

Transcript of the speech

# **“What Obama Does Not Know”**

By Richard J. Maybury

Keynote Speaker

And editor of *Early Warning Report*

At the

Wealth Protection Conference

Phoenix, May 2, 2009

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In 1992, I coined the term Chaostan — meaning the land of the Great Chaos — for the area from the Arctic Ocean to the Indian Ocean, and Poland to the Pacific, plus North Africa.

Thereafter, for nine years, I warned incessantly that federal officials did not understand Chaostan, and if they did not stop meddling in those countries, we would end up in a war. And, the war would wreck the economy, because the government would pay for it by borrowing and printing dollars; the debt and inflation of the money supply would lead to economic chaos.

Obviously, that prediction has come true, so today I’m going to explain three more things that the government and mainstream press seem not to understand.

The title of this speech is, “What Obama Doesn’t Know.” The first draft was 14 hours long, but I have cut that quite a bit.

You might ask, how can the president of the United States — the most powerful, most well-connected person in history, with all sorts of intelligence agencies — not know something important?

The answer is that a successful politician is not an expert at economics, foreign policy, military affairs or any of the other areas in which he makes decisions.

A successful politician is a person who is an expert at winning elections. That’s how he gets the job — by winning elections. That is his skill, his career, his area of expertise. Winning elections.

In other words, to be president, he needs to be highly skilled at illusion. He must be a better actor than his competition.

I sometimes think we need a change to the Constitution. Every six months, a president’s job performance should be evaluated, and if he isn’t doing well, we should call up Hollywood Central Casting and tell them to send over another president.

Since the president isn’t really an expert at anything presidential, except how to get the job, he doesn’t know what he should look for when he hires an advisor or cabinet member. Generally presidents just hire their drinking buddies, or whoever their drinking buddies recommend.

You can see that with Obama's group of economic advisors. Before he was sworn in, he formed one group of advisors, then on February 6<sup>th</sup>, only three weeks after he took office, he hired a second group. Now he has two groups of economic advisors.

Why? Well, if you know a bit about economics, you can make a good guess.

During his election campaign Obama admitted he knows very little about economics.

The first group he hired were people who were prestigious, but they have different economic models. Some are Keynesian, some monetarist, some socialist — I'll say more about the different models shortly — and I'm sure every time he got a dozen of them in a room and asked for an explanation of what's happening, he got a dozen different answers.

He hired a second group, and he's probably getting a dozen different answers from that group, too.

So, I'm going to explain three crucially important topics the president — and mainstream press — seem not to know anything about.

When I'm finished, you will know more than Obama does.

The first I'll cover is the fact that ...

**...the economy is not a machine**

When we listen to politicians and the mainstream press talk about the economy, we usually hear comments such as, the economy is sluggish, or, the economy is slowing down. We need to speed it up, to jump start it, or repair it, or tune it up.

But the economy is not a machine. It's an ecology, made of biological organisms — people — you and me and our loved ones, and millions of others.

Economics is not a math course. It's not the study of charts, graphs and equations. It's the study of living, breathing, thinking, feeling humans.

Especially feeling. And I'll say more about that shortly.

Economics is not a branch of mechanical engineering, it's a branch of biology — because we are biological organisms.

The economy is an ecology, the human ecology, and it is by far the most complex ecology on earth. I think, for instance, the typical big city hospital probably contains more complexity than all the other so-called natural ecologies in the world put together.

Think about it. Not only are the physical bodies and brains of the patients unimaginably complex, but so are the thoughts and feelings of the medical staff and patients, the personal interactions, the decisions, the knowledge base, the experience and training, the chemicals in the color of the paint on the walls, the

production of the raw materials used in the bathroom tiles.

The contents of that one building are so complex no human will ever understand them.

Yet, for more than a century, politicians and bureaucrats have been meddling in the human ecology, which means they've been playing God.

The economic trouble we see around us today is the chickens coming home to roost.

Right now, there is a big political movement to increase the number of regulations on the financial industry. The industry already labors under tens of thousands of regulations, that no one understands, and it broke down. So how is more regulation going to help?

I submit that the financial industry only needs one regulation, of four words: thou shalt not steal.

Let me be very clear about this: the politicians and bureaucrats have been taught to see us and our loved ones as machines that have broken down, and they plan to do whatever they think is necessary to jump start us and rev us up.

If someone elected you God, and gave you the power to meddle in a rain forest, or a tropical reef, with all its coral, fish and underwater vegetation, where would you start?

How would you tune up your tropical reef so that it ran more smoothly?

How would you jump start your rain forest?

If you've read my Uncle Eric book called *WHATEVER HAPPENED TO JUSTICE?*, you know that the human ecology is vastly more complex than a rain forest or tropical reef, and yet for more than a century politicians and bureaucrats have operated on the assumption that they are God and they know how to improve it.

So, they wrecked it.

I'm sure that if we gave federal economists control of the Amazon rain forest, it would never occur to them to just leave it alone!

The first thing they'd do is set up the official Amazon Federal Reserve, and start arguing about the formulas they'd use every six weeks to loosen or tighten the supply of water.

A hundred years later, the Amazon rain forest would be a lifeless desert, two million square miles of sand.

The most complex thing ever discovered is the human brain, and the economy — the human ecology — is comprised of 6.8 billion of those brains.

So, does Obama understand that the economy is an ecology?

Well, just listen to the terminology he uses. He has said — and these are his actual words — the economy has “structural problems.” It’s “locked up.” It’s “out of balance.” It’s “sluggish.” It’s “frozen.” It’s “slow.” It’s “clogged up.”

The man thinks he's a plumber.

The next topic Obama — and the mainstream press — seem not to understand is...

### **...economic models**

All mechanical engineers and architects use Newtonian physics. Cars, ships, trains, skyscrapers, they're all built on Newtonian physics, because Newtonian physics has been proven right billions of times.

So, for most of what we do every day, Newtonian physics is the model. No engineer or architect would for one minute consider using anything else.

Economics students in college are led to think there is just one model in economics, too. But there isn't. There are five main models: Keynesian, monetarist, socialist, fascist and Austrian, and there is no consensus about which one is correct.

Yet, every financial analysis, every investment recommendation, begins with a choice of economic models. It cannot be avoided. Whether he knows it or not, the analyst is using some kind of economics to do the analysis, because all financial work builds upward from economics — meaning, from the study of the human ecology.

Economics is the foundation. I would like to see the whole financial industry, including every article or book you read, disclose under the name of the writer, the

economic model the writer is using, so that the audience can tell what the bias is!

In my own case, the article would show the title, then “by Richard Maybury, Austrian.” An article by John Doe would say “by John Doe, Keynesian,” or monetarist, or whatever.

When I was in college, we were never told what model we were being taught. In one course, the professor would be a monetarist, in another a socialist, another a Keynesian, and they never disclosed it.

So, most of us didn’t even know there were different models.

Ever since, I’ve talked with college students, and found this has not changed. I almost never run across a student who even knows there are different models.

So they come out of college thoroughly confused. To them, the human ecology is a huge mystery. They’ve been taught a mass of contradictions, and they think there must be something wrong with them personally — their brains are defective — because they can’t make sense of it.

Several times I’ve had people with college degrees in economics read my little book *WHATEVER HAPPENED TO PENNY CANDY*, which is written to be easily understood by a 12-year old, and these people have told me that for the first time in their lives, they understand economics.

I use the Austrian model, which is the one that most closely dovetails with the beliefs of Thomas Jefferson and the other American founders. It's the only one that sees the economy as an ecology not a machine.

As far I know, I'm one of the very few people in the whole country who ever disclose their model — because I'm proud of my model.

As for Obama, I'm sure his confusion comes from the fact that he doesn't know or is only vaguely aware that there are various models, and he doesn't know how they differ. If someone asked him, which economic model do you think makes the most sense, and why, I'm sure he'd have no answer.

So the result in the White House is confusion.

It cannot be any other way when the advisors have different models of how the world works.

The third topic Obama and the mainstream press apparently know nothing about is...

**...velocity & money demand.**

Jim Powell has pointed out that the tens of millions of people who are still working — and that's 91.5% of the workforce — have received a huge pay raise, because prices of houses, cars, refrigerators and a lot of other things, have been cut drastically. The buying power of their wages has soared!

And, it's the best kind of pay raise, because they didn't need to work any harder to get it, and it's not taxed.

This is a huge windfall. It's probably the biggest, most widely shared windfall in all of world history.

So why aren't these tens of millions of people out celebrating? They should be delirious with joy. Why aren't we seeing dancing in the streets?

Because people are scared and afraid to spend the money. And that brings us to what economists call velocity.

As this war was developing during the 1990s, I repeatedly warned that it was likely to bring a dollar crisis, and advised my readers to always have part of their savings diversified into non-dollar assets such as Swiss francs, New Zealand dollars, gold, silver, platinum, oil, and other raw materials.

Incidentally, in March on our web site, I ran a special bulletin telling my readers that I think there is an 85% probability the bottom in non-dollar assets has occurred, or is occurring, and I think those investment suggestions are now as solid as they were ten years ago.

A major reason is velocity. As far as I know, my *Early Warning Report* is the only publication that says much about it.

I think velocity has become the key driver in the entire world-wide economic crisis, so here is a quick

explanation of it.

Money responds to the law of supply and demand just as everything else does.

If people do not want a particular currency — let's say the British pound — then the value of a pound will fall.

Sellers will demand more pounds in trade for their goods or services, and prices in Britain will rise, even if there has been no change in the supply of pounds.

On the other hand, if the demand for pounds rises, the value will rise and prices will fall even if there has been no change in the supply of the currency.

Velocity is the speed at which money changes hands. When demand for the money is high, money changes hands more slowly, and velocity is low.

When demand for the money is low, velocity is high.

A key point is that velocity and money supply can act as substitutes for each other. A 10% rise in velocity has the same effect as a 10% rise in money supply.

The biggest problem with velocity and money demand is they can turn 180 degrees overnight. If people trust the currency, and suddenly perceive some kind of big threat to their futures, money demand can shoot up.

That's exactly what happened last year. The supply of dollars certainly did not go down, but when the real

estate crash happened, people became so frightened they were afraid to let go of their dollars.

Within a few days, money demand shot up, people stopped spending and held onto their dollars, and this had the same effect as an instantaneous deflation of the money supply.

If you don't spend your money, that's the same thing as taking it out of circulation.

This can instantly cause the equivalent of a sharp deflation of the money supply by 10 or 20 percent, or more.

That's what happened in the Great Depression. The Fed was inflating. In 1932, the money supply<sup>1</sup> was \$20 billion, and by 1940 it was \$38 billion. But fear was so great that velocity was falling faster than money supply was rising.

This is why Franklin Roosevelt said in his first inaugural speech, "The only thing we have to fear is fear itself." People were afraid to spend their money, as they are now, and velocity was falling, which has the same effect as deflation, because if you don't spend your money, it's not in circulation.

So, speaking economically, I think that is where we are now. Changes in money demand and velocity are running everything.

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<sup>1</sup> As measured by M1. Source: Historical Statistics of the U.S., Colonial Times to 1957.

And, my key point is, it's all controlled by emotions.  
By fear.

What are you more afraid of? The dollar becoming worthless? Or losing your job and running out of dollars?

The whole world is constantly shifting back and forth between those two fears, so money demand bounces up and down like a yo-yo, and velocity — the speed at which the money changes hands — does, too.

These wild shifts in money demand and velocity have the same effect as massive, instantaneous shifts up and down in money supply. It's like we're having a huge inflation, then a deflation, every few hours — because our fears change every few hours — because the politicians have all this arbitrary power and we don't know what they're going to do to us!

Now, do you see why it is so important to see the economy not as a machine but as an ecology. Machines don't feel, they don't have fear, or joy, or optimism.

But people, biological organisms, do have feelings. They do fear, and their fears can change instantaneously.

The human ecology, especially these days, is driven very largely by emotions.

How are the politicians and bureaucrats who are playing God ever going to control, or fine tune, or repair, or speed up or slow down, our emotions?

Okay, so I've given you three of the things politicians and the mainstream press say little or nothing about, probably because very few of them understand these things. The three are:

- #1, The economy is not a machine, it's an ecology made of unimaginably complex biological organisms, meaning people.
- #2, Models. There is no single economic model, like there is in Newtonian physics. Obama probably does not realize his advisors are giving him conflicting advice because they have different models.
- #3. Velocity. The speed at which money changes hands is dependent on emotions.

Now you know some of the things Obama doesn't.

Perhaps a good summary of what I've said so far is, when people play God, they always do it badly. And, the politicians and bureaucrats have been playing God with the human ecology for more than a century, and now the chickens have come home to roost.

On March 29<sup>th</sup> on our web site, we posted a special bulletin telling my readers that I think there is an 85% probability the recent deflationary stage of the crisis is ending and the next inflationary stage is beginning.

I can't prove it, but I think the bottom in non-dollar assets has occurred, or is occurring, and now is the time to get into non-dollar assets: Swiss francs, New Zealand dollars, Canadian dollars, Australian dollars, oil and

other raw materials, real estate, and especially, gold, silver and platinum.

Pat Gorman at Resource Consultants can help you with the gold, silver and platinum. I've been recommending Resource Consultants for precious metals for twenty years or so, and never had even one complaint from any of my readers.<sup>2</sup>

If I'm right about this new inflationary cycle, then within two or three years, we will see oil at \$300, gold \$3,000, platinum \$3,000, and silver at \$50.

I think we have three to five years of chaos ahead of us, but a lot of new fortunes will be made by those who are knowledgeable and prepared.

We're going through a giant, and very painful, object lesson. But when it's over, America will be back on track to a new golden age, and the people who were knowledgeable and prepared will enjoy a prosperity far greater than anything ever seen before.

That's the objective of my newsletter, *Early Warning Report*, to get you through the hard times as comfortably as possible, so that you can enjoy the golden age that will come after.

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