

Today's Notes:

1. **Solar Storm**
2. **Time marches On: Legacies**

1. SOLAR STORM

A vitally important piece of legislation comes to the floor of the House of Representatives today. It is the Cap and Trade legislation that the administration believes will create new jobs, develop new industries and put the much-maligned US industrial engine back on track. Meanwhile the New York Times notes that high school graduates in Dayton, Ohio cannot find factory work as have their parents and grandparents. The graduating class this year will not be seeking jobs at General Motors, Chrysler or Delco. Dayton's Wright Pat Air Force base is hiring 1,000 employees. Half of those require PhDs.

Two elements of the unraveling New Industrial State (see J K Galbraith) are becoming clear.

First, the competitiveness of US industry is bottoming. As GM goes so goes the country has been a widely used saying in the Post War US. The US auto industry, as we have known it, is now gone despite the frantic attempts of both Bush and Obama Administrations to save it. America long ago became a service economy. Our best high school graduates have tended to gravitate to jobs in the factory (steel, auto, shipbuilding, etc.) or service industries. Part of this problem results from the high quality of life in North America that has been, more or less, a direct result of the decline of the US currency. The US has, for the last 60 years, been the owner of the world's reserve currency. This currency privilege migrates every half century, or so, from one country to another, amongst those who establish ownership through proper governance, military strength / victories, industrial or commodity wealth and the ingenuity and innovativeness of their population. This mantle changes with regularity. In the twentieth and twenty first centuries Britain and the US have been guardians of this powerful reserve currency privilege.

It will persist here in the US, for a few decades, but US reserve currency power is being reined in; make no mistake about that. The BRIC block is the likely the next guardian of the privilege. Our ability to maintain the current quality of life through currency depreciation and its global inflation impact is now in doubt. July 13, 2008 was the high water mark. The high school seniors graduating this week in Dayton are well beginning to realize this. The solution is clear. The US must now re-industrialize. This will require most of the rest of the century if we begin now.

The second element of this plan is evident in Washington today. The administration seeks to pass Carbon Cap and Trade legislation that the CBO says will tax American families by \$100 to \$200 per year. We have always said that Washington understands the Cap side of the equation but not the Trade side. Washington understands taxes also.

Cap and trade legislation in Europe has not yet established a vigorous market solution to the global warming problem. Even the environmentalists are complaining that the Waxman / Markey bill is far too watered down. In short no one likes it; It is a value destroying abomination.

Most interesting is Washington's unmitigated fascination with the "Green Jobs" and the energy independence that this Cap and trade bill is intended to create. These are fantasies. In an effort to gain the support of the average American (parents and grandparents of those graduates from Dayton, Ohio) Washington is selling a "have your cake and eat it too" promise. Steny Hoyer noted this AM that not only can we cure global warming but we can create a new industrial base with millions of "Green" jobs. Mr. Hoyer believes we can export the GW cure to China. Both the EU, particularly Spain, have failed in this so far, But what are these green Jobs? The aspiring high school graduates from Dayton are for the most part joining the army, becoming fireman and women or looking for traditional jobs – no longer supplied en masse by the declining industrial base in the US. There is no stampede amongst our young graduates to be "green." President Obama recently lauded Spain's alternative industrialization as the potential for the greening of industry in America.

But in March 2009 Spain's Universidad Rey Juan Carlos published a 53 page report that found that for every green job (most temporary) 2.2 traditional jobs in Spain were destroyed¹. For each job created in the wind industry the government spent US\$1.2 million. Why not just pay off a million or so mortgages? I enclose several of the University's research findings:

- 1) ***"Optimistically treating European Commission partially funded data, we find that for every renewable energy job that the State manages to finance, Spain's experience cited by President Obama as a model reveals with high confidence, by two different methods, that the U.S. should expect a loss of at least 2.2 jobs on average, or about 9 jobs lost for every 4 created."***
- 2) ***"It is not possible to directly translate Spain's experience with exactitude to claim that the U.S. would lose at least 6.6 million to 11 million jobs, as a direct consequence were it to actually create 3 to 5 million "green jobs" as promised."***
- 3) ***"Each "green" megawatt installed destroys 5.28 jobs on average elsewhere in the economy: 8.99 by photovoltaics, 4.27 by wind energy, 5.05 by mini-hydro. 11. These costs do not appear to be unique to Spain's approach but instead are largely inherent in schemes to promote renewable energy sources."***

If the US legislation is voted into law by Congress and signed (almost surely by President Obama) taxes will increase and jobs will be destroyed. This is very regressive legislation. It will be damaging to the US economy. The frightening part of this story is that the government is on the verge of pulling it off. It is most difficult to see a US re-industrialization, so often put forward as justification by this Administration, with high cost

¹ The full Spanish report may be read at , <http://www.juandemariana.org/pdf/090327-employment-public-aid-renewable.pdf>."

alternative energy programs dragging down industry. How will a price increase in electricity of 30% help restore our economy? Evidently no one has asked this question.

Please make your views known on this issue to your elected representatives.

Despite their support for anthropogenic (human) global warming the Journal Science is a must read. The most recent edition (June 26, 2009) notes that the world is not ready for the Big One. The Big One? This is the next solar maximum. The last according to Science was in August 1859. It seems such natural phenomena as solar max occur every few centuries. Scientists think the next blast of electromagnetic radiation may occur in 2012 or 2013. Science notes,

“The Big One for space physicists struck on 28 August 1859. The sun had blasted a billion-ton magnetic bubble of protons and the like right at Earth. On smashing into the planet's own magnetic cocoon at several million kilometers per hour, the bubble dumped its energy, pushing the solar-driven aurora from its customary arctic latitudes to overhead of Cuba. This once-in-500-years "solar superstorm" crippled telegraph systems for a day or two across the United States and Europe but otherwise was mainly remembered for its dramatic light show.”

However, Science notes that our world has now evolved into a **cyberelectrosphere** of modern electronics. Today, the radiation and electromagnetism of such a solar superstorm would disable satellites, degrade GPS navigation, disrupt radio communications, and possibly “trigger continent-wide blackouts lasting weeks or longer.” A storm of the century would wreak havoc.

Here’s my point. Mother Nature cannot be predicted nor can she be appeased. The sunspot cycle will peak in 2012- 2013 as it has for eons in the past. Solar storms, though infrequent, will reoccur. There is nothing human kind can do to forestall such an event. We can only prepare. To think otherwise is the folly and hubris of our susceptible and God-fearing souls. This holds true for global warming and the politics of fear now being perpetrated by governments around the world and embraced by the populace. Today governments need political cover for all their sins. To believe that we can change our atmosphere and prevent global warming is a government-run Ponzi scheme designed to implement policy change and extend government control. Only the government has license to run Ponzi schemes which increase taxes to fund failing (negative NPV) projects. There is no fundamental structural difference here from the Madoff schemes. Why is that? It is called voter complacency, ignorance and lack of involvement. The stark consequences are now being felt by the high school graduates from Dayton.

If, by reducing our carbon footprint, we have a cleaner life that is a good. However as the Spanish University report noted there is a cost. It would appear that that cost far outweighs the advantages, once again violating the hard and fast value-creating economics of positive net present value. Should we go forward with this legislative folly, wealth will certainly change hands but in that exchange much wealth will be destroyed.

2. TIME MARCHES ON

Time marches on. I write to encourage investment in Discovery. It is my firm belief that the road to a new industrial society will rest in our ability to innovate and discover. That has always been a hallmark of our society. To innovate and discovery requires intelligent risk taking and as well as losses. It requires a supportive but non meddling government.

This AM I wish to reflect on the passing of several icons of the 1970s. Lest we forget the 30 years of Johnny Carson and Ed McMahon frolics, Farah Fawcett's posters and of course Michael Jackson's music. Their legacies, for better or worse, are now set in Tombstone. I am convinced that discovery investing can help provide a legacy. Investing involvement in a stem cell treatment or cancer cure or perhaps the discovery of a new energy technology may create wealth portfolio for your future generations. But one should not ignore the social valuations placed on discovery investing either. Game changing discovery will always be valued, in good times and bad. This discipline should be a suitable piece of your wealth reconstructive surgery. Time marches on.

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