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Question –What do the Vancouver Canucks and the Austrian School of Economics have in common? Answer – neither has ever achieved Champion status during their existences. Have they earned respect? Yes. But have they been clear cut winners? Not yet.

The Canucks came extremely close to earning their first Stanley Cup this year, only to sputter in game seven against Boston. Vancouver has collected an all-star lineup, has been in the upper echelon of the league for several years, but has yet to fulfill the hopes and dreams of their fans and their franchise. The familiar rallying cry of "wait until next year" was summoned amidst the rioting and chaos that befell downtown Vancouver after the loss. Come autumn, however, hope will spring eternal. A new day will dawn, and the Canucks will take the ice as likely favorites to win it all in 2012.

Here in mid-2011, the outlook is similarly rosy for the Austrian school of thought. For the better part of a century this group of economists has commented upon the state of world fiscal affairs from the stance that individual human action drives economic choices. Instead of Vancouver's, Luongo and Kesler, and the Sedin twins, men such as Hayek, von Mises, Bastiat and Rothbard, are the "go-to guys" in the Austrian lineup. You are probably asking; if this Austrian team is so great, why have so few ever heard of them? And can a side of upstarts really defeat powerhouses such as Greenspan, Keynes, Bernanke, and Geithner?

Let us describe why we believe an Austrian School economic victory is near at hand. We have observed growing widespread dissatisfaction with elected leaders who insist on adopting centralized government policies that intrude on individual rights. By studying ongoing human behavior (also known as praxeology), the Austrians are interested in what individuals do to better their lots in life based on choice. Historically, when humankind sensed uneasiness about their current situation, they have sought to face up to the situation by doing something about it. It has only been recent history that individuals have looked to collective solutions such as unions and reliance on politicians at all levels to address their discontent. We believe the tide is changing. The new mantra becomes: *If you can't trust government, who can you trust?*

There is something in the American spirit that provides a certain freedom that comes with choice. Americans are not afraid to make decisions, even tough ones, if the urge to do so will quell whatever their present discomfort and produce a generally beneficial effect. To the Austrian, this is the essence of both human response and the collective behavior of lots of individual choices in the marketplace. If people are allowed to make informed individual choices, the economy in the aggregate will function properly over the long term within the constraints of supply and demand for goods and services. Investment dollars will be allocated effectively through market mechanisms. Good actors will be rewarded and bad actors punished.

The Keynesians are also students of human nature. Where they depart from their Mises brethren, though, is important. The Keynesian model is built on the belief that individuals can't be trusted to act in their own best interest and therefore there is a need for a centrally *planned* economy. As long as statists can direct people and capital to their best alternative uses (best assumedly for the planners that is), they can keep the system humming along, making progress as individuals are lead in any direction they choose. By constantly measuring utility and calling it progress , they attempt to discredit the Austrian notion that people know their needs and wants better than states do. This has worked for a while, but has only been effective due to what has now become a painfully obvious fatal flaw; the premise assumes a greater emphasis on improving the present with little or no regard for the future. In this way, Keynesianism has a willing partner: the politician, long on promises but short on delivery.

Economic issues are framed and debated by politicians, who lack competence but who understand the power to achieve political survival at the expense of citizens they were elected to serve. Obama care, Dodd-Frank, and Quantitative Easing are a few examples of such policies. Every day a better educated population understands the limitations of reliance and dependence on centralized planned programs and longs for the day when they can be more self-reliant.

In Hockey terms, Bastiat…..in the slot…..stoned by John Maynard Keynes

The distinct implication of politics over the markets is that squeaky wheels get greased, and the future is always compromised for political expediency. Sure, capital gets misallocated, but the short term effects are mitigated because more future dollars shield society from their sins of the past. With more money and the appreciation of real estate and stock market prices, **a placation effect** may be advanced as a primary goal with a wealth effect a distant secondary objective. If money never becomes an object, Dick Cheney's assertion that "deficits don't matter" would prove correct and the people will accept varying degrees of crony capitalism and state-corporate mergers.

This is especially true if social political formations, be they socialist, democratic, or representative, never have to face tough choices regarding sense and nonsense, bankable and not bankable, or scarcity and plenty. By only focusing on certain aspects of human action such as peer pressure, cognitive dissonance and the pleasure principle, Keynesians simultaneously promote the twin cycles of credit and dependency.

The resolution of this question may be borne by the handling of the PIIGS (and other) sovereign crises. So far, the playbook (at least in Greece) has been easy to follow; banks win, nations and their people lose. The financial system remains intact (for today) and social unrest is relegated to pockets of the globe that so far have had minimal impact on the developed world (however, we are rapidly running out of places in the world where there is unrest and the impact is minimal). This keeps us up at night.

What allows for a little slumber, for now, is that siding with the banks and sovereign bondholders has proven to be a cozy political solution to the global problem. True to form, it addresses the needs of the system today, provides a dangerous precedent for tomorrow (literally), and has absolutely no quarter for the next 'check please' moment. It is almost as if by kicking the can down the road, the powers that be are marking or coordinating a future date where they, and the rest of us say, *no mas*.

Von Mises shoots……save Bernanke

Nowhere is the former point more evidenced than the recent discovery that the Federal Reserve's latest foray into quantitative easing was funneled directly from the US taxpayer and into European Banks. As a precursor to the aforementioned political reality, European banks, given their leverage and massive exposure to sovereign debts, required a capital infusion from somewhere, and the woefully unmotivated US taxpayer seemed like the easiest mark. If they only knew that we are the bailout of the European banks, you could imagine the consequences. This may be Keynesianism at its finest; why not have the US Government be both the borrower *and* lender of last resort? So far, this has been exceptionally effective at keeping stated GDP numbers somewhere above negative 10% and (barely) in positive territory.

While negative, real, headline, GDP numbers would probably doom the dollar for good, the placation of Americans and Northern Europeans is the only strategy by which statists maintain the status quo. So far this assumption has been correct. As long as the majority of Americans, intentionally kept ignorant, neither lose their nest-eggs, nor assume austerity measures themselves, they will tolerate almost anything - even an erosion of their purchasing power. However, when it the economy is juuuuuuuussssstttt right, the domestic chatterers seem also to postpone their internal squabbles and their dissatisfaction with their increasingly absentee representatives so long as the Keynesian social contract currently being trodden in the rest of the world is not broken here. Even though the placation effect mentioned earlier is the ONLY workable political solution, it is hardly an investment thesis. Placation has nothing to do with whether stocks or bonds are under- or overvalued and everything to do with stemming real political discourse of any kind. Has our job as managers really been reduced to figuring out how long the powers that be can prolong the charade in which no one is ever allowed to lose? As a more eerie corollary, when does that motivation no longer suit the powers that be, since they seem to win every time? Is it when Italy threatens default? Spain? Portugal? Ireland? The (gasp) U.S?

Rothbard….around the net….denied by Geithner

Well, we are about to find out. In second rate off-Broadway theatrical fashion, there is now a feigned debate regarding the debt ceiling of the United States. The plot and acting are ludicrous, and we believe will have Rothbard talking to himself on the bench after Tim Geithner comes to the rescue with piles of fresh cash for the masses. After all, if dollar destruction is what the populace wants, dollar destruction it shall receive – assuming of course there is an actual lender at prevailing "everyday low interest rates." Temporarily, the United States will be the envy of the world; swimming in IOUs while the rest of the overly-indebted nations are cut off - popular delusions and the madness of crowds indeed. One note – Mr. Geithner originally announced that after the final act of the debt ceiling tragedy, he will be leaving the Treasury. Timing, apparently, is everything in life.

It would be easy to conclude that despite the theatre of the absurd nature of our present state of affairs, the streets of world capitals, including ours, should be teeming with organized resistors. Sure alternative media can point out the injustices, mathematicians can warn us of the certainties of defaults and systemic meltdowns, and the people of the countries of antiquity can absorb endless rounds of bullets and tear gas. But we ask where is the equal and opposite force to Keynesians gone wild? Why is everyone, from elected officials to financiers to central bankers seemingly loath to break rank?

Upon further review, we opine that resistance, while not only futile, is also unnecessary. This is why no real leader who rises above the political system has emerged. The system is doing just fine obliterating itself. Why would anyone want to be perceived as the villain? It reminds us of the story of the three fish in the tank who seek dominance. The smart fish knows that after the other two exhaust themselves fighting for supremacy, the third one, who conserved his energy, may eat the other one who is spent.

This appears to be the posture of the Asian nations as well as Russia, who have until now assumed a wait-and-see approach to all of the mayhem and confusion. To be sure, we are putting our best feet forward to find investments that will provide returns in the future. However, we ask, possibly for the first time ever, that you be patient while the current system morphs into something where the Keynesians are relegated to an historical footnote and the Austrians embark on the dynasty that has been 100 years in the making. For those of us who want a future where the Austrian school has even greater relevance, and we can resume the management of assets instead of gaming political motivations on a daily basis, the inevitable cannot come soon enough. We are simply tired of the uncertainty, lack of clarity, hole-filling, jawboning, rhetoric and daily realities. The rest of the market appears to share this stance. Is it really any wonder that volumes have dried up and that most of the transactions in the US equity market are done by computers with an average hold time of mere seconds? It is not surprising to us in the slightest and the absence of real market participants indicates that human action really is indeed rational. Hmmm, these The Austrians may be on to something. They shoot….they score.

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