. Is the boat listing, or is there still room for others? The debate on whether there is a bubble in the US bond market will be intense. Europe will be a hot topic. China, too. Will the US see 3% growth this year or fall further behind?

And underlying our discussions will be an intense debate about the future of world growth and stability. I have purposely sought out thought leaders who steer independent courses. Kyle Bass, Niall Ferguson, Nouriel Roubini, Drs. Lacy Hunt and Gary Shilling, David Rosenberg, Charles and Louis Gave, Anatole Kaletsky, and Paul McCulley will all be there, among others. You can see the entire line-up for the May 1-3 conference (co-sponsored with Altegris Investments) right here, plus see highlights from last year's conference. There are still a few spots left, so I encourage you to register and join me and my friends as we think about our future. I think this is clearly the best investment conference of its kind this year, and I, along with Jon Sundt and his team at Altegris, am proud to be able to offer it to you.

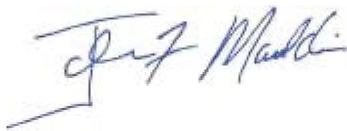
I continue to be impressed with Singapore. This city/country just works. I was able to take a few hours and tour their magnificent Garden Domes. The entire place is a marvel of human engineering and vision. I want to return for an extended visit and explore the amazing variety of plants and trees they have assembled from the world's cloud forests. They built an indoor, 115-foot-high waterfall system and replicated a cloud forest that you can walk through.

Every time I come here there are new towering buildings and projects to reclaim land from the ocean. A sustainable future is a constant theme. Low taxes and a climate that is ideal for business have made this nation a center for commerce. Issues here and there? Sure, this is a human enterprise, and we come with built-in issues, but the problems are positive ones.

They are calling my flight, so it is time to hit the send button. Charley & Lisa Sweet, my long-suffering editors, will have extra work cleaning up this week's letter, but I don't think the plane will wait for me to go through it one more time.

Have a great week, and come see me in Carlsbad.

Your ready to read on the way home analyst,



John Mauldin

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