



## Looking on the Bright Side

By John Mauldin | December 24, 2012

**Go See *Lincoln***

**It Was Ever Thus**

**The Fiscal Cliff Is Not the Problem**

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**Santa Barbara, Europe, and Toronto, etc.**

It is Christmas Eve and not the time for long letters – just a brief note on why the fiscal cliff is not the End of All Things, and to point out a worthy cause led by some good friends of mine who are helping people who truly have no options in life. And we'll start things off with a movie review of sorts to launch us into a positive take on the year behind and the year ahead.

**Go See *Lincoln***

Last night I watched *Lincoln* on the big screen with son Chad. I cannot recommend the movie enough. It should be required viewing, if a free society could require such things. Besides Daniel Day-Lewis being a lock for Best Actor (in what will be truly a line-up of high-powered actors this year), Tommie Lee Jones may also get one for Best Supporting Actor. Spielberg continues to produce wonderful movies that impact our thinking, and he deserves yet another Oscar, too.

This was Jones at his finest (I am admittedly a huge Tommie Lee Jones fanboy), and this performance decidedly evens up the balance sheet of my fellow Texan for nominating Al Gore at the Democratic Convention in 2000 (they were college roommates). *Lincoln* might get Best Picture, and it would if I were voting. By the middle of the movie I had completely forgotten that I was watching an actor playing Lincoln and felt as if I were watching Lincoln himself. I knew how the movie must end, yet was caught up in the drama of it all. This is storytelling at its finest.

When you watch the movie, note the continual character assassination among members of Congress, carried off with such acerbic brilliance by Jones. These people did not like each other – far more than our own current bland representatives do not like each other. It was a time of war and the Republicans had trounced the pro-slavery Democrats, yet Lincoln felt he could not wait for the end of the Civil War to push for the 13<sup>th</sup> Amendment, outlawing slavery. Passage required a two-thirds majority in the House, and those crucial votes against slavery would have disappeared in the haze of political deals. Even with the tide of history on its side, an amendment abolishing slavery would not pass the new, heavily Republican Congress without heroic efforts behind the scenes.

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In a move that has been called quite historically accurate, Lincoln had to buy votes with appointments for Democratic representatives who had lost in the recent election. Getting those final 20 votes was a rather seamy undertaking in what all can now say was a supremely righteous cause. It has always been thus, sadly. Lincoln darkly mentioned the word “impeachment” as he described the slippery legal slope of his own Emancipation Proclamation, which he felt would no longer be valid if the war were to come to a too-early end.

## **It Was Ever Thus**

The real point of the film is to get us thinking about our own times. And if there were similar movies about Adams and Jackson in the 1820s or about several other such tumultuous episodes in Washington, we would see that the current dysfunctionality in Washington DC is not that far from the norm. Whether we like it or not, this sort of tumult is part and parcel of the process of a two-party democracy. While we all think that our own times are different and worse than in some glorious past when cooperation reigned, they are not all that different.

I regularly hear from and read about Republicans denouncing Boehner as betraying the cause and Obama for being obstinate in refusing to negotiate honestly. But neither has Obama escaped excoriation by his own partisans. From Bruce Bartlett, writing in the [\*Fiscal Times\*](#):

Yesterday, left-leaning law professor Neil Buchanan penned a scathing attack on Obama for abandoning the Democratic Party’s long-held policies toward the poor, and for astonishing naiveté in negotiating with Republicans. Said Buchanan:

*“The bottom line is that President Obama has already revealed himself to be unchanged by the election and by the last two years of stonewalling by the Republicans. He still appears to believe, at best, in a milder version of orthodox Republican fiscal conservatism – an approach that would be a fitting starting position for a right-wing politician in negotiations with an actual Democrat. Moreover, he still seems to believe that the Republicans are willing to negotiate in good faith.”*

Others on the left, such as *New York Times* columnist Paul Krugman, former Secretary of Labor Robert Reich and others raise similar concerns. They cannot understand why Obama, having won two elections in a row with better than 50 percent of the vote – something accomplished only by presidents Dwight Eisenhower and Ronald Reagan in the postwar era – and holding a powerful advantage due to the fiscal cliff, would seemingly appear willing to gut social spending while asking for only a very modest contribution in terms of taxes from the wealthy.

Ben Bernanke gave us the term “fiscal cliff” this past summer, and it has captured the public imagination. For someone who thinks he can control the economy, the ultimate disaster is to have a recession occur on his watch. Given that the toolbox that the Federal Reserve can bring to the next recession is essentially empty, it is a cliff indeed from Bernanke’s perspective. And let’s make no mistake: if nothing is done either before or shortly after the first of the year, our already weak economy will wander off into recession.

## **The Fiscal Cliff Is Not the Problem**

Why would either side risk going over the cliff? Because there are greater issues than simply avoiding a recession in 2013. The real issue is the deficit. The leaders of both parties recognize that the current path spelled out on our fiscal balance sheet is unsustainable. The deficit must be brought under control (which is not the same as the budget being balanced), or we will find ourselves all too soon in the situation now facing much of Europe and Japan. The options at that point become far more dire. I take Senate Majority Leader Harry Reid at his word that he does not want to kick the can any further down the road. I might not like his solution of even higher taxes than are currently on the table, but I believe he is sincere in wanting to establish the means to pay for the full range of healthcare entitlements our citizens have been promised.

And that is the larger question before the nation: how much health care do we want, and how do we want to pay for it? If we look at the polls and the recent election results, it seems we want a great deal of health care – and we want someone else to pay for it. The economic consequences of not reforming the entire entitlement structure are lost on the average person and indeed on the average Congressman.

I'm the father of seven adult children. I watch them as they struggle to establish themselves in an economy that is not offering a lot of opportunities for higher-paying jobs. No doctors or lawyers among my children, just hard-working and ever-hopeful average citizens. Health care is a huge issue for them, as it is for their friends. In a world where the family safety net is getting smaller, young people are looking to the government for help.

Given that 40% of the voters in the last election were single and that singles are now the fastest-growing portion of the voting population, it is going to be almost politically impossible to craft a Congressional majority that will favor going back to the level of government spending on health care that we saw even 10 years ago. Like it or not, the question is not whether we will have health care, but rather what form it will take and how much it will cost us.

My personal fear is that we will dramatically increase taxes but reform entitlement spending by only a small amount, and that will not get us even halfway to a manageable deficit. In the political reality that is Washington, that means that it would take the imposition of even higher taxes to finally achieve the reform that is necessary. And don't look now, but that means higher taxes on the middle class, in one form or another. If the 98% think they can avoid higher taxes, they are not paying attention. It is either that or we hit the true fiscal wall. Think Spain today or France in the near future.

The reality is that the bureaucratic nightmare that is Obamacare may force structural reforms, as the outcry in response to a healthcare system that is even more dysfunctional than today's will be deafening; but those reforms will not be accompanied by lower taxes. There may be structural tax reform, but it won't result in a lower tax burden on the economy.

## **Looking on the Bright Side**

How then, you ask, can I see this historical moment in a positive light? Because our current

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challenges are just what we should expect from our democratic process. Do we face serious economic difficulties? Most assuredly. Less after-tax income? You can count on it. A Muddle-Through Economy for the rest of the decade? Highly likely. But we're not talking here about a battlefield through which the President must ride, surveying thousands of dead bodies of young men.

As I look back over the sweep of American history, I have to conclude that things are not all that bad today. We are still free to order our affairs as we see fit. The choices we have as investors are greater than ever before. The unbelievable pace of accelerating change will transform our society and economy over the next 20 years in ways that are difficult to imagine. That Transformational Society will create far more winners and losers than the current healthcare/entitlement crisis. Far better to think about how to take advantage of the changes ahead, rather than getting caught up in simply avoiding the rising tide of government.

You and I don't have to sit, passively clipping our ever-smaller coupons in a world of monetary repression. We can actively organize our affairs to take advantage of the opportunities that are laid in front of us, while avoiding as far as possible the consequences of poor government decisions that are being made without our personal consent.

Yes, it would be easier if we could go back to a world where the economy compounded at 3.5%, where the stock market gave you 7-10% on average every year, where you could get 6% on your bond portfolio and rely on your pension to be there. But that is not the world in which we find ourselves. And frankly, as I watched the dramatic scene of Lincoln riding through the battlefield prior to the surrender of the South at Appomattox, looking upon the thousands of dead young men, I thought to myself, "I don't live in bad times at all."

We live in a world where we can still make our own opportunities if we choose. And if we open our eyes, there is opportunity all around. Our country and much of the developed world may indeed fall into recession again, and we may continue to be saddled with a Muddle-Through Economy; but we can steer our own course rather than just drifting with the current, and we can find positive investments amidst the fragility of the markets.

I worry for my country and indeed for the people of the many countries whose governments have overextended their ability to pay for promised benefits. I will continue to work to try to reform our society. Yet, as I travel to countries that have gone through very difficult times and have large government burdens, I find entrepreneurs seeking to improve their own lives and those of their families and employees. I choose to be on that side of history.

## **Shipping Hope This Year**

Almost 35 years ago, I found myself in a bunk bed in a camp in Omaha, Nebraska, sharing that little venue with a young and passionate man from New Zealand named John Dawson. We talked literally all night, and to this day I count him as one of my best friends. We have walked with each other through many interesting times.

He was with a group called Youth With a Mission (YWAM). I ended up joining YWAM

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for a few years as a volunteer before going back to the business world. John went on with the work, and he is now the head of YWAM, which has become the largest missionary organization in the world, working in 200 countries with 40,000 active volunteers and millions of former YWAMers all over the world. He regularly meets with the leaders of nations and has become a true global statesman. His insight into what motivates the people of a country, his sharing of their stories, and his deep understanding of how their youth are doing have made for some of the finest conversations of my life. John simply sees the countries of the world on a different level than most of us, and a far different one than the mainstream media brings us. If I want to know what is really happening on the streets of the world, I ask John. I simply don't get enough John time.

There is an interesting business case study that could be done on YWAM, as it has a true bottom-up, decentralized organization. Every volunteer is responsible for his or her own support, and the leaders of any one project have to figure out how to finance it. Through a ton of networking and moral support, YWAM has grown into the largest multinational organization of its type, with a wide variety of enterprises. YWAM trains its leaders and workers well, and dollar for dollar it may be one of the most effective forces for change in the world. In addition to working with young people all over the world, YWAM has a very large hands-on relief program. The organization's volunteers now come from all over the world, with US citizens being a decided minority. And this all happens without any command and control, but through principled persuasion and the force of ideas and ideals.

One of the things John and I talked about that night long ago was a vision of having a ship that would bring health care and emergency aid to those in need. Today that vision is a reality, with dozens of YWAM ships scattered around the world. The demand is so large that they have actually established a school to train seamen (and women), so they can staff their ships with volunteers.

They often take these ships into quite remote places where health care is simply nonexistent. There are few things more powerful than the efforts of a dedicated volunteer. These are people who pay their own way, who are willing to sail into remote areas, work hard each day, and return to their bunks on board each night knowing they helped others discover more in life. You can see the gratitude in the eyes of those they help. Whether they receive immunizations, healthcare education, clean-water technology, or a simple pair of glasses that enable them to go to school or back to work, people are grateful for all that a YWAM ship brings them.

I got this letter from Brett Curtis, who runs one of their operations:

In all we do, a major emphasis is – train the trainer! When what we offer is done with locals alongside to help and learn, and multiplication continues long after we are gone. Instruction from a midwife, in a place where 1 in 7 die during childbirth, brings life. Basic instruction in cleanliness and the benefits of using soap can make a huge difference and lift the reality that 1 in 13 die before the age of 5 due to the lack of basic sanitation. Bringing mosquito nets to villages where almost everyone (94%) is affected with malaria can turn their health around.

On December 24 we plan to be in Christmas Island and Fanning Island. Imagine living in a

place where there is no fresh water, yet over 8,000 people live there. The well water available to them is contaminated with salt, so they have learned to mask the taste with sugar, which in turn creates all kinds of health issues. There is significant rainfall in the area, so our teams are helping with rainwater catchment techniques. Simple enough to do with knowledge and hands to work, yet the results from this simple solution can improve the lives and health of everyone. There are 1,000 inhabited islands in this part of the world, but 700 do not have airports, so the only way to assist them is to get there by boat. Many live isolated from simple solutions readily available to us. Deploying vessels with crew and cargo to meet need is something we can all be part of.

They are working in Papua New Guinea, which John tells me is as poor as Haiti. There are only 23 dentists in the entire nation. This is basic health care, far removed from what we are debating over this weekend. Entitlements, indeed.

You can learn more and join me in giving generously to YWAM by going to [www.ywamships.net](http://www.ywamships.net). We need more vessels sailing the liquid continents, making them pathways of connection instead of oceans of isolation! And you can be a part of that.

### **Santa Barbara, Europe, and Toronto, etc.**

I am home for the holidays. Lots of the kids are downstairs wrapping presents and waiting for me to join them. I am going to take a few days and enjoy them. All of my seven and their significant others and five grandkids will be here on the 26<sup>th</sup>, when we will “officially” celebrate Christmas. Quite the houseful, noisy and fun! I will bake banana nut cake from my mother’s recipe on Christmas, as well as do up prime rib and turkey and all the fixings the next day. We are already planning on going to see a few movies, too. There are really quite a few I want to see, and starting in January there won’t be much time to see them.

I think I am going to go to Santa Barbara to spend a few days with partner Jon Sundt after the first of the year. He has a ranch home at the Hollister Ranch at the top of the mountains overlooking the ocean. He will be alone, and I too could use some time alone to think and write and plan for the new year, as well as write my 2013 forecast issue. I spend more time writing that letter than any other, and I think next year will be a very interesting one to write about!

Then I leave for Oslo, Norway, to start a speaking tour for Skagen Funds, with other stops in Copenhagen and Stockholm. I know I have to be in London on January 15 and in Geneva January 21, but I am still making plans for the in-between times. I intend to go to Athens to see the Greek situation firsthand. I may stop in Albania if things work out. Ireland or Portugal? There are a few details to be filled in. It will make for an interesting letter on the 20<sup>th</sup> as I report what I have seen! And the dinner in London will include some all-star analysts (and my good friends!), so I should learn a few things.

I will be in Toronto on the 28<sup>th</sup> of January, then probably head to NYC and maybe Washington DC before coming back to Dallas. Right now, after that crazy January schedule, February looks sedate, with only speaking trips to Las Vegas and Palm Springs. And I plan on spending a few weeks in Cafayate, Argentina, in March, where, besides enjoying life and

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conversations, I hope to put the final touches on my book on the future of employment (coauthored with Bill Dunkelberg). It is coming along and starting to fill out. It is not the simple project I thought it would be when I started.

It really is time to hit the send button. Next week I will write a research piece with Ed Easterling. We are looking at some recent long-term GDP forecasts and exploring what they mean for the markets and for pension funds, *etc.* You do not want to miss this one.

Let me wish you the very best of the season and my hopes for a fabulous New Year for all of us. I am grateful to you for being part of my family of close friends – you are the reason I write this letter each week.

Your more optimistic about life than ever analyst,

John Mauldin

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