

# Chronicle of Catastrophe

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*A Contemporaneous History of the Bush Years*

By Michael Cuddehe

## Selected Quotes

### Market Risk / Looming Crisis

Q1 '02

The defining characteristic of all investment mediums today is *pervasive risk*.

Q2 '02

the odds favor an extended period of underperformance to balance out the recent extended period of irrational exuberance

Q1 '04

Like the dam builders of the Army Corps of Engineers who spent 100 years damming every river in America ...it is my contention that policymakers will come to realize that their economic engineering has been violating natural law in a fundamental way and has also done more harm than good. We will have a serious economic crisis, or more likely a series of them...

Q2 '04

...efforts to manipulate endless "controlled" inflation and avoid recessions have introduced latent instability into the system and are doomed to failure.

Q4 '04

I fully expect that when the borrowing stops, or rather when the lending window is closed, the Bush gamble on faith-based economics is going to end up being a matching bookend for his other big gamble in Iraq . *Hubris is not corrected by 20%. Hubris is corrected by disaster.*

Q2 '05

It is my opinion that our current government, ideologically driven and blinded by hubris, has waded ever deeper into an economic and geopolitical quagmire. Extraction will now be difficult at best. I believe that the greatest market risks we face today are systemic, created by the arrogance, corruption and tribal political warfare of our leaders in Washington.

Q3 '05

Wealth is being hoarded on a broad scale, real opportunities are becoming scarce, and the natural vitality of our economy is being eroded at the base. This development is being masked by low interest rates and excess liquidity.

Our leaders, *with our consent and support*, have been doing the things that have historically brought great nations to their knees -- running up enormous debt, allowing epic scale corruption and engaging in foreign wars.

Q2 '06

the managers of our financial institutions are so enamored of their clever models and their ability to leverage up by using derivatives that they have completely lost sight of the basics. The condition is called hubris. This situation is what Warren Buffet was referring to when he said that derivatives are "economic weapons of mass destruction."

Q2 '07

The fact that Blackstone has seen fit to do an IPO signals that the principals believe they have maximized the value of their portfolio and want to start cashing in...If the Blackstone principals believe that they have realized the bulk of the value from their portfolio, that would indicate that valuations in general are peaking.

It remains my opinion that the primary opportunity these days is to prepare for the coming storm. Systemic risk is increasing, and the list of potential catalysts for a major crisis remains long.

Q4 '07

All things considered, caution should be exercised in all matters financial. Cash may well be your best opportunity right now.

## Real Estate

Q1 '02

Real estate values have long been out of whack with rental values and dependent on inflation to make up the difference. This imbalance will not continue forever.

Q2 '02

Once the current buying panic is over where will the exit come from...This is not a healthy market.

Q3 '02

The huge move into housing by marginal buyers and refinancing, often for 100% or more of market value, at the top of the cycle is going to result in a wave of defaults, personal bankruptcies, bank failures and big losses for Agency bondholders and other mortgage investors.

Q2 '04

Virtually all of the "experts" assure us that housing will not go down; it may go flat for an extended period of time but not down. But if there is one thing I can tell you with certainty it is this: markets do not go straight up for years and then go flat; they correct. The super-EZ credit and low, low rates have brought in legions of unqualified borrowers, leveraged speculators and other weak hands. During the next recession large numbers of these people will be forced to sell...The notion that housing values are going to simply level off is a fantasy.

Q2 '06

The 10 year housing bull market has finally petered out...Considering the length and large gains of the housing bull market, this correction will likely be long and/or deep.

## Culture & Society

Q3 '02

[A tour-de-force on the underlying cultural distortions that have manifested the excesses of our times]

Policy makers in the West, particularly in the U.S., no longer think of their constituents as "citizens"... the prevailing economic mindset is grounded in a machine model of society which considers people to be "consumers" and utilizes any and every method to prod, manipulate and stimulate consumers to consume and thereby "grow" the economy with disregard, even contemptuous disregard, for community, philosophy, values, culture, environment, morality and religion.

The fundamental problem with the machine model of society is that people are not consumption machines...They do have legitimate economic needs ...but they also have personal, social and spiritual needs that reach far beyond the economic sphere.

The correction of past excesses is not going to be accomplished by a few hastily passed "reform" measures and the jailing of a few criminal executives. Like withdrawal from a drug addiction, it is going to be a long and difficult process and will not be over until we have been sufficiently humbled to honestly confront the issues that got us here.

The conclusion by economist John Easterlin from USC - we don't get happier as our wealth increases and our possessions grow...our wants keep expanding along with increasing means so we tend not to experience greater happiness with the expansion of wealth and possessions.

Q4 '02

We have come a long way down the path to the utopian vision of a world-wide marketplace dominated by large corporations...There are some sectors of the economy that are suitable to the machine model of society upon which this utopian vision is built; telecom for example, and information technology. But there are others which are not amenable to that model; food and medicine for example.

## Fiscal Responsibility

Q2 '03

The fiscal irresponsibility being embraced by Washington is truly shameful and is going to have severe consequences at some point...As the Financial Times put it, "The lunatics are now in charge of the asylum."

Q3 '03

Like a drug addict, we are violating every principle we know to be right and true, delaying the inevitable, squandering our inheritance, and impoverishing ourselves and our heirs in the process.

## Political Failure

Q3 '02

Policy makers on both sides of the aisle have been complicit in a decades-long deception and manipulation which has seen the deliberate destruction of value and savings through a policy of "controlled inflation." This policy has turned "citizens" into "consumers," and in the process impoverished pensioners and others on fixed incomes, effecting a gradual and massive shift of wealth from the working and middle classes to the very rich.

One could argue that sound policy changes could allow us to manage our way to a healthy, sustainable economy. I would agree, but the problem with this argument is that it requires leadership. We don't have any of that. Our leaders "lead" by following the polls, manipulating the press, seeking personal and partisan advantage, and pandering to the lowest common denominator.

Q4 '04

...that the Big Lie is now unchallenged as the dominant mode of public policy discourse. The old Soviet commissars would be in awe at the sophistication of the machinery of deception. We call it *spin* these days, and good spinners are held in high regard by our political class. But like a bad case of termites, this spinning business is degrading the foundations of our society.

"We have all become implicit spinners. No one likes it and no one knows how to stop it. We look simultaneously at content and predicted effect, at what actually happened and how it will play. If it doesn't play, it never happened. Conversely, even blatant lies, if they play, become true."

Jonathan Alford

Q2 '05

It is my opinion that our current government, ideologically driven and blinded by hubris, has waded ever deeper into an economic and geopolitical quagmire. Extraction will now be difficult at best. I believe the greatest market risks we face today are systemic, created by the arrogance, corruption and tribal political warfare of our leaders in Washington. Dealing with our fiscal problems, or any problems for that matter, has become virtually impossible as our political culture is consumed by partisanship, ideology and spin.

Q3 '05

Abuse of power, hubris, corruption, cronyism and related issues, as well as Iraq and the economy, will weigh heavily on the Republicans in '06.

Our leaders, *with our consent and support*, have been doing the things that have historically brought great nations to their knees -- running up enormous debt, allowing epic scale corruption and engaging in foreign wars.

Q3 '06

On October 17<sup>th</sup>, 2006 President Bush signed into law the Military Commissions Act. This dangerous and profoundly un-American Act marks a new low in our ongoing political devolution.

Q3 '08

The U.S. has been living beyond its means for a long time. When Ronald Reagan entered the White House he inherited a \$1 trillion national debt accumulated over 200 years. He added \$1.6 trillion in his eight years. George Bush Sr. added another \$1.6 trillion in his four years, and Bill Clinton another \$1.5 trillion in his eight years. George W. Bush has equaled all three of his predecessors by adding another \$4.5 trillion. The national debt now stands at \$10 trillion, not counting unfunded liabilities such as Medicare and Social Security. Consumer debt has followed a similar trajectory. Total U.S. debt now stands at over \$50 trillion, not counting unfunded liabilities.

## Geopolitical – Global Realignment

Q1 '02

our current administration seems to be intent on pressing its own agenda regardless of anyone else's interests or concerns, upending the status quo globally. Policy issues aside, when you disrupt the status quo, persistently and globally, unexpected things are going to happen.

Q1 '03

On the international scene aggressive U.S. action is causing alarm in enemies and allies alike, and catalyzing a global realignment that could end up leaving us the odd man out. ..France, Russia and China in particular, sensing opportunity, are positioning to displace American hegemony in Europe, the Asia and the Far East respectively should we stumble.

Q1 '04

We spend as much on our military as the rest of the world combined. The cost of sustaining our military "footprint," which spans the globe...with over 700 bases, is simply not sustainable.

Another geopolitical issue to be aware of is that *demographics are destiny*. The West is aging. The U.S. is barely expanding its population; Europe and Japan are contracting. But the Muslim world is exploding. The average family in Pakistan, for example, has five children. This is a long term trend and it is going to affect everything. The fast growing Muslim world will invest its youthful vitality in economic competition or it will vent its frustration in violence.

Q4 '04

Meanwhile, realignment is moving full speed ahead. China in particular has been moving steadily and intently to supplant U.S. hegemony in South Asia...Many younger people in the region are abandoning their English studies to learn Mandarin.

Q2 '06

U.S. influence around the world is shrinking rapidly and will soon contract in a major way. George Bush's big gamble in Iraq, intended to serve notice to the world of U.S. dominance and resolve has had the opposite effect. The surprise is that this is not entirely a bad thing. The transition will certainly be bumpy but a redistribution of global influence *and* responsibilities, once accomplished, will be better for everyone.

America still has much that is good to offer the world. But the good that America has to offer cannot be given at the end of a cruise missile...We need to withdraw from empire to heal our collective spirit and regain our moral center. Events are leading us to that place, whether we realize or want it or not.

Q2 '08

Taking the long view, the nuclear genie is already out of the bag. Many countries are pursuing nuclear technology, and even if the Iranian program is put down over the short run, it is only a matter of time before the world is going to have to confront the reality of ubiquitous nuclear weapons. And thanks to our geometrically expanding technological capabilities, nukes are now merely #1 on a growing list of potentially "civilization-destroying" weapons. In the long run, the survival of human civilization demands that we evolve to a more co-operative global political culture that is not based on violence and the threat of violence.

## Corporate Malfeasance

Q1 '02

Warren Buffet: "Though Enron has become the symbol for shareholder abuse, there is no shortage of egregious conduct elsewhere in corporate America."

Q3 '02

As the crowning example of historic excess, the specter of corporate chieftains being paid tens and even hundreds of millions in bonuses, forgiven loans and severance after they have devastated the corporations under their command, and having the gall to actually accept the money, is enough to turn the stomach of any honest person, and to create rage among those whose livelihoods were terminated and retirements ruined by these gilded criminals.

Q2 '07

The function of the global lead firm has devolved from the creation, innovation and maintenance of the business enterprise to protection of market share and extraction of maximum short term profit. "Their power is mainly extractive, and increasingly destructive."

Today's global outsourced corporations have no incentive for long term planning, investment in research, productive assets or employees, and no loyalty to community or nation. Huge CEO stock and option deals have aligned CEO incentives totally with the interests of shareholders (short term profit) to the detriment of all other interest groups impacted by corporate activity: suppliers, employees, customers, communities and society.

Iraq

Q1 '03

There are a few ways in which this war and its aftermath can go smoothly and many ways that it can go badly. There is little doubt that the Bush folk have good intentions and have a vision of a vastly improved situation in the Middle East as a result of this war, but there is clearly a large element of denial about possible negative outcomes. Good intentions notwithstanding, I find the thought regularly floating through my mind that the road to hell is paved with good intentions.

Q4 '04

"I object to violence because when it appears to do good, the good is only temporary; the evil it does is permanent." Mahatma Gandhi

The apparent good of removing Saddam from power has resulted in the creation of a terror vortex where there was none before, the destruction of tens if not hundreds of thousands of lives, the vast majority of them innocents as in all wars, and irreparable harm to America's honor and standing in the world.

Q3 '05

The grandiose scheme to democratize the Mid-East and remake the world in our image has been extremely damaging to our standing in the world. I confess that I too believe in America's special place in the world, and in its leadership role. What we have witnessed over the past five years, however, is the dark side of that vision: the arrogant belief that we can violate the laws of man and nature with impunity and impose our values and our system on the world at the end of a cruise missile.

For those caught up on the receiving end of our campaign to democratize the world our actions don't look much different than previous efforts to impose utopian systems "at the end of a bayonet." A dead

wife or child or brother is simply dead. A life ruined is a life ruined. It doesn't matter that your initial intent was noble. Like they say, the road to hell is paved with good intentions.

Retired General George Odom, Vietnam veteran and former head of the NSA, recently said "The invasion of Iraq, I believe, will turn out to be the greatest strategic disaster in U.S. history."

## Bush & Republicans

Q4 '02

Hubris is not corrected by 20%. Hubris is corrected by disaster. Unless victorious Republicans get a grip and discipline themselves they are likely to precipitate disaster in their blind arrogance...The big question is, will the disaster be merely a Republican Party disaster or will it be global?

Q1 03

The persistent belligerent rhetoric and aggression on all fronts, domestic and international, is creating widespread anxiety over the stability of the world order, the economy and even over the constitutional foundations of our society.

and it has become quite clear that our President is a gambling man, and he's no ordinary gambler; he's a high roller.

In one of the more stunning and discouraging political developments of my lifetime, conservative House Republicans, who have long been the stalwarts of fiscal responsibility, have adopted a strategy of pushing up the deficit as a way to limit government spending. Sound insane? Probably because it is. This is a "scorched earth" policy for which we are all going to pay dearly. If this kind of thinking carries the day, I predict that we will very soon see trillion dollar *declared* deficits.

Q3 '03

The fiscal outlook is grim indeed. Fiscal discipline in Washington has collapsed utterly under the weight of partisan politics. Even worse, some key Republicans have adopted a strategy called "starve the beast," the object of which is to deliberately create extreme deficits which will necessitate a rollback of social spending...

Q4 '04

I fully expect that when the borrowing stops, or rather when the lending window is closed, the Bush gamble on faith-based economics is going to end up being a matching bookend for his other big gamble in Iraq . *Hubris is not corrected by 20%. Hubris is corrected by disaster.*

Q2 '05

It is my opinion that our current government, ideologically driven and blinded by hubris, has waded ever deeper into an economic and geopolitical quagmire. Extraction will now be difficult at best. I believe that the greatest market risks we face today are systemic, created by the arrogance, corruption and tribal political warfare of our leaders in Washington.

Q3 '05

Hubris is *the* defining characteristic of our current government. The result is that we have made a shambles of our balance sheet, created growing doubt, division and confusion at home, and lost the respect of the world. If you have not seen the movie *Ran*, I suggest that you rent it.

Q3 '08

Our departing President, George W. Bush, has left his own special mark on America and the world, so eloquently expressed recently by London mayor, Boris Johnson:

"However well-intentioned it was, the catastrophic and unpopular intervention in Iraq has served in some parts of the world to discredit the very idea of western democracy. The recent collapse of the banking system, and the humiliating resort to semi-socialist solutions, has done a great deal to discredit - in some people's eyes - the idea of free-market capitalism. Democracy and capitalism are the two great pillars of the American idea. To have rocked one of those pillars may be regarded as a misfortune. To have damaged the reputation of both, at home and abroad, is a pretty stunning achievement for an American president."

## Future Vision / Predictions

Q3 '02

I predict that we will see the development of a trend away from materialism and eventually a tidal shift in the attitudes and aspirations of the masses toward endless consumption. Awareness will start to dawn, as it already is, that there are other things in life worth pursuing. Family, community and spiritual needs that have long been neglected will become increasingly attractive as the illusion of economic utopia fades. Pressure will build for more balanced, people-friendly and sustainable ways of living. "Consumers" will gradually be transformed back into "citizens." Grass roots political activity will soar and this activity will likely not be centrist.

Q4 '02

The global economy is sucking the wealth out of the working and middle classes and concentrating it in the very rich. This is not a formula for social stability...It sounds a little third-world, but the reality is that America is going to look increasingly third-world for the working and middle classes, with gated enclaves for the rich. The action and the opportunities are going to be related to the massive shift in lifestyle for the working and middle classes.

There are some sectors of the economy that are suitable to the machine model of society upon which this utopian vision is built; telecom for example, and information technology. But there are others which are not amenable to that model; food and medicine for example... Sustainable agriculture offers excellent lifestyle and long term investment opportunities... The real opportunity in medicine is in the return to natural and preventive medicine...Despite the obstruction of the current administration, alternative energy is the future...It's only a matter of time.

Q3 '03

When the next recession arrives (there is always a next recession) the job situation and the growing gulf in income and wealth distribution are going to start causing a severe crunch. Coming on the heels of 30 years of slow erosion in purchasing power and the recent period of real difficulty for workers, this crunch will begin to generate big social, political and economic disruptions

Q1 '04

We spend as much on our military as the rest of the world combined. The cost of sustaining our military "footprint," which spans the globe...with over 700 bases, is simply not sustainable. ...Sooner or later we are going to take that one last step which is going to break the fiscal camel's back, if we haven't already done so. Once that step has been taken domestic spending will first come under the knife...the domestic cuts will create so much political backlash that military spending will then come under the knife and we will have to start withdrawing our global deployment...We are sooner or later likely to end up "fortress America" for a long stretch.

Q2 '06

America will dramatically reduce its global military footprint and the gargantuan expenses that go along with that global presence. The world will find a new equilibrium and we will be freed of the distractions and responsibilities of empire. We will be able to turn our attention and resources to dealing with neglected domestic and regional problems, and to repairing the extensive damage that has been done to our national character, our national unity, and our relations with our friends and neighbors.