Growth

JOHN MAULDIN | September 1, 2014

IN THIS ISSUE

> "It's said that power corrupts, but actually it's more true that power attracts the corruptible. The sane are usually attracted by other things than power."
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> – David Brin in *The Postman*
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> "For every good idea, ten thousand idiotic ones must first be posed, sifted, sniffed, tried, and discarded. A mind that's afraid to toy with the ridiculous will never come up with the brilliantly original."
>
> – David Brin, *Orbit* interview

As I begin my 15th year of writing *Thoughts from the Frontline* – some 700-odd newsletters plus 400–500 editions of *Outside the Box*, 6 books, and scores of special reports – I decided to take a random walk back through some of my writings (and your comments!). With some glaring and notable exceptions that I would like to take off the internet (but won't because to do so seems somewhat intellectually dishonest), the body of work has held together pretty well. My writing style has matured and so has my thought process – or at least it seems so to me. Writing this letter has been the best personal educational tool I have ever experienced, enriching my life far more than I have probably enriched yours. I've done my 10,000 hours. Plus. No college, no course or seminar, could provide me with the wide range of materials I've studied.

And that is the thing that stands out to me: the wide variety of topics we've covered over the years. The themes vary from week to week and month to month. I write about what interests me that week – where my research and curiosity are taking me. I am, of course, influenced by my somewhat heavy travel schedule and the interaction I have with readers from all over the world (some 65 countries now), both directly and through correspondence. I seem to attract a number of readers who are quite willing to push back and make me think about all sides of an issue. For that I'm grateful.

I want to thank each and every reader, many of whom have been there for all 15 years and some who just joined my assembly of best friends last week, for the precious gift of your attention. In a world where we are all assaulted with multiple competing cries for our immediate focus – family, friends, business, social commitments, political and community involvements, household chores, trying to stay fit – all while trying to keep up with the vast flow of information coming at us 24 hours a day from 100 different sources – I recognize that when I show up two or three times every week, I am asking for the most valuable thing you have: your time.

Each week when I sit down to write, I strive to be worthy of your time. I try to bring some insights that will deepen your understanding of how the world works, not always just in economics, but always with a focus on making us better investors and people.

This letter has always been free, and it is my intention to make sure it always is. My style is more casual than that of many other writers, but that's because from the beginning I've always seen this letter as something I'm writing to my best friends. So write back. I do read your comments and appreciate your thoughtful insights and suggestions. That's how best friends stay in touch.

Sometimes the best ideas for a letter come in response to questions and comments from readers. Last week I responded to a letter from sci-fi writer, professional contrarian, and my good friend David Brin. We took a journey into the world of Adam Smith. You can read that here.

This week I will respond to the second part of David's letter. Please note that David and I characterize our conversations as joyous deliberations, excited parry and thrust in the realm of ideas. I especially appreciate David because he forces me to think about many of my casual assumptions, although in a battle of wits with David I often feel as if I'm bringing a knife to a gunfight. (Every writer needs a few David Brins in his life. Sometimes I think I have more than my share.) The part of the letter I'll respond to today is as follows:

> John, excellent [*Outside the Box*] missive on automation. I share your overall optimism.
>
> Still… although Keynesianism deserves lots of criticism for the 30% of the time that it has proved wrong… and Hayek had a lot of good and important things to say… it remains disappointing that you do not use your influence to help hammer nails into the coffin of the Rentier Caste's catechism… Supply Side (Voodoo) Economics (SSVE), which is not just 30% wrong. It has proved to be almost 100% diametrically opposite to right, with every forecast that SSVE ever made having proved to be calamitously wrong.

David, I think there are more than a few problems with that paragraph. Since we don't want to write a book here, let's deal with just a few of them:

1. You confuse correlation with causation.

2. You make the common mistake made by many economists (which I've come to think of as the single biggest error in economics) in that your "model" simply does not take into account enough variables to enable you to draw the conclusions that you do. (I should note that here I am guilty of doing the same thing when I want to prove a point. It is an utterly human flaw, but one that politicians, philosophers, and economists have in abundance. There's a 12-step program in here somewhere.)

3. Further, I have no idea how you associate supply-side economics with what Adam Smith refers to as *rentiers*. Seriously, I know of no self-respecting supply-side or Austrian economist who favors crony capitalism. For that matter, I think it would be difficult to find a Keynesian who would admit to as much. Yet, in spite of no one's being in favor of crony capitalism, somehow bureaucrats and politicians manage to create favored constituencies. Of course, each constituency rationalizes that the policies favoring it are necessary for the public good and are fair or whatever, but it seems that everyone wants their turn at the trough.

4. Even were we to use the sophisticated analytic and predictive models based on multivariable

> dynamics that professional economists favor, we would still miss the core ingredients of growth.

Ultimately we are talking about economic growth, a topic you and I delve into frequently, and I want to spend the bulk of this letter on that topic.

Correlation Is Not Causation

Readers do not have the advantage of referring to our multiple previous discourses in which you argued that growth under Republican administrations and supply-side economics has been weaker than growth under Democratic and Keynesian policies. You have cool charts. I can also produce charts which show that, depending on how you choose your time frame (is the Clinton growth era a result of Gingrich-initiated policies?), supply-side economics and fiscal restraint were the drivers of growth in the '90s. And you're not going to get me to agree that the damaging surge in spending by the Republicans in 2000-2006 was reflective of supply-side economics. The tax cuts then produced more revenue, but a profligate Congress doubled down on spending and blew the benefits of the tax cuts.

But the reality is that there has been no pure, scientifically established experiment comparing differences in the application of various economic theories. We are in the field of conjecture here. As we will see in a moment, the key causes of growth in the last 100 years have lain entirely outside the fields of politics and economics, fiscal policy, and monetary policy. To conduct a rigorous economic experiment you would have to have multiple controlled environments where you could test your hypotheses. This is not possible in economics, and so we are subjected to endless rounds of speculation about cause and effect.

Politicians and monetary apologists are quick to take credit for positive economic developments and to blame negative developments on past bad decisions of the "other guys." (Both sides do it. Bush had his "Clinton recession," and Obama had his "Bush recession." Reagan blamed the Carter years.) While fiscal and monetary policy are important, they are somewhere around numbers four and five on the list of the drivers of growth.

That being said, I readily acknowledge that bad economic policies can inhibit the sources of growth from being able to function. At the very least, good economic policy and good governance get out of the way of growth; and at best, they encourage and foster the drivers of growth.

The Limits of Dynamic Multivariate Economic Models

Along about the early part of the last century the economics profession developed a bad case of physics envy. It wanted to move from being a soft science to a hard science. At some point "we" (I use that term loosely) felt we were capable of creating mathematical models that would not only explain how economies worked but would also predict outcomes. There was a time, sadly not all that long ago, when I actually had the hubris to think such things were possible. Governments especially wanted these models, as they needed to be able to understand what the effects of their policies would be on the economy. And since everyone (except a few Luddites), no matter their political or economic persuasion, believed in the necessity of economic growth as a driver of improvement in the general good, we were all keenly interested in predicting what the outcomes of particular policies would be vis-à-vis growth.

Now, as I showed a few months ago, back at the very beginning of this new econometric world, politicians were looking for economic models that would allow them to pursue their desired political objectives. If your political objective was a small government footprint, you favored certain models which suggested that was the proper course of action. If your political objective was a larger government and income redistribution, you favored other types of models. The latter approach (Keynesianism) has won out so far.

The problem is that whichever model you choose – and they have become increasingly more sophisticated – they are all still lousy at predicting the future. They're not even very good at analyzing the present or the past, because they are so fraught with errors implicit in the assumptions the modelers make. I should point out this is not just a problem with economic models; you can probably give me examples off the top of your head in the hard sciences, and the other soft sciences are riddled with such errors. Assumptions can be a bitch. (For new readers, that is a technical economics term.)

Still, I'm not against the use of models. I use them all the time. They are the best tools we have, and they are getting better. They give us insights into general trends and directions. If you understand the construction and the limits of CPI and GDP, for instance, then a model that utilizes those variables can be quite a useful tool. But if you view your input variables and accompanying assumptions as scripture, you're likely going to make errors in judgment and policy. That is because you think something is true, in the sense of being black or white, when it is actually just a darker shade of pale. We see, said St. Paul, through a glass darkly. For economists, so far, the glass is really quite smoky. And held at certain angles, it distorts reality.

Something as complex as the economy of the United States, or even a relatively small system, cannot be adequately modeled, as there are just too many variables in play (many of them unknown). Further, economies are never in equilibrium, so even a multivariate dynamic-equilibrium model assumes a relatively static, and by definition closed, economy (though many economists would argue vehemently that that is not the case).

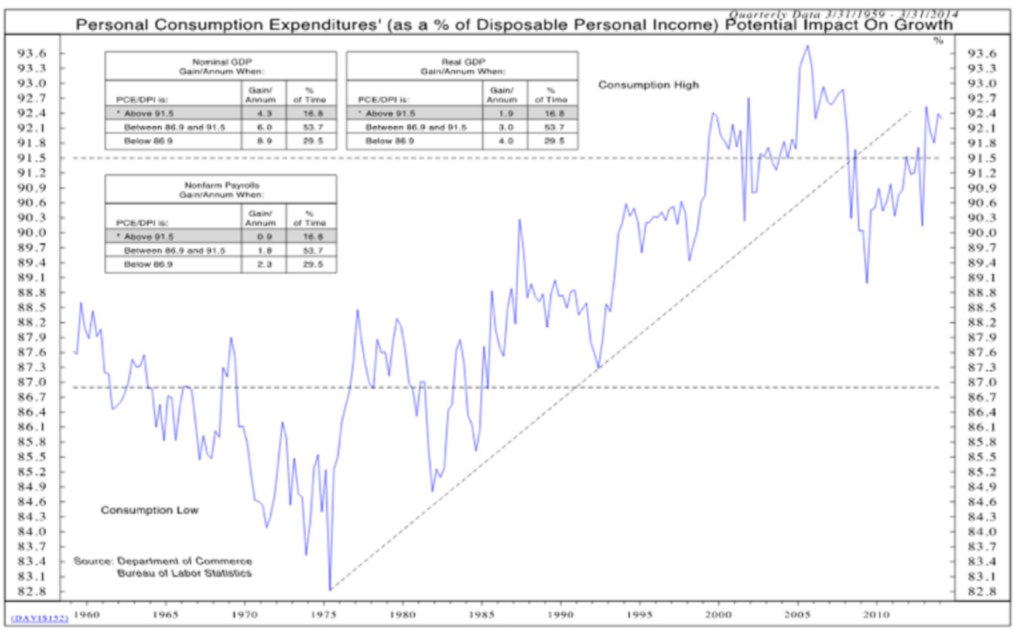
The real world is not so simple. It is the "surprises" in the system, the exogenous forces that impinge on your model, that always wreak havoc with your forecasts. And economics (econometricians' protests notwithstanding), is still as much art as it is science. It is more philosophy than it is biology (or even psychology). We use models to try to show us where to put the pieces of the puzzle. **Where we err is when we confuse the model for the puzzle.**

For instance, one of the key assertions of John Keynes's economic theory is the primacy of consumption and its impact on growth. And there is a certain truth to that, because without economic activity, without people buying things, there can be no growth. And thus Keynesians assert that in times of economic inactivity or a recession, governments should run deficits in order to spur consumption, to restart the engines of the economy … to recharge the "animal spirits."

Others, in particular myself, think that income is far more important. Keynesian monetary policy, by lowering rates, encourages people to take on debt. But debt is future consumption brought forward, so all we are really doing is buying things today rather than in the future. Whereas if we create more income, we not only have more to spend today but we will also have more to spend in the future. And thus, David, supply-siders would argue that lowering taxes will drive economic growth as incomes grow.

Lowering taxes has the side benefit of increasing savings, which is the mother's milk of investment and growth. Look at the following chart from Ned Davis. What it shows is that an increase in consumption (as measured by personal consumption expenditures) as a percentage of disposable personal income is not a necessary condition for growth. In fact, as the data in his tables shows, *lower* consumption percentages correlate strongly with higher growth. Yes, I know, correlation is not causation. But it does suggest an area for further investigation. And lower consumption also generally goes along with higher savings, which of course is the source for increased investment, which is the ultimate driver of growth. Quoting Ned Davis:

> So what are some of the problems that continue to weigh on growth? Well, my usual suspects are debt and low savings and investment. But let's look at them from different perspectives today. One of the things the U.S. government has tried to do to goose economic growth ever since 2000 was to stimulate consumption. And consumption has indeed been high relative to income, as featured on [the chart below]. But note that, in what must be a shock to most Keynesian economists, growth has historically done better when the levels of consumption were low – another way of saying savings were high.

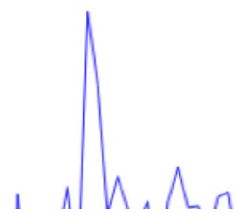


Here are the same tables in a size you can probably read:

Nominal GDP Gain/Annum When:		
PCE/DPI is:	Gain/ Annum	% of Time
* Above 91.5	4.3	16.8
Between 86.9 and 91.5	6.0	53.7
Below 86.9	8.9	29.5

Real GDP Gain/Annum When:		
PCE/DPI is:	Gain/ Annum	% of Time
* Above 91.5	1.9	16.8
Between 86.9 and 91.5	3.0	53.7
Below 86.9	4.0	29.5

Nonfarm Payrolls Gain/Annum When:		
PCE/DPI is:	Gain/ Annum	% of Time
* Above 91.5	0.9	16.8
Between 86.9 and 91.5	1.8	53.7
Below 86.9	2.3	29.5

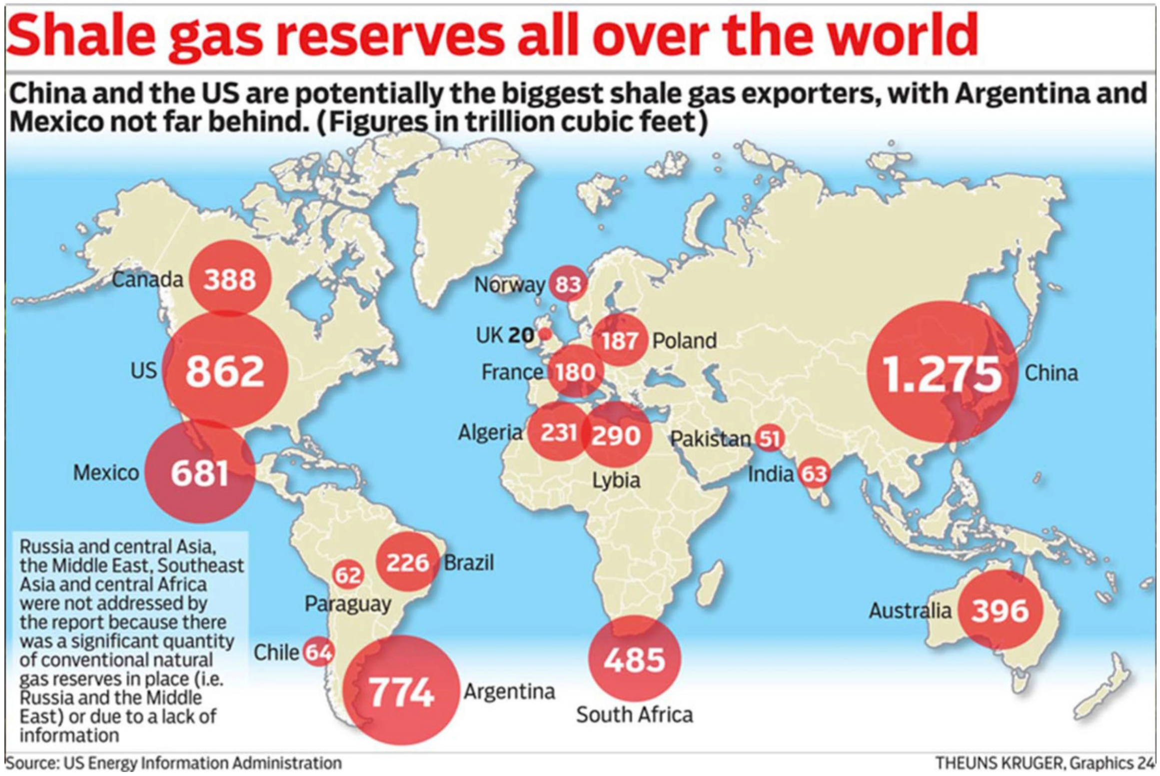


The Source of Growth

Let's talk first about some things you and I can agree on, and then about the sources of recent growth. The economy has been growing at roughly 2% since the end of the Great Recession, a very mediocre recovery to say the least. At least a third of that growth has come directly from the oil fracking boom, which is all about technology and nothing about government policy. Further, much of the ancillary growth in the economy has come from the availability of low-cost energy to manufacturing, encouraging large manufacturers to come back from all over the world to locate near what will be a long-term supply of plentiful, cheap natural gas. Witness the $750 million plant built by Nucor Steel on the Mississippi River in Louisiana, one of hundreds of plants scattered around the country near cheap sources of energy.

Quite frankly, about the only thing that has kept the United States from looking like Europe the past five years has been the remarkable innovation in the technology that allows us to extract oil and gas at reasonable prices (and, luckily, we also happen to have them in abundance).

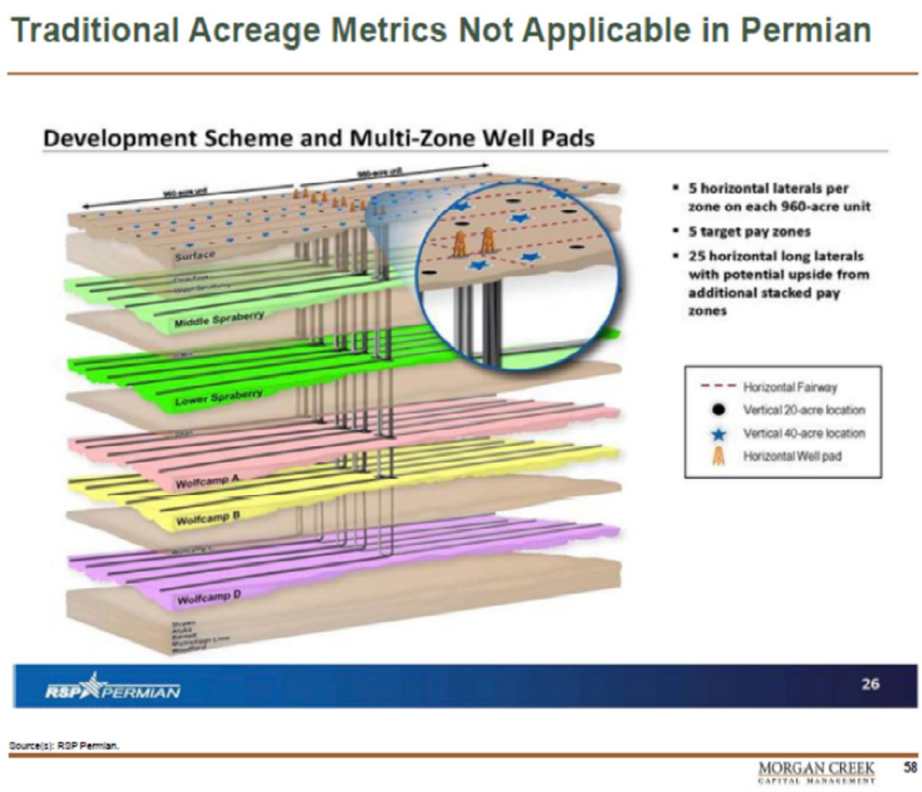
But it is not just the fact that we have the technology and remarkable shale resources. Look at this slide sent to me by my friend Mark Yusko (one of 98 in his remarkable PowerPoint deck, which I sent on to my *Over My Shoulder* readers. While the US is indeed blessed, there are other parts of the world that have enormous potential as well.



Why has it happened here and not elsewhere? Because we have the other necessary ingredients for growth: the rule of law, private property (notice that none of the oil boom has occurred on US government property), access to capital markets, a relatively free market, and an innovative society. Look at that map and guess where the new winners will be. This of course does not show the conventional natural gas reserves of Russia or the Middle East. As you and I both probably believe, natural gas will be the transition energy source on our way to a solar society (or one based on some other, even cheaper and renewable energy source).

I am a huge fan of the energy boom and can't resist just one more slide before we move on. It shows one of the regions in the Permian Basin (in West Texas, in what might otherwise be known as godforsaken country, although I risk offending my fellow Texans who live in Odessa and Midland, where George W. Bush ran his first political race and lost). What is remarkable is that this is a region from which you would think we had pulled, or at least explored and found, every last bit of oil and gas possible over the last 60 years. But that's not the case. There are verified reports that an entirely new zone has been found in what is now projected to be the second largest oil field in the world (after the Ghawar field in Saudi Arabia). The discovery of "whales" in what was supposedly thoroughly explored territory are not supposed to happen, according to the Peak Oil theorists.

The fascinating thing is that there are five different vertical zones in this one field (and there are many fields with similar characteristics), all susceptible to horizontal drilling from one well location. This means one pad (where a drilling rig sits) can take the place of 40 or 50 conventional pads. Besides being more cost-efficient, this technology is certainly more environmentally friendly. They will be drilling 25 wells from what is basically one pad, extending the wells in all directions for over two miles. The old images of a forest of derricks and dust are from a bygone era. I assume they will use the same technology being developed here in the Bakken, too, where derricks are now moved a little ways to drill the next hole. (The Bakken itself is now assumed to have at least four recoverable vertical zones. The newly discovered Permian Basin zones in Texas make the Bakken look small.)



This brings up an ancillary issue that I will really have to do a whole letter about. Whatever growth there is in the US, the Federal Reserve is taking credit for; yet we are seeing Larry Summers and many others blaming something they call secular stagnation for the halting recovery. The problem with the punk growth is not their Keynesian uber-easy monetary policy – gods forbid you would think so – no, it's the fault of the free market for not responding. So something must be broken in the market – our economic theory is still sound and working fine!

This is where we get what I think is the greatest confusion of causation and correlation in economics. Every economic recovery post-recession since World War II saw fiscal deficits and easier money. Economists then ascribe recovery to fiscal deficits and easier money .

Bullschmitt. (Another technical economics term for new readers.) What happened in every recovery was that businesses restructured, pure and simple. They figured out how to reduce costs, turn a profit again, and move forward. This is been the modus operandi of businesses since the Medes were trading with the Persians. Do lower rates help? Of course. Has increasing leverage in society also been a great source of growth? Absolutely. But as Rogoff and Reinhart's work clearly shows, when you come to the end of that debt-fueled growth period, you have a financial crisis that sometimes takes two decades to work your way out of. Yes, we do have a structural problem, but it is the structure of our reigning economic theory that has brought it on. To the extent that there has been a recovery, it has been due to businesses restructuring on their own.

Our monetary policy has simply served to enrich those who were already rich, in the hope that somehow economic recovery would trickle down. We have forced savers to reach for yield and pushed them into ever more risky investments at precisely the time the Boomer generation should be retiring and looking for safe havens.

That does not mean we are doomed to a slow-growth decade if we take the proper steps to restructure things. Let me just say that the team that is at the helm today is so convinced of the correctness of its policies that the words *restructure* and *change* are simply not in their vocabulary.

And talk about assumptions in models! If you look at the forecast from the Congressional Budget Office for the next 10 years, you will notice that they assume there will be no recession. If there is even a mild recession, the federal deficit and debt blow out to gargantuan proportions, creating even more of a problem of "crowding out" than we have today.

Let's conclude with a few thoughts from the report from the venerable Ned Davis, mentioned above:

> Excess debt and low investment in particular have hurt productivity. In fact, there has been very little growth in non-financial productivity over the last year (or the last few years), as featured in the nearby chart [which I did not include]. And that lack of investment also probably means a halt to the improvement in the federal deficit.
>
> In conclusion, monetary growth and low interest rates have worked to the extent that we are seeing half-full economic growth, which should continue. Yet, longer-term problems with debt, savings, and low investment weigh on growth potential.

That is the real problem with your Keynesian-fueled recovery. It is fueled too much by debt and not enough by productive income. We have borrowed from the future for decades, and now the future is here, and it's payback time. And as we all know, payback is a bitch.

The Real Driver of Growth

But let's not lose hope. Growth springs from more than property rights, the rule of law, competitive free markets, and a strong work ethic. Those are certainly the basic conditions necessary for the type of growth we have seen in the last 200 years. But the scientific revolution that started concurrently with the Industrial Revolution in the late 1700s has spurred an ever-increasing cycle of innovation.

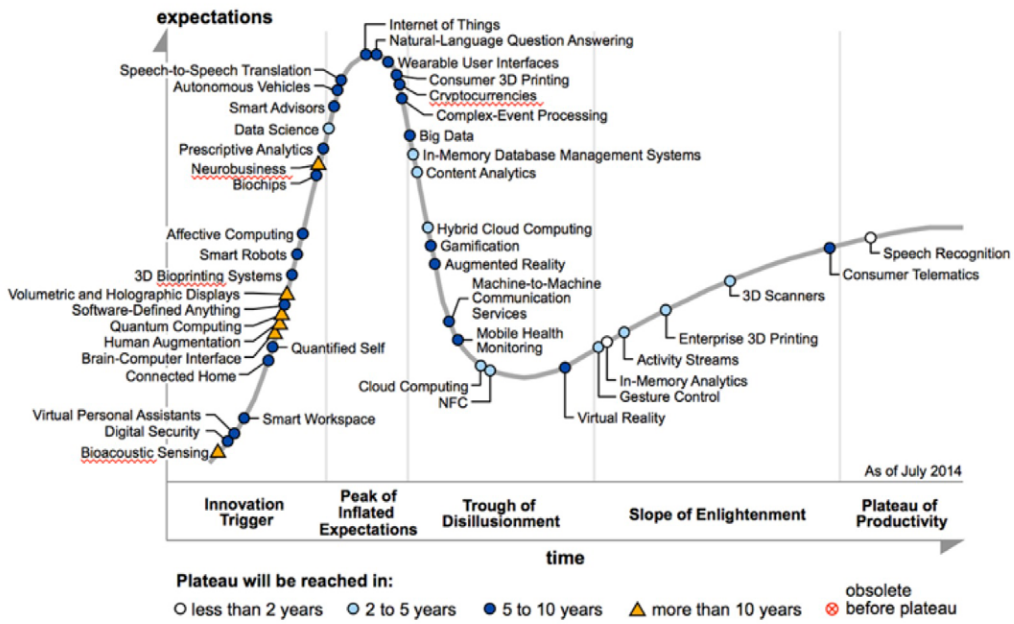
This article from this week's *Economist* frames the story:

> Over the past few decades it has become clear that innovation – more than inputs of capital and labour – is what drives a modern economy. In the developed world, the application of technological know-how and scientific discoveries by companies, institutions and government establishments accounts for over half of all economic growth. Because of its seminal influence on wealth-creation in general and employment in particular, the manner in which innovation functions – especially, the way it comes and goes in Darwinian bursts of activity – has emerged as a vital branch of scholarship.
>
> What researchers have learned is that waves of industrial activity, first identified by the Russian economist Nikolai Kondratieff in 1925, have a character all of their own. Typically, a long upswing in a cycle starts when a new set of technologies begins to emerge – eg, steam, rail and steel in the mid-19th century; electricity, chemicals and the internal-combustion engine in the early 20th century. This upsurge in innovation stimulates investment and invigorates the economy, as successful participants enjoy fat profits, set standards, kill off weaker rivals and establish themselves as the dominant suppliers.
>
> Over the years, the boom peters out, as the technologies mature and returns to investors slide. After a period of slower growth comes the inevitable decline. This is followed eventually by a wave of fresh innovation, which destroys the old way of doing things and creates conditions for a fresh upswing – a process Joseph Schumpeter, an Austrian economist, labelled "creative destruction".
>
> Back in the late 1990s, Babbage noticed that the waves of innovation had begun to speed up (see "Catch the wave", February 18th 1999). The industrial waves Kondratieff observed in the 1920s came every 50-60 years or so. By the late 1990s, fresh ones were arriving twice as often. Fifteen years on, their frequency appears to have doubled yet again. Waves of new innovations now seem to be rolling in every 10 to 15 years.

I think those waves are going to come at us even faster in the next 20 years, resulting in what I call the Age of Transformation. Literally, our lives will be transformed, and at an ever-increasing pace of change. The Gartner Group has developed a cool paradigm that they call the "hype cycle." They basically see every technology through the lens of five different phases in this hype cycle: the innovation trigger, the peak of inflated expectations, the trough of disillusionment, the slope of enlightenment, and the plateau of productivity.

For the past 20 years, Gartner has produced an annual update of various hype cycles that provide snapshots of the progress certain technologies have made during the previous year, where on the innovation cycle they currently reside, and how long they will take to reach maturity (if ever). This year's collection (published on August 11) assesses the prospects of some 2,000 technologies, grouped into 119 aggregated areas of interest.

The chart below is the most recent hype cycle, published by the Gartner Group last month. See if you can find a few new technologies that you didn't know even existed.



It would be nice if we could just sit back and let growth happen. But as it turns out, our government seems to be doing its best to *retard* growth. The bureaucracy of government has become what Newt Gingrich calls "the prison guards of the past."

In field after field, regulators feel the necessity to control the spread of technology in ways that are consistent with the past they seem to want to perpetuate. Neither Newt nor I is against reasonable regulation (it is a requirement for civilization); but regulation run amok kills growth and jobs, and in the case of one federal regulatory body it is killing people. (Warning: this hits one of my personal hot buttons.)

This week I was confronted with a single FDA bureaucrat slowing down a new medical technology by what may be five months. Doesn't sound like much time, does it? Except that this is a technology that will literally save millions of lives per year. Not improve life, understand: save lives. As in life or death. (Given the provision that the technology must be proven to work as we expect it to.) Rather than focusing on what we can do to move this crucial innovation along as fast as possible, the regulator is forcing this company to spoon feed him information that has already been provided in multiple forms. Because he evidently didn't have the time to read the massive amounts of information provided, he simply came up with a bogus reason to excuse his inaction and delay further progress. The fact that the lives of fathers and mothers and daughters and sons and spouses and friends will be lost evidently doesn't bother him.

I wish I could say it was just this one instance, but we all know that this sort of thing happens many dozens of times a year. The entire process of drug approval is broken. It is rigged to benefit Big Pharma and largely prevents small startups from succeeding by dramatically increasing costs beyond what is necessary.

If I could wave a magic wand and change just one thing in our government, it would be to replace the FDA. Not reform it – I don't want to tinker at the margins. We need an FDA for the 21st century. I'm not advocating some wild west scenario, either – of course we need a regulatory process for the medical field, but not one that is killing what should be the leading new technology in the United States, not to mention delaying lifesaving and life-enhancing technologies that are so needed. The majority of biotechnological research is done in the US; but under the current regulatory regime, it is increasingly likely that the early benefits will not be enjoyed by us, and that jobs that should be created here will be shipped offshore.

Energy should not be the leading job producer in the US; that should be new health and wellness technologies. I am watching some of the most promising new technology companies involved in extending life and healing bodies go shopping for venues outside of the US because the regulatory process is so onerous and time-consuming that the scientists literally don't feel they can wade through it and don't want to wait.

By the time they can get a process or drug approved, they are already three iterations beyond the original process for which their applications were filed. The field is literally moving that fast. We are going to be shipping jobs – high-paying, rewarding jobs – overseas, along with the new technologies. Dear gods, Japan and other forward-thinking countries are way ahead of us in the regulatory process. This is just wrong on so many levels.

Much of the US regulatory process is actually a fence-building program to protect the current workers or companies in a field. To use a rather odd example, why do some states feel that a nail technician needs to have a license that requires a 750-hour training program (at considerable cost) to learn something that every teenage girl knows how to do by the time she is 13 or 14? Seriously, do you need 750 hours of training (that you have to pay for) in order to be able to do a manicure for which you get paid 20 or 30 dollars?

As I probably don't have many manicurists among my readers, I have hopefully not offended too many of you. But what if I started talking about your profession? Just saying. Many regulatory regimes are simply barriers to entry for new competition. Current participants basically capture the bureaucracy they deal with in order to ensure their own positions.

The desire to protect your own personal marketplace is not new. The concept started with guilds in the Middle Ages, and I assume some research would date it back to the time of the Medes and Persians. In the same way, many of us are beginning to feel uncomfortable with the increasing level of armaments in our local police and federal agencies. It seems that every government organization wants to extend its personal level of power and immunity. Can someone please tell me why the Railroad Retirement Board needs its own SWAT team? The Consumer Product Safety Commission? The US Department of Education? Seriously? Literally scores of agencies at the federal and state level seem to feel the need for SWAT teams. Many with armored vehicles. And then they find reasons to use them.

The principle of self-protection and self-aggrandizement holds in almost every area of bureaucratic regulation. In the same way that we all want and need the police in our neighborhoods, we do need regulators (or at least some of them). But an unchecked police force and a stultified regulatory bureaucracy can become a detriment to the society they are supposed to protect. In theory, that is why we subject these organizations to civilian control. In practice, it's not happening. (End of rant.)

The original point I was trying to make is that the main driver of growth is not monetary policy, notwithstanding the current fetish for dissecting every utterance of the Federal Reserve. More important is US fiscal policy. Even more important is US regulatory policy. I think we have to mention our educational system (which is showing signs of being increasingly broken and inadequate for the 21st century) somewhere around here. But it's crucial that the natural innovative drive that is inherent not just in US entrepreneurs but everywhere in the world is nurtured and encouraged.

That is not to say that monetary policy is not important. Get it wrong and we all lose. We all become poorer for the impediments to growth misguided monetary policy can create. Burdening a country with too much debt and crowding out productive investments in the process is likewise destructive.

Economists sometimes place too much emphasis on monetary and fiscal policy and miss the importance – in my opinion, the primary importance – of the other factors in the equation. That is somewhat to be expected because monetary and fiscal policy are what they study. But we need to keep things in perspective.

David, I'm sure you will have a few withering insights, and I look forward to reading and chewing them over with you. As always, I treasure our time together and our conversations.

Labor Day, San Antonio, and Washington DC

I'm enjoying my extended time at home here in Dallas. I had the pleasure of hosting Stephen Moore (you know him from the editorial page of the Wall Street Journal) the other evening, when we talked politics and economics into the late hours, over steaks at Nick & Sam's. Stephen started the Club for Growth back in 1999 and has been an intellectual driver and personal force in pushing for policies that help create growth.

I'm looking forward to going to the Casey Research Summit in San Antonio in a few weeks. Quite a few of the usual (and unusual) suspects, many of them good friends, will be on hand, including James Rickards, Grant Williams, Mark Yusko, Lacy Hunt, Leland Miller from the China Beige Book, David Tice, Mike Shedlock, Rick Rule, and Alex Daly, as well as Stephen Moore. It is really quite the lineup, and for those of you interested in energy and natural resources, it is a must-not-miss conference. You can find out more here. The San Antonio Hill Country is beautiful this time of year, and the conference is at a splendid Hyatt resort well away from the city. I liked the Riverwalk, but this is better.

Then a few weeks later I will be in Washington DC for a private speaking event as well as meetings, and then head back home to celebrate my 65th birthday. Haven't quite figured out what to do this year. Somehow 65 doesn't seem nearly as important as 60 did.

Family and friends will gather Monday evening, and we'll be grilling out by the pool of the apartment, celebrating my oldest son, Henry's, 31st birthday. He has informed me that there is a new grandchild coming along.

Workouts are proceeding apace, although the weight is coming off more slowly than I would like. Everyone keeps telling me that muscle weighs more than fat, but Dr. Mike Roizen tells me I can only gain about a pound a week of muscle at the max. Oh well, you just have to keep plugging. Have a great week!

Your wishing we could replace the FDA analyst, John Mauldin

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