



The Corruption of America

The numbers tell us America is in decline... if not outright collapse.

I say “*the numbers tell us*” because I’ve become very sensitive to the impact this kind of statement has on people. When I warned about the impending bankruptcy of General Motors in 2006 and 2007, readers actually blamed me for the company’s problems – as if my warnings to the public were the real problem, rather than GM’s \$400 billion in debt.

The claim was absurd. But the resentment my work engendered was real.

So please... before you read this issue, which makes several arresting claims about the future of our country... understand I am only writing about the facts as I find them today. I am only drawing conclusions based on the situation as it stands. I am not saying that these conditions can’t improve. Or that they won’t improve.

The truth is, I am optimistic. I believe our country is heading into a crisis. But I also believe that... sooner or later... Americans will make the right choices and put our country back on sound footing.

Please pay careful attention to the data I cite. And please send me corrections to the facts. I will happily publish any correction that can be substantiated. But please don’t send me threats, accusations against my character, or baseless claims about my lack of patriotism. If I didn’t love our country, none of these facts would bother me. I wouldn’t have bothered writing this letter.

I know this is a politically charged and emotional issue. My conclusions will not be easy for most readers to accept. Likewise, many of the things I am writing about this month will challenge my subscribers to re-examine what they believe about their country. *The facts about America today tell a painful story about a country in a steep decline, beset by problems of its own making.*

One last point, before we begin... I realize that this kind of macro-economic/political analysis is not, primarily, what you pay me for. You rightly expect me to provide you with investment opportunities – whether bull market, bear market, or total societal collapse. And that’s what I’ve done every month for more than 15 years.

But that’s not what I’ve done this month. You won’t find any investment ideas at all in these pages. This issue is unlike any other I have ever written.

I’m sure it will spark a wave of cancellations – costing me hundreds of thousands of dollars. I fear it will spark a tremendous amount of controversy. Many people will surely accuse me of deliberately writing inflammatory things in order to stir the pot and gain attention. That’s not my intention. The truth is, I’ve gone to great lengths throughout my career to protect my privacy.

I am speaking out now because I believe someone must. And I have the resources to do it. *I am sharing these ideas with my subscribers because I know we have arrived at the moment of a long-brewing crisis.*

Inside This Issue

- Where the criminals live... and why
- Detroit’s gone, its politicians remain
- Newt’s \$1.6 million shakedown of Fannie Mae
- Why I’m still bullish on America

Editor: Porter Stansberry

Our political leaders, our business leaders, and our cultural leaders have made a series of catastrophic choices. The result has been a long decline in America's standard of living.

For decades, we have papered over these problems with massive amounts of borrowing. But now, our debts total close to 400% of GDP, and America is the world's largest borrower (after being the world's largest creditor only 40 years ago)... And the holes in our society can no longer be hidden...

We've reached the point where we will have to fix what lies at the heart of America's decline... or be satisfied with a vastly lower standard of living in the future.

How do I know? How do I statistically define the decline of America?

The broadest measure of national wealth is per-capita gross domestic product (GDP). Economists use this figure to judge standards of living around the world. It shows the value of the country's annual production divided by the number of its citizens. No, the production isn't actually divided among all the citizens, but this measure provides us with a fair benchmark to compare different economies around the world. Likewise, this measure shows the growth (or the decline) in wealth in societies across time.

So... is America growing richer or poorer based on per-capita GDP? Seems like a simple enough question, doesn't it? Is our economy growing faster than our population? Are we, as individuals, becoming more affluent? Or is the pie, measured on a per-person basis, growing smaller?

This is the most fundamental measure of the success or the failure of any political system or culture. Are the legal and social rules we live under aiding our economic development or holding us back? What do the numbers say?

Unfortunately, it's a harder question to answer than it should be. The problem is, we don't have a sound currency with which to measure GDP through time. Until 1971, the U.S. dollar was defined as a certain amount of gold. And the price of gold was fixed by international agreement. It didn't actually begin to trade freely until 1975. Therefore, the value of the U.S. dollar (and thus the value of U.S. production, which is measured in dollars) was manipulated higher for many years.

Even today, our government's nominal GDP figures are greatly influenced by inflation. The influence of inflation is particularly pernicious in GDP studies. You see, inflation, which actually reduces our standard of living, drives up the amount of nominal GDP. So it creates the appearance of a wealthier country... while the nation is actually getting poorer.

The only real way to accurately measure per-capita GDP is to build our own model. The need to build our own tools

tells you something important – the government doesn't want anyone to know the answer to this question. It could easily publish data far more accurate than the indexes it puts out. But government doesn't want anyone to know. And it wants to be able to say "those aren't the real data" when studies like ours produce bad news.

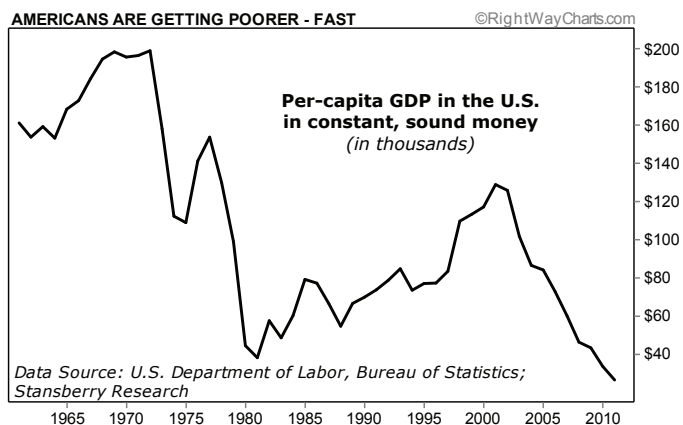
So pay attention to how we built our charts. You can see for yourself that our data are far more accurate than the government's figures. Our data are based on the real purchasing power of the currency, not the nominal numbers, which are completely meaningless in the real world.

The question we are trying to answer is: What would per-capita GDP numbers look like, if we used a real-world currency, like gold, or a basket of commodity prices, instead of the paper-based U.S. dollar? What would the figures be if we measured GDP in sound money instead of the government's funny money?

Here's how we figured it out. We took the government numbers for nominal GDP and measured them first against commodity prices, and later (after it began to trade freely) gold. We used a standard commodity index (the CRB) up to 1975 and gold post-1975. The result of this analysis shows you the *real* trend in U.S. per-capita GDP, as measured on a real-world purchasing power basis.

Our analysis shows you what's actually happened to our real standard of living. The results, we suspect, will surprise even the most bearish among you.

America is in a steep decline.



Americans Are Getting Poorer – Fast

Let me anticipate the “official” criticism of our study. Many people will claim that our numbers aren't “real.” They will say that we “mined” the data to produce a chart that showed a steep decline.

That's simply not so. All we've done is convert the government's nominal GDP stats into a fixed currency value that's based on real-world purchasing power. The fact is, our data are far more accurate than the government's because they represent the real-world experience. *That's why our data are far more closely correlated to other real-world studies of wealth in America.*

Consider, for example, annual sales of automobiles. Auto sales peaked in 1985 (11 million) and have been declining at a fairly steady rate since 1999. In 2009, Americans bought just 5.4 million passenger cars. As a result, the median age of a registered vehicle in the U.S. is almost 10 years.

Our data shows that real per-capita wealth peaked in the late 1960s. Guess when we find the absolutely lowest median age of the U.S. fleet? In 1969. At the end of the 1960s, the median age of all the cars on the road in the U.S. was only 5.1 years. Even as recently as 1990, the median age was only 6.5 years.

Rich people buy new cars. Poor people do not.

Most important, our data "proves" something I know many of you have felt or perceived for many years. You've seen the decline of your neighborhoods. You've gone years without being able to earn more money in your job. Or you've seen your purchasing power decrease to the point where you're now substituting lower-quality products on your grocery list for the brand-name products you used to buy.

You can see how much harder it is on your children to find good jobs, to buy good housing or a new car. As a result, few people under the age of 40 have the same kind of "life story" as their parents.

And because they can't "*make it*," many have decided to "*fake it*." The average college student now graduates with \$24,000 in debt... and by his late 20s has racked up more than \$6,000 in credit card debt. Meanwhile, median earnings for Americans aged 25-34 equals \$34,000-\$38,000. (Source: Demos.org, "The Economic State of Young America," November 2011.)

Can you imagine starting your life out as an adult with a personal debt-to-income level at close to 100%? What does this say about the state of our economy? What does this say about the state of our culture?

Who Suffers Most

It's not only the young that are having trouble in America. It is also the old.

Debt levels among households headed by people older than 62 have been rising for *two decades*. The average mortgage size for this population is now \$71,000 – five times larger than

it was in 1987 (adjusted for inflation), according to William Apgar of Harvard's Joint Center for Housing Studies.

Older Americans are also more reliant on credit card debt than ever before... *credit card debt*. From 1992 through 2007 (which is the latest data available) older Americans took on credit card debt at a faster pace than the population as a whole. According to *USA Today*, lower- and middle-income Americans aged 65 and older now carry an average of more than \$10,000 in credit card debt, up 26% since only 2005.

Given average interest rates of 20% for these debts, it's a fair bet that these obligations will never be repaid. But they will have a terrible impact on the standard of living of these older Americans.

What in the heck is going on? Don't Americans pay off their mortgages before they retire? Don't they work hard during their careers, save, and invest, so they can move to Florida and spend their retirement in comfort?

Older Americans living with credit card debt! This doesn't sound like America, does it? Or maybe it does.

My bet is that most of my subscribers know that something has gone terribly wrong with America. It's not easy to figure out how all of this happened... but you know from your own experiences that these numbers aren't wrong. It might not be pleasant to think about... but these figures paint a sad but accurate picture: *America is not the country it was 40 years ago. These changes are warping our economy, politics, and culture.*

In this month's issue, I'd like to try to define a few of the core reasons we're in this situation. I can't possibly analyze all the factors that have led to this decline. But I want to document the growth of graft in politics. I want to demonstrate – with real facts and examples – how public company leadership has deteriorated. And I want to document some of the things that are occurring in the broader society, all of which I believe are linked to this fundamental decline in our standard of living.

You see, I believe the decline of our country is primarily a decline of our culture.

We have lost our sense of honor, humility, and the dedication to personal responsibility that, for more than 200 years, made our country the greatest hope for mankind. I want to detail some of the factors that gave rise to the current entitlement society. We have become a country of people who believe their well-being is someone else's responsibility.

I've labeled these problems: **The Corruption of America.**

These problems manifest themselves in different ways across institutions in all parts of our society. But at their root, they are simply facets of the same stone. They are all part of

the same essential problem.

The corruption of America isn't happening in one part of our country... or in one type of institution. It is happening across the landscape of our society, in almost every institution. It's a kind of moral decay... a kind of greed... a kind of desperate grasp for power... And it's destroying our nation.

The Ethos of 'Getting Yours'

Americans know, in their bones, that something terrible is happening. Maybe you can't articulate it. Maybe you don't have the statistics to understand exactly what's going on. But my bet is, you think about it a lot.

For me, a poignant moment of recognition came this month.

Bloomberg news published an article based on confidential sources about how Henry Paulson, the former CEO of Goldman Sachs and the Republican U.S. Treasury secretary during the financial crisis, held a secret meeting with the top 20 hedge-fund managers in New York City in late July 2008. This was about two weeks after he testified to Congress that Fannie Mae and Freddie Mac were "*well-capitalized*."

I knew for a fact that what Paulson told Congress wasn't true. I wrote my entire June 2008 newsletter detailing exactly why Fannie and Freddie certainly had billions in losses that they had not yet revealed to investors – \$500 billion in losses, at least. There was no question in my mind, both companies were insolvent – "zeros," as I explained.

And yet, in front of Congress, the U.S. Treasury secretary was saying exactly the opposite. Either I was a liar... or he was.

Then... only a few days later... what did Paulson tell those hedge-fund managers?

He told them the same thing I had written in my newsletter. He told them the *opposite* of what he'd said publicly to Congress. He told these billionaire investors that Fannie and Freddie were a disaster... They would require an enormous, multibillion-dollar bailout... The U.S. government would have to take them over... And their shareholders would be completely wiped out.

Here you had a high-government official, explicitly lying to Congress (and by extension, the general public), while giving the real facts to a group of people who represented the financial interests of the world's wealthiest folks. The story didn't come to the public's attention *for two years*.

This was the most outrageous example of graft and corruption I have ever seen. Certainly it involves more billions of dollars in misappropriated value than any other similar

story I can recall. These managers had the risk-free ability to make tens of billions of dollars, if not hundreds of billions, by using derivatives to capitalize on what they knew was the imminent collapse of the world's largest mortgage bank. Who picked up the tab? You know perfectly well. It was you and me, the taxpayers.

(One of the investment managers present at this meeting was Steve Rattner, who by that point was already deeply involved in another bit of graft, his efforts to bribe New York state pension-fund managers for large investments into his hedge fund, from which he earned perhaps as much as \$100 million. He later settled the charges for a mere \$10 million shortly after Andrew Cuomo was elected governor of New York.)

The Bloomberg story... about a crooked Treasury secretary handing a room full of crooked billionaires inside information worth billions of dollars... hardly caused a ripple. As far as I know, no actions are being planned against Henry Paulson or any of the hedge-fund managers involved. No other major media outlet picked up the story. I saw nothing about it from the Department of Justice or the Securities and Exchange Commission.

What does that say about our country when even the most egregious kind of corruption – involving hundreds of billions of dollars – is simply ignored?

It seems like everyone in our country has lost his moral bearing, from the highest government officials and senior corporate leaders all the way down to schoolteachers and local community leaders. The ethos of my fellow Americans seems to have changed from one of personal integrity and responsibility to "getting yours" – the all-out attempt, by any means possible, to get the most amount of benefits with the least amount of work.

You can see this in everything from the lowering of school standards (revising the SAT) to the widespread use of performance-enhancing drugs in professional, college, and high school sports. Cheating has become a way of life in America.

I have an idea about how this happened... about the root cause of this kind of corruption and why it was inevitable, given some of the basic facts regarding how we've organized our government and our corporations.

Let me show you the numbers – the hard facts – behind what's happened to our country...

The Corruption of Politics

I'll start with one of the biggest factors in the decline of our civilization – the link between welfare, education, crime,

and politics.

It is routinely alleged in national political debates that something is fundamentally unfair and un-American about the huge “wealth gap” between the poorest Americans and the wealthiest. Some politicians like to argue that the poor never have a real shot at the American dream, and as a nation, we owe them more and more of our resources to correct this injustice. Most important, it is alleged that only the government has the resources to correct this inequality.

This is a dangerous notion...

First, it promotes the idea of entitlement. Entitlement is a fairly new idea in the American political lexicon – perhaps because most of our nation’s wealth is still fairly new. The American idea of entitlement argues that because you were born into a rich society, other people owe you something. The idea has become pervasive in our culture. It underlies the basic assumptions behind the idea of a “wealth gap.” Implicit is the assumption that successful Americans haven’t rightfully earned their wealth... that in one way or another, they’ve taken advantage of the society and have an obligation to give back most of what they’ve “taken.”

As you’ll see, I believe the idea of entitlement lies at the root of many of our most serious cultural problems.

The more obvious problem is the idea that the government is responsible for fixing the “wealth gap.” But the government has proved wholly ineffective at dealing with poverty in America. The data is nearly conclusive that government efforts are far more likely to be the *cause* of the wealth gap than the *solution*.

The simple fact is, the government has to take resources from someone before it can dole them out to others. And this act of taking turns out to be economically destructive. It reduces the market’s incentives for entrepreneurs. The more you take from the productive members of society, the less productive they become. That’s the primary lesson of the

history of socialism. Yet... many of our political leaders seem oblivious to this iron law of human nature.

Consider a simple analysis that compares the unemployment rate with the size of the federal government’s spending, as measured against GDP. (We created this chart after reading a similar analysis at Mark Perry’s excellent financial blog, *Carpe Diem*.)

As you can see in the chart on this page, the larger the government grows as a percentage of our economy, the higher unemployment rises. *The more government, the less opportunity.* These figures are similar when studied comparatively across many different countries.

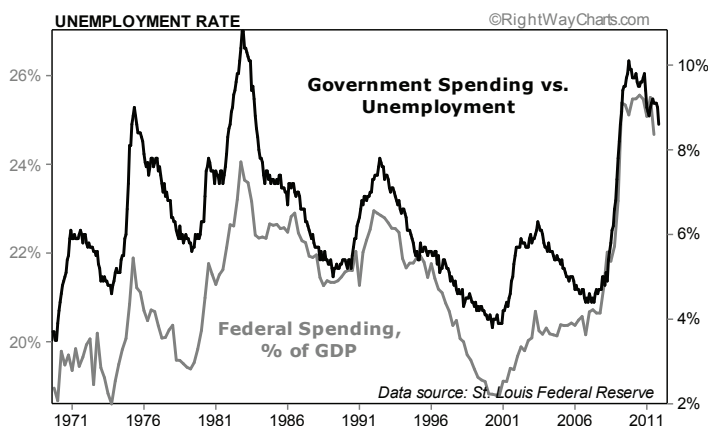
We also know from decades of experience that little of the government’s funding for the poor will ever reach those who are actually in need. Instead, these kinds of socialist policies end up sending billions of dollars into the hands of unions, “community organizers,” and other sponsors of the Democratic Party. This tightens their political control of America’s inner cities, which have become the source of our country’s most intractable social problems.

Believe me, I have reams of data and decades of case studies for these conclusions. But before we get to my proof, I want you to simply assume that what I’m saying is 100% correct. Assume most of the government’s social spending ends up corrupting the politics of the inner city. Assume these efforts actually make the “wealth gap” larger. Assume these policies and the politicians who sponsor them are actually creating a society of complete dependence, where the spread of ignorance has created entire generations of people who aren’t educated enough to know they’ve been enslaved by their own leaders.

If these things are true, if my conclusions are exactly right, what would America’s poorest communities look like today?

It has now been almost 50 years since the start of the War on Poverty, President Lyndon Johnson’s program to radically increase domestic welfare spending. These programs and their various spinoffs have been at the center of Democratic politics ever since. In fact, if you compare speeches about these programs from the mid-1960s until today, you will find the verbiage never changes. Obama is merely echoing the same calls for “social justice” that Robert Kennedy used in his ill-fated 1968 campaign for president.

But besides the soaring rhetoric, besides the promise of a “chicken in every pot,” what have these programs actually achieved? The wholesale destruction of urban communities across America, communities that are overwhelmingly African American. If the intention of these programs had been to destroy black communities, you could have hardly done more damage than the last 50 years of Democratic policy.



I don't think most Americans realize how dangerous these communities have become or the toll they take on our country as a whole. That's primarily because talking about this problem is seen as racist. That's complete nonsense. The victims of these policies are primarily black people. Trying to help them restore dignity and independence to their communities isn't a racist goal. It's humanitarian.

And let me offer a prediction... Sooner or later, the people in these communities are going to finally point their finger at the politicians who've lied and pandered to them for decades, all while stealing from them at every turn. When that moment comes, having a track record of correctly speaking out about the real nature of these problems will be a valuable political asset.

No, I'm not running for office... I'm just trying to buck-up the politicians who I know read this letter. They need to get out in front of this issue.

Let me give you some of the numbers that define the enormous scope of these problems.

According to the NAACP, Texas taxpayers spent \$175 million in 2009 to imprison residents from a small part of Houston – only 10 zip codes out of 75. Thus, people from neighborhoods that are home to only about 10% of the city's population account for more than 33% of the state's entire \$500 million annual prison spending. These neighborhoods are overwhelmingly poor and African American.

In Pennsylvania, taxpayers will spend \$290 million in 2009 to imprison residents from just 11 of Philadelphia's neighborhoods, representing about 25% of the city population. On this relatively small urban area, the state will spend roughly *half* its \$500 million prison budget. These neighborhoods are overwhelmingly poor and African American.

In New York, taxpayers will spend \$539 million to imprison residents from only 24 of New York City's 200 different neighborhoods. Only 16% of the city's population lives in these areas, but they will account for nearly half of the state's \$1.1 billion prison budget. These neighborhoods are overwhelmingly poor and African American.

America has many problems... but these neighborhoods represent more than a society in decline. **Life in these places reflects a complete collapse of Western civilization.** What's happening in these communities? A breakdown of the family and the resulting collapse of the school system. What you have left is crime – violent and political.

In Detroit, only 27% of the black male students in the school system graduate from high school. *This is not a racial problem:* Only 19% of the white male students graduate from those same schools. What's causing this problem? A complete

breakdown of society. When communities can no longer teach their children the most basic academic skills, such as reading, math, history, literature, and economics... what future can we expect? And what kind of society do you expect after several generations of total ignorance?

These problems are still found primarily in urban areas, but they are spreading across the country. In Pinellas County, Florida, only 21% of black male students graduate from high school. In Palm Beach County, Florida, you find a similar number. Likewise Duval County, Florida... and Jefferson Parish, Louisiana... and Charleston County, South Carolina. In Nebraska, only 40% of black male students graduate from high school. In Nevada, only 45%. In New York state, only 25%.

What opportunities are available in America to people without even a basic education? The *New York Times* reports almost 70% of black males without a high school diploma are unemployed in the United States.

In many predominantly black, urban communities, the actual unemployment rate is close to 100% for young drop-outs. Given these figures, it isn't surprising that many of these people end up in jail.

According to various studies, black males who dropped out of school by age 16 are four times more likely to end up in jail than those who remained in school. Crime is literally all they know. Likewise, a black youth whose mother was a high school dropout is 88% more likely to end up in jail. These are the two primary reasons nearly one in 11 adult black men are either in jail or on parole.

How did this all happen? How did we end up with expensive schools that can't teach? How did we end up with young mothers who aren't married? How did we end up with entire generations of people who won't – and probably can't – work in the labor force? How did we end up with a skyrocketing prison population? The prison population in America has soared from less than half a million people in 1980 to more than 2.5 million people today. More than 7 million adults are in prison or on parole in the United States. *We have an incarceration rate that's seven times higher than any other industrialized nation.*

The land of the free?

Let's ask the most basic question: What has the gigantic increase in welfare spending and education spending done for the underclass of America? It seems apparent that growth in federal spending has caused far more harm than good. When you study these neighborhoods, what you find is a horrifying story that's been repeated, generation after generation since the early 1960s. It's a story of families who have been destroyed by their dependency on the state.

The truly extraordinary part is that all these things happened *after* these neighborhoods began voting and electing their own (typically black and Democratic) leadership. The socialism they voted for themselves led most directly to the destruction of their communities. It was their own mayors, ward leaders, and congressmen who chose this path for these communities.

Let me show you one case study – Detroit.

How Socialism Came to America... and Destroyed Detroit

In 1961, the last Republican mayor of Detroit, Louis C. Miriani, lost his re-election bid. He probably would have lost to anyone who ran against him because he was known to be a crook. He later served 10 years in prison for tax evasion.

The man who defeated him, Jerome Cavanagh, was a Democrat. He ushered in a new kind of politics in Detroit. Cavanagh, who was white, got elected by promising to give Detroit's African American population the civil rights they deserved. But he didn't stop there. Seeing the political advantage to serving this community's interests, he did all he could to bring government benefits and government spending to Detroit's black community.

Cavanagh brought socialism to Detroit.

Mayor Cavanagh was the only elected official to serve on President Johnson's Model Cities task force. The program was modeled after Soviet efforts to rebuild whole urban areas in Eastern Europe. At the time, this centralized approach to urban development was proclaimed as an advantage to the Soviet system, something that could give them an edge in the Cold War.

Detroit received widespread acclaim for its leadership in the program, which attempted to turn a nine-square-mile section of the city (with 134,000 inhabitants) into a "Model City." To help finance the effort, Cavanagh pushed a new income tax through the state legislature and a "commuter tax" on city workers. He promised the mostly poor and black residents of the Model City area that the rich would pay for all of these benefits. He bought their votes with taxes they didn't have to pay.

It was classic American socialism.

More than \$400 million was spent on the program – and that was back when quarters still had actual silver in them. The feds and Democratic city mayors were soon telling people where to live, what to build, and what businesses to open or close. In return, the people received cash, training,

education, and health care.

But they didn't like being told what to do... or how to live. Not surprisingly, the Model Cities program was a disaster for Detroit. Within five years, it had helped trigger a complete breakdown of civil order and the city's population began to rapidly decline.

On July 23, 1967, police attempted to break up a notorious "blind pig" in the heart of the new Model City. Blind pigs were after-hours clubs that featured gambling and prostitution. They were part of the black culture of Detroit, with many having been in operation since the Prohibition period. The community tolerated these establishments – but the political leadership didn't want any blind pigs in the new Model City area.

On this particular night, at this particular club, the community was celebrating the return of two Vietnam War veterans. More than 80 people had packed into the club. The police decided to arrest everyone present, including the two war vets. This outraged the entire neighborhood, which began to riot. The scene turned into the worst race riot of the 1960s.

As my friend Doug Casey likes to say about the War on Poverty, "The poor lost." The violence killed more than 40 people and left more than 5,000 people homeless. One of the first stores to be looted was a black-owned pharmacy. The largest black-owned clothing store in the city was also burned to the ground. Cavanagh did nothing to stop the riots. (He claimed a large police presence would make matters worse.) Five days later, President Johnson sent in two divisions of paratroopers to put down the insurrection.

The situation destabilized the entire city. Most of the people who could afford to leave did. Over the next 18 months, 140,000 upper- and middle-class residents – almost all of them white – left the city.

And so, you might ask... after five years of centralized planning, higher taxes, and a fleeing population, what did the government decide to do with its grand experiment? You'll never guess...

Seeing it had accomplished nothing but failure... The government expanded the Model City program with 1974's Community Development Block Grant Program. Here again, politicians would decide which groups (and even individuals) would receive state funds for various "renewal" schemes. Later, big business was brought into the fold. In exchange for various concessions, the Big Three automakers "gave" \$488 million to the city for use in still more redevelopment schemes in the mid-1990s.

What happened? Even with all of their power and all of the money, centralized planners couldn't succeed with any of

their plans. Nearly all of the upper- and middle-class citizens left Detroit. The poor fled, too. The Model City area lost 63% of its population and 45% of its housing units from the inception of the program through 1990.

Even today, the crisis continues. At a recent auction of nearly 9,000 seized homes and lots, less than one-fifth of the available properties sold, even with bidding starting at \$500. You literally can't give away most of the property in Model City areas today. The properties put up for sale represented an area the size of New York's Central Park. Total vacant land in Detroit now occupies an area the size of Boston. Detroit properties in foreclosure have more than tripled since 2007.

None of this is surprising. It's exactly what you'd expect to see given the implementation of a socialist scheme like a Model Cities' program. Quite simply, coercion doesn't work for economic development. You cannot tax yourself into prosperity.

It might buy votes... but sooner or later the voters will realize all that's been promised was a lie. Won't they?... Maybe not.

You see, the failure of the Model Cities program and of the War on Poverty wasn't surprising. What is surprising is that *every single mayor of Detroit since 1961 has been a Democrat*. And extremely liberal, black politicians have filled almost every major political office in the city since the mid-1960s.

For example, John Conyers, Jr. has represented most of Detroit's worst neighborhoods *since 1965*. Today, Conyers is the second-longest serving congressman in the House. And his election track record could be described as "Putin-esque." *Conyers doesn't merely win all of his election campaigns... He wins by margins that aren't explainable in a normal, two-party system.*

He defeated Republican Robert Blackwell in 1964, getting 84% of the vote. He was re-elected 13 times in a row from that district, *all with a greater margin of victory than 85%*. Ironically, the district was so ill-served by his socialistic policies that about half of the people moved away. The population losses led to redistricting. From then on, his margin of victory has fallen... to "only" around 80%.

These election results don't seem reasonable, do they? They aren't. By controlling the state legislature in Michigan, the Democrats are able to draw the congressional districts in a way that guarantees them almost permanent control. It's no different than what despots do all over the world. They hold an "election." But it's only for show.

And what do the Democrats do with this power? They push a form of American socialism. This political system features transfer payments, government jobs, and lucrative government contracts to voters in exchange for political support – and in many cases, outright bribes. They do all of these things under the cover of "progressive" politics and "social justice."

But if you brush away the veneer, what you find is a history of abuse of power, corruption, and outright bribery. Conyers himself was found guilty of several minor ethical violations in 2006 – mainly of using his staff as personal servants, forcing them to babysit and chauffeur his children. In 1992, he was one of the most egregious abusers of the House Banking scandal. He wrote 273 bad checks and left his account overdrawn for nine months. But that's all small-time graft compared to how things really work in his office and in his district.

How do I know? Well... just ask yourself where Conyers' wife sleeps today.

Monica Conyers, the wife of the second-longest tenured congressman in the United States, sleeps in a federal prison in West Virginia. She pled guilty to bribery in June 2009. *She is serving a 37-month sentence for accepting \$60,000 in bribes as the president pro tempore of the Detroit City Council.* And yet... and yet... Conyers won re-election handily in 2010.

How is that possible?

These kinds of people and their political philosophy have destroyed what was once America's fourth-largest city. There is almost nothing left of what was the capital of America's industrial heartland. It's not hard to understand what has happened. When you start taxing people at extremely progressive rates to pay for socialist "benefits"... when you start telling them which schools their children must attend... when you start giving jobs away to people based on political patronage, race, or anything other than ability... you quash human freedom, you create dependency. And you deter capital and investment... which bogs down productivity and economic growth. If continued for long enough, it leads to social collapse.

And Conyers is hardly an anomaly. Just look at those same blighted districts in Houston and Philadelphia...

In Houston, most of the city's worst neighborhoods in terms of high-school graduation rates and crime are found in Texas Congressional District 18, where Democrats have won every election since the district was created through re-zoning in 1972. In 1994, Sheila Jackson Lee won the seat by promising to deliver more federal benefits to her constituents...

To appreciate the sterling representation the Honorable Ms. Jackson Lee provides, consider this... In 2010 in bizarre remarks before Congress, she demanded the government recognize victory in Vietnam. You can try to figure out what she's talking about here: http://www.cbsnews.com/8301-503544_162-20010824-503544.html. She also alleged racism on the part of her *fellow members of Congress* who were voting against raising the debt ceiling. Don't believe it? View for yourself: <http://www.youtube.com/watch?v=PRyqOg709fw>.

In Philadelphia, Chaka Fattah represents the worst parts of the city, Pennsylvania's 2nd Congressional District. The 2nd District is the fifth-most Democratic Congressional District out of the 435 in Congress (and the most Democratic outside of New York) based on the consistency and margin of Democratic victories. A black Democrat has held the seat since 1963.

Among Chaka Fattah's political highlights is his economically illiterate plan to implement a 1% surcharge on all financial transactions and transfers in lieu of all other forms of tax. This ill-fated plan, which hasn't gotten a single co-sponsor, ignores everything we know about actual human behavior. (If you implemented such a cost to financial transactions, the viability of those transactions would be destroyed and they wouldn't occur.)

Fattah's other notable political position is his support for convicted cop killer Mumia Abu-Jamal. Mumia's case has been a *cause célèbre* for years. The details of his endless appeals are tedious... just know the evidence presented against him is overwhelming. And the Fraternal Order of Police has consistently campaigned against Fattah's re-election over his support of Mumia.

The larger point is... These districts are among the most blighted in our nation. Society has broken down there to a horrible degree. Opportunity has vanished... Crime is rampant... Dependency on the state is the norm. The leadership in these communities should be the most scrutinized, their elected positions among the most contested. And yet, they are the safest seats in Congress. The officials' dominance goes unchallenged.

Why haven't these policies and these leaders been dropped – even after they've pled guilty to outright bribery? You would think having experienced enough failure, having lived through horrible riots, terrible crime, total economic collapse, brazen corruption... that sooner or later, the voters in Detroit (and many other cities in America) would come to their senses. But that's not what happened. Instead, these systems have continued to fail up to the point of total collapse. It is as if one part of our society decided to run off the cliff... and then continued to do so *for decades*.

Why? Why did this happen? Why does it continue to happen?

Government Employee Unions: Organized Corruption

A big part of the answer lies in understanding the key mechanism in the Democratic Party's funding system. (Don't worry... so far, we've been talking about Democratic Party

failures, but I'll get to the Republicans next. The corruption of America is a bipartisan problem.)

We can trace the origins of these ultraliberal politicians and the beginnings of America's severe urban decline to the early 1960s. Yes, that was when the civil rights movement inspired the black community to take political power. But that wouldn't have necessarily led them to embrace socialism. Americans of all races largely rejected socialism for decades.

That all changed in the mid-1960s. Facing tough mid-term elections, the Democratic Party convinced President John F. Kennedy to allow the federal workforce to unionize. Executive order 10988 – signed on January 17, 1962 – permitted federal employees to organize unions and bargain collectively for higher wages and benefits. This set the stage for similar measures in cities and states across the country and led to a transformation of the union workforce. (Technically, Wisconsin became the first state to allow collective bargaining from state employees in 1959. But that's an outlier. Most states followed the federal lead.)

This represented a major change in both Democratic Party strategy and a major revolution in American politics. Even Franklin Delano Roosevelt, who was the most liberal president in history prior to Barack Obama, recognized that allowing collective bargaining on behalf of government workers was incompatible with a free democratic system of government...

All Government employees should realize that the process of collective bargaining, as usually understood, cannot be transplanted into the public service. It has its distinct and insurmountable limitations when applied to public personnel management. – President Franklin Roosevelt in a letter to Luther Steward, president of the National Federation of Federal Employees, August 16, 1937.

A government union turns the public servant into the public's master. It is a means of using the government's own spending to organize control of that government. And that is exactly what's happened. The government, unlike private companies, isn't limited by normal economics because the government controls the monopoly on force and has the power to levy taxes.

The power of unions had long been held in check by market forces. Companies that gave too much to the unions in terms of pay or benefits soon found themselves driven out of the market because of high costs or poor products. Except in cases of government bailouts (like GM), these companies soon went out of work and their union members were left unemployed.

Nobody could reliably adopt truly socialistic policies

because eventually, the costs of those bad ideas limited the power of the people promoting them. The growth of unions stalled in the 1950s, and they began to shrink in the 1960s. This caused a crisis in the Democratic Party (among the principal beneficiaries of union dues). Something had to be done.

Organizing unions made up of state employees completely eliminated the ability of market forces to temper their power. After all, taxes aren't subject to the demands of consumers. Following Kennedy's executive order, membership in public employee unions – The American Federal of State, County and Municipal Employees (AFSCME), the Service Employees International Union (SEIU), and the Teachers' National Education Association (NEA) – boomed. So did their contributions to liberal, Democratic politicians.

These socialist organizations now had access to funding that wasn't limited by market forces. They could control entire generations of politicians. And they did. From 1989 to 2004, AFSCME was the largest single donor to federal political campaigns in the country. **More than 98% of its donations went to Democratic candidates.**

To see the damage the heavy involvement of these unions has on the community, consider one government service – education.

The Democrats largely control all the areas plagued by the worst schools in the United States – the inner city schools of America's big cities. A voucher system that would empower parents to send their children to better schools and introduce competition for government funding is a simple and proven way to improve both the results and cost-effectiveness.

If the Democratic Party were truly interested in the actual well-being of the communities it serves, supporting voucher plans and charter schools is among the first things you'd expect them to pass. But in fact, it is the last thing they would ever voluntarily do. It is the Democratic Party that stands firmly against any significant changes to the public school system – despite its obvious failure – because of lobbying by the NEA.

This is so clearly an example of graft and corruption that you must doubt the ability of the system to function.

Besides this obvious problem, there is a *tremendous* amount of corruption in the various direct transfer payment programs that have been organized and supported by the Democrats and their union backers, which have created an entire subculture of people who live and trade in various forms of welfare. If you don't believe me, spend a few days shopping in your nearest ghetto. Look for the "Use EBT Here" and "We Accept WIC" signs... They're essentially gift tags... demonstrating your compulsory largesse to the good

folks of that neighborhood.

And people addicted to transfer payments will never see how their dependency is destroying their community. That's exactly what happened in Detroit.

Today, we have a black, Democratic president, who came to power in the most corrupt state in the union – Illinois. Right now, two former Illinois governors have been convicted for corruption. One for blatantly trying to sell the Senate seat Obama vacated when he became president.

And realize... not a single member of Obama's cabinet has any kind of private-sector experience.

On the other hand, he has extremely close ties to the unions. He had the most liberal voting record of any senator during his tenure in Congress. His agenda is explicitly socialist: "I think we should spread the wealth around a little bit."

The likelihood America will become more and more like Detroit is growing – rapidly. Politicians now control the banking sector, most of the manufacturing sector (including autos), and a large amount of media. They are threatening to take over health care and the production of electricity via cap-and-trade rules and subsidies promoting solar power. These are major threats to the wealth and well-being of America. America is under siege by corrupt socialists.

And the big problem is... these kinds of political systems can't be reformed because their power base is the government itself, thanks to the creation of government employee unions. That sets the stage for a collapse...

Look around... Taxes can no longer be raised without people actively fleeing states. This has happened in several places – New York, New Jersey, and California, to name a few.

In Maryland – where my company is headquartered – the Democratic state government couldn't balance the budget in 2009, so it decided to double the income tax rate on citizens with more than \$1 million in annual income. That left the rich facing a 9.45% marginal state and local income tax. Put that on top of a 36% federal rate, throw in another 6% for Social Security and Medicare, and you're looking at a top marginal rate in excess of 50%. What kind of smart, hard-working citizen is going to give the government more than *half* his income if he can move somewhere else and pay substantially less?

The liberal editorial board at the *Baltimore Sun* happily praised the measure and predicted Maryland's top earners would "grin and bear it."

What a bunch of fools.

Instead, the rich left town. The number of million-dollar

incomes in the state of Maryland declined by more than 30%, from 3,000 filers to only 2,000. Rather than gaining the predicted \$106 million in income from these filers, Maryland collected \$100 million *less* than it did the year before.

Do you think Maryland will rescind such stupidly progressive taxes? No way. It's good politics to promise the voters that only the rich will pay. No, it doesn't work. But that doesn't matter – not until the entire system collapses. And that's why such a collapse is inevitable. It happens all the time. The political promises expand and expand. The rate of marginal tax goes higher and higher. The tax base narrows and tax collection declines. Government debts soar, until... sooner or later... the interest rate soars because lenders realize there is no way they will ever get their money back.

That's what's happening now all over Europe.

And it will happen here next.

The states and their union employees have reached the inevitable endgame. The numbers in many states are mind-numbing. Illinois' pension liability now exceeds \$100 billion. Roughly half is unfunded. In California, the pension liability is \$50 billion. Another 10 states have unfunded pension liabilities in excess of \$10 billion.

The Pew Foundation estimates when retiree health care benefits are included, the total unfunded liabilities of the state governments currently exceed \$1 trillion.

These debts are not currently on the books of any institution in America. They're merely promises made by our state and local governments. But these promises add up to a bill we cannot possibly pay – not if we plan to honor the \$20 trillion the federal government currently owes (which includes all of the debts of Fannie Mae and Freddie Mac).

What does this mean for the future of America? I'm sorry... But it's not good.

Everyone knows what happens to socialist countries. They eventually collapse for the simple reason that everyone cannot live at the expensive of his neighbor – not for long.

And if you want to see what socialism will do to our country, don't go to the Eastern-bloc countries of the former Soviet Union. They got rid of that kind of government 20 years ago. Now they've got low, flat taxes and booming economies. You might visit Cuba or spend time in Venezuela. You'll find socialism there, certainly. But you don't have to go that far...

All you really have to do is visit Detroit.

You can drop Congressman Conyers a Thank You note after your visit.

Welfare for the Rich, Too

Our country's core problems are not found in only one political party.

There is just as much corruption, if not more, on the Republican side of the aisle. It was, for example, as I pointed out earlier, a white, Republican-appointed Treasury secretary (Henry Paulson) who tipped off 20 top hedge-fund managers about Fannie Mae and Freddie Mac's imminent collapse after assuring the public that it wouldn't happen.

For big business, the powerful role of government in our society is simply too valuable to ignore. And the amount of corruption it inspires is stunning. Few politicians even bother trying to hide the fact that they're bought and sold like furniture.

Take Newt Gingrich. The white, Republican former House speaker was paid \$1.6 million for "consulting" by Fannie Mae and Freddie Mac during a period of time the two firms were under constant attack by Newt's fellow Republicans. Were the attacks efforts to truly reform a major threat to our financial system... or were they merely shakedowns? All we know for certain is Fannie and Freddie collapsed, just as many Republicans warned they would. The Republican effort to reform the firms failed. Newt collected \$1.6 million.

Fannie and Freddie could end up costing taxpayers as much as \$500 billion. No, I'm not ignoring the *colossal* role the Democrats played in staffing Fannie and Freddie, lobbying Congress for the companies, etc. I'm simply pointing out that, in Washington, everything and everyone seems to be for sale, on both sides of the aisle.

I realize that's nothing new. What is new is the scope of the corruption and how brazenly our leaders have embraced it.

Think about the new prescription drug benefit – 2003's Medicare Modernization Act. The law provided public funding for both public and private prescription drug benefits. (IBM, for example, estimated it would save \$400 million over 10 years on retiree benefits thanks to the law.) At the same time, the law *banned* the federal government from negotiating with pharmaceutical companies. In summary, the law basically requires the federal government to pay for the prescription drugs of just

about anyone over the age of 65 and requires the government to pay full retail prices.

There are now around 25 million beneficiaries of this law (not including the pharmaceutical companies). The average annual benefit is currently about \$1,500. The total cost of the legislation over the next decade is expected to be around \$1 trillion. This represents the largest expansion of Medicare in the history of the U.S.

The benefit was approved by a Republican-dominated Congress, in a midnight vote. Louisiana Republican Billy Tauzin, then chairman of the Committee on Energy and Commerce, which oversees the pharmaceutical industry, organized the vote. Two months later, Tauzin resigned his seat and took a job paying \$2.5 million per year as a lobbyist for the Pharmaceutical Research and Manufacturers of America. The pharmaceutical industry continues to spend \$100 million per year on campaign contributions and lobbying.

Americans are left paying the world's highest prices for drugs. Worse, we have extended the entitlement sentiment into the one area of the economy where personal responsibility is crucial. For most people, good health can be achieved by maintaining a disciplined diet and simple exercise. Offering free pills in lieu of such steps will only further the serious problem of diabetes and obesity we face.

And remember... this law was passed by Republicans and signed into law by a Republican president.

I could go on and on here...

There is a *tremendous* amount of corruption between the federal government and big business. There's even more corruption at the state and local level. Here's one simple expression of what's happening...

As late as 1969, the U.S. tax code required "only" 16,500 pages. By 2007, the code grew to 67,506 pages. The current form 1040 instruction booklet is 155 pages long. Obviously none of this is necessary for the collection of taxes. The code has been shaped by the corruption of our government, which in turn was shaped by the corruption of our society.

Here's another simple measure. Look at how much of federal spending goes directly to millionaires and big business.

Republican Sen. Tom Coburn, of Oklahoma, recently published a report on the subject entitled "Subsidies of the Rich and Famous." According to the study, the feds are now spending around \$200 billion annually on direct transfer payments to the very rich.

Given the state of our national finances, this is patently absurd. Merely getting rid of these payments would result in

a substantial reduction (almost 15%) of our annual federal deficit. And yet... despite the collapsing dollar, our soaring debt loads, and the lowest civilian employment levels since the Great Depression... everything seems to be business as usual in Washington D.C.

Doesn't that make you sick? There's simply no excuse for this kind of governance. None. Americans deserve a vastly better and more ethical federal government. But we will never get it unless we can find a way to hold our leaders personally accountable for what's happening.

Here's a simple solution. Hold the senators and congressmen personally liable for any deficit, each year. We elected these people to be our leaders. We did not elect them to spend us into bankruptcy. We did not elect them to feather their own nests with unlimited public spending. We did not elect them to buy votes. The only way to stop what's happening is to make them personally responsible for their actions. Either they will balance the budget or face personal financial ruin.

Demanding personal accountability for fiduciary responsibilities would have an immediate and profound impact on our society. It would wipe out the entitlement mentality that's destroying our society – almost overnight.

Restoring personal accountability is also crucial if we hope to restore confidence in our public corporations and capital markets, which were once the broadest, most efficient, and most trusted in the world.

The Corruption of the Corporation

If you think I'm exaggerating the problems we face or the far-reaching impact of the entitlement culture we've allowed to develop in America... then explain the following fact...

The 10 largest American bankruptcies in history have all occurred in the last decade: Lehman Brothers (\$691 billion), Washington Mutual (\$327 billion), WorldCom (\$103 billion), General Motors (\$91 billion), CIT (\$80.4 billion), Enron (\$65 billion), Conseco (\$61.4 billion), MF Global (\$41 billion), Chrysler (\$39.3 billion), and Thornburg Mortgage (\$36.5 billion).

All of these failures have a few things in common: extremely well-compensated CEOs with long tenures (which suggests the board of directors was asleep at the wheel), vast amounts of debt that would seem completely unsafe by any reasonable standard, and accounting policies that deliberately misled investors. Most tellingly, in the majority of these cases, *board members and the executive management have no material investment in the company.*

In every single case, the financial jeopardy was apparent –

for years. In fact, at Stansberry & Associates, we accurately predicted several of these bankruptcies and warned about nearly all of them. (Several others we accurately forecast were narrowly avoided thanks to the TARP program and other federal bailouts.) We are far from the best-connected or the smartest financial analysts in the world. Yet... almost every single Wall Street firm remained silent... *and so did the ratings agencies.*

You never saw most of these problems revealed to the public, either in the *Wall Street Journal* or other mainstream news sources. What was almost common knowledge in financial circles was never shared with the public, which continued to buy these stocks (and many others in a similar situation) all the way down. Most Americans' 401(k)s were eviscerated. But the bonuses on Wall Street never fell.

I can't name a single major Wall Street firm that hasn't engaged in massive fraud over the last decade. Not one. They have all paid massive fines to the SEC. But in only one of these cases was any firm held criminally responsible. And that firm was Arthur Anderson – Enron's accountant! What about the bankers who actually lent the firm money against collateral they knew was bogus? What about the investment bankers who sold Enron's stock to the public, even though it knew the earnings were fraudulent? And what happened to the huge corporations whose depositors, executives, and lawyers were full, active partners in the fraud that bankrupted Enron – namely Citigroup and JPMorgan, the two largest banks on Wall Street?

The Senate subcommittee investigating Enron's collapse had this to say about Citigroup and JPMorgan: *"The evidence... demonstrates that Citigroup and JPMorgan actively aided Enron in executing transactions, despite knowing the transactions utilized deceptive accounting or tax strategies, in return for substantial fees or favorable consideration in other business dealings."*

So what happened? Almost nothing. In August 2003, the banks settled with the SEC for a combined \$255 million. They did not admit guilt. Nor did they stop committing fraud.

The very next year, in 2004, Citigroup settled for \$2.65 billion (yes, billion) to get out of charges it had defrauded lenders and investors in the collapse of WorldCom.

(Ironically, the plaintiff who brought this case was New York State Comptroller Alan Hevesi. Hevesi, like Monica Conyers, is currently in jail, for corruption charges. Yes, really. In April, he was sentenced to up to four years in prison in the Steve Rattner-related bribery case I also mentioned earlier. In America today, even the people who are going after the banks for fraud are themselves corrupt.)

AIG paid \$800 million in a settlement in 2006 – just two years before its collapse nearly triggered a global financial

catastrophe, requiring a \$125 billion federal bailout. Fannie Mae paid \$400 million to settle accounting charges in 2006, just two years before its collapse cost taxpayers more than \$100 billion. Its CEO, Franklin Raines, walked away with close to \$100 million in compensation and was never criminally charged.

Goldman Sachs paid \$550 million in 2010 related to fraudulent mortgage securities. Citigroup paid \$400 million in 2003 for bogus equity research. Invesco paid \$325 million in 2004, after it admitting to ripping off its own mutual-fund investors via a late-trading scheme. Prudential was also "dinged" \$270 million in the same scandal.

I could go on... but you surely get the point. Nearly every major financial fiduciary in the United States has been involved in serious malfeasance in the last decade. The sums of these settlements indicate transgressions that should rise to the level of criminal indictments...

The Rigas family, for example, was thrown into prison after defrauding investors in Adelphia Communications. Their settlement with the government was "only" \$715 million. Citigroup, on the other hand, has paid settlements close to five times that amount over the last decade... but not a single criminal charge has been filed. Adelphia Cable didn't owe their subscribers a fiduciary duty. All of the Wall Street firms I mentioned did.

If that's not corruption, what is? And if all of this doesn't make you sick, what will?

We've written volumes about the other major corporate scandals over the past decade. We broke the executive options abuse story, for example, in 2002, showing how companies like Broadcom, Juniper Networks, and Apple Computer were ripping off shareholders by printing massive amounts of employee stock options (most of which went to executives) and then re-pricing them when their stock prices fell.

Under the system, all of the company's cash flows (and more) would have to go to share buybacks in order to prevent massive dilution. Thus, the employees were actually stealing the company's earnings. Most people on Wall Street knew this and were shorting the companies whose abuses were the most egregious. But the scheme wasn't revealed to the public (outside of our newsletter) until 2006 when the *Wall Street Journal* finally wrote about the issue.

Steve Jobs, who was one of the most flagrant options abusers at both Apple and Pixar, got off the hook by naming Al Gore to the board of directors... and giving him millions in options grants. To this date, Apple Computer has not paid out a single penny in dividends to its rightful owners (its shareholders). Yet over the last decade, it has increased its

outstanding share count via options issuance by 47%.

What can you do about the corruption of America's public companies? Here's a very simple solution: *Make the board of directors personally liable for fraud, negligence, and depositor losses.* If you're on the board of MF Global, for example, and your firm fails because your CEO bet \$6.3 billion in Italian bonds... your depositors – who are still missing more than \$1 billion – ought to be allowed to sue you personally. Currently, a combination of legal liability limits and insurance (so-called D&O policies), paid for by the corporation, prevent any real personal liability – even in clear cases of fraud.

Franklin Raines, for example, who had Fannie Mae's accounting set up to maximize his annual bonuses in violation of accounting standards was fined \$2 million in a settlement with regulators. An insurance company paid the fine. The company paid the premiums on that policy.

The concept of the corporate shield for legal liability was created so that limited partners (like common-stock holders) couldn't be held liable for the damages caused by the general partner's actions or misdeeds. Over time, that shield has been extended to the general partners of public companies – the board of directors and the executive management team. But these people are paid to run the company. If they engage in fraud or are negligent in their duties, they ought to be held liable.

If you were to simply make that one legal change, the conduct of America's corporations – especially those with fiduciary responsibilities to depositors – would change overnight. Confidence in America's public companies and capital markets would soar. But... as long as the idea of entitlement remains ascendant, dictating that executives keep most of the profit but none of the risk... our capital markets will continue to suffer and the management of our public companies will be rife with negligence and fraud.

Is This Fascism?

Earlier this year, in my June issue, I tried to define the unique blend of socialism for the poor, corporate welfare for the rich, paper money for the government, and credit excess for the middle class that has shaped America for most of the last 40 years. I wrote...

You can't just call our economic system "socialism." It's not. There's a profit motive and private ownership of nearly all assets. Socialism has neither of these. Besides, far too many people have become far too rich in our system to simply label it "socialism"...

Our system isn't truly capitalism either, though. The State intervenes in almost every industry, often in a

big and expensive way. With government at all levels making up more than 40% of GDP, it's fair to say we live in a State-dominated society...

A certain class of people has the power to not only protect itself from these policies but to profit as well. These people have used the last 40 years to produce massive amounts of paper wealth. And they are now desperately trying to convert those paper accounts into real wealth, which explains the exploding price of farmland and precious metals.

*This explosion of wealth at the top of the "food chain" is the main feature of what I call **New American Socialism**. It's a system fueled by paper money, the constant expansion of debt, and a kind of corruption that's hard to police because it occurs within the boundaries of the law...*

In the New American Socialism, the power of the system produces private profits. In this way, it provides a huge incentive to entrepreneurs and politicians to work together on behalf of the system. This is what keeps the system going. This is what keeps it from collapsing upon itself. And this, unfortunately, is why the imbalances in the world economy will continue to grow until the entire global monetary system itself implodes.

I continue to believe that's a very accurate description of what's happening to our country. But... many subscribers wrote in and complained that what I was calling "New American Socialism" was nothing new at all – it was actually fascism.

Webster's defines fascism as...

a political philosophy, movement, or regime that exalts nation and often race above the individual and that stands for a centralized autocratic government headed by a dictatorial leader, severe economic and social regimentation, and forcible suppression of opposition.

That's not what's happening in America – at least, not yet. To this point, there's little direct forcible suppression of opposition and little exultation of the federal government. And while certain congressional districts have become socially regimented and politically repressive, that's not a widespread phenomenon.

Many people fear this is where we're heading... that as conditions deteriorate and the currency collapses, the government will move to take still more power. I don't think that's likely – at least, not for long...

I do agree that the nation will soon face a choice between heading down the path towards fascism... or turning

back the power of government and restoring the limited Republic that was our birthright. I continue to believe Americans will choose personal liberty.

I believe they will choose more freedom rather than more totalitarian rule. I don't believe Americans will tolerate martial law for long – even in the advent of a real emergency, which I do believe will occur.

What gives me confidence for the future? Gun sales, for one thing. U.S. citizens legally own around 270 million firearms – about 88 guns per 100 citizens (including children) today.

That's a hard population to police without its consent. America is the No. 1 country in the world as ranked by the number of guns per-capita. That plays a major factor in the kind of government you will see take root in America. Things might go too far in this country for a while... And I'd argue they've been going the wrong way for too long. But the government can only take things so far before they'll be faced with a very angry, well-armed opposition.

If the government attempts to take our guns... my opinion would change immediately. But that's one right the Supreme Court has been strengthening recently. It gives me hope that most people in America still understand that the right to bear arms has little to do with protecting ourselves from crime and everything to do with protecting ourselves from government...

Thanks for a Great Year

I hope you've enjoyed – or at least been challenged to think in new ways – by this issue of my newsletter. I've been thinking about the issues for a long time and believe they are important. Whether you agree with my analysis or not, I hope you'll share these ideas with people in your circle of influence. Together, we can certainly draw far more attention to the moral failings of our leaders and the risk we face by the growth of the entitlement culture.

Once again... please realize, I'm not taking a political side here. I'm not saying the Democrats are singularly responsible for the state of our country. I'm not saying the Republicans are all to blame. And I'm not saying this is a black problem or a white problem. The problem is rooted in the corrupt belief that you can live at the expense of your neighbor... that we have become a nation where the vast majority of people believe their well-being is primarily, someone else's responsibility.

This bankrupt belief has taken complete control of our government, educational system, medical industry, and our

corporations. And unless we demand better from each other and our political leaders, our society is doomed to collapse under the crushing weight of the Corruption of America.

It's time we got back to our traditions as Americans and started doing more to take care of our families, communities, and ourselves.

I feel so strongly about these ideas, I'd like you to forward this issue to everyone you know. We almost *never* allow this copyright violation... But in this case, feel free to forward as many times as you want. Print it up and pass copies around your hometown.

We are wrapping up the best year ever for this advisory in terms of readership. I hope you'll agree that many of the key themes we've been working on have turned out an awful lot like we predicted. The global sovereign debt crisis continues. The stock market has not been a great place for your savings. Many of our short sell recommendations – particularly **First Solar (Nasdaq: FSLR)** – have led to big profits. For those of you unwilling or unable to speculate and hedge, **my advice to hold gold and Treasury bills has produced double-digit gains, with almost no volatility.**

For subscribers who are new to this publication, I don't often focus on this kind of political analysis. I know our main job is to find ways to help you make more money with your investments. But the fact is... right now, politics drives the markets. And that may be true for some time...

Regardless... I pledge to get back to my knitting in the next issue.

Thank you very much for your support. You've given me the best job in the world. I take it – and the trust you show in me – seriously.

Warm regards,



Porter Stansberry
Baltimore, Maryland

Stansberry's Investment Advisory Model Portfolio

Prices as of December 14, 2011

	Symbol	Ref. Date	Ref. Price	Recent Price	Dividends	Description	Action	Return*	Risk
"No Risk"									
Wal-Mart	WMT	09/09/10	\$51.91	\$57.65	\$1.76	World Dominator	Buy	14.5%	5
Johnson & Johnson	JNJ	07/06/06	\$60.52	\$63.18	\$10.46	World Dominator	Buy	21.7%	5
Exelon	EXC	10/09/02	\$21.47	\$42.94	\$15.72	Nuclear Power	Hold	173.2%	5
Hershey	HSY	12/06/07	\$40.55	\$58.84	\$5.04	World Dominator	Hold	57.5%	5
The "Next Boom"									
ConocoPhillips	COP	04/02/09	\$41.45	\$68.52	\$6.23	Cheap Oil	Hold	80.3%	5
Calpine	CPN	05/13/10	\$13.93	\$15.04		Natural Gas Power	Hold	8.0%	5
Silver Wheaton	SLW	12/01/10	\$37.90	\$29.07	\$0.18	Silver Secret	Buy	-22.8%	5
Monsanto	MON	11/18/10	\$59.63	\$67.72	\$1.14	Soaring Food	Hold	15.5%	5
San Juan Basin	SJT	01/07/10	\$18.34	\$22.85	\$2.98	Cheap Energy	Hold	40.8%	5
Dominion Res.	D	07/18/11	\$48.00	\$50.18	\$0.99	Export LNG	Buy	6.6%	3
Silver^	SLV	08/11/11	\$34.10	\$28.07		Inflation Hedge	Buy	-17.7%	2
Activision Blizzard	ATVI	10/13/11	\$12.92	\$11.76		Gaming Publisher	Buy	-9.0%	2
Teekay LNG Partners	TGP	11/17/11	\$32.72	\$32.21		Tanker Turnaround	Buy	-1.6%	3
Victims									
UltraShort Euro	EUO	05/13/11	\$17.55	\$20.20		Debt Crisis	Buy	15.1%	5
First Solar	FSLR	10/13/11	\$56.85	\$33.45		Obsolete	Sell Short	41.2%	5
* This is the return since reference date, including dividends. ^ Price adjusted by profits from selling January 40 calls									
Stansberry's Investment Advisory's Model Portfolio does not represent any actual investment result. Our reference price represents the price of our recommended securities at the time we wrote the recommendation. Our sell price represents the closing price at the time a reasonable reader would have had the opportunity to sell, typically the day after such a recommendation is given.									
Please note: Our investment philosophy requires limiting risk through the use of trailing stop losses. Unless otherwise noted, all recommendations use a 25% TRAILING STOP LOSS. NEVER ENTER YOUR STOPS INTO THE MARKET. KEEP SUCH INFORMATION PRIVATE.									
How to use a trailing stop: A stop loss is a predetermined price at which you will sell a stock in case it declines. A "trailing stop" is a stop loss that "trails" a stock as it rises. For example, let's say you set a 25% trailing stop on a stock you purchase for \$10. If the stock rises to \$20, you would move your trailing stop to \$15 (\$5 is 25% of \$20, \$20 - \$5 is \$15). Only use closing prices, and never enter your stop into the market. For more information, see our frequently asked questions at www.stansberryresearch.com/secure/faq.asp .									
Our risk label is based on current share price and one-year business outlook. 1 = the lowest possible risk. 10 = the highest possible risk.									

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