

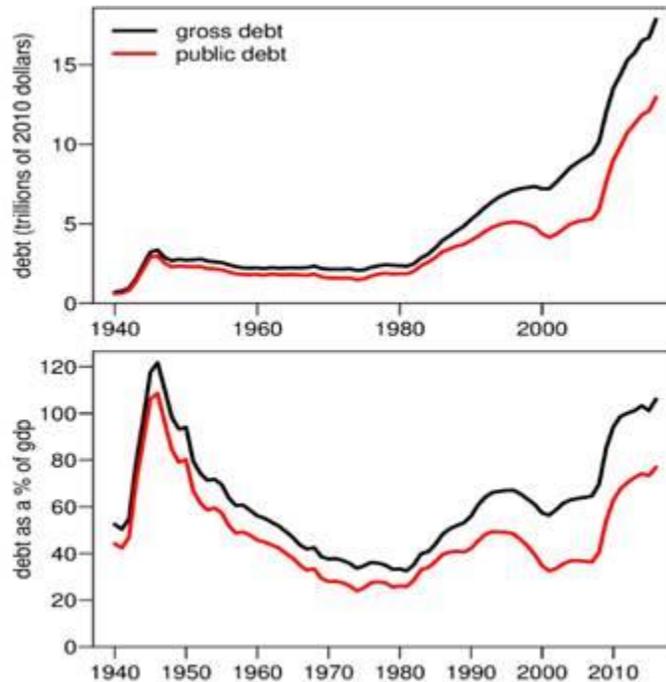
## The Outlook: June 9, 2018

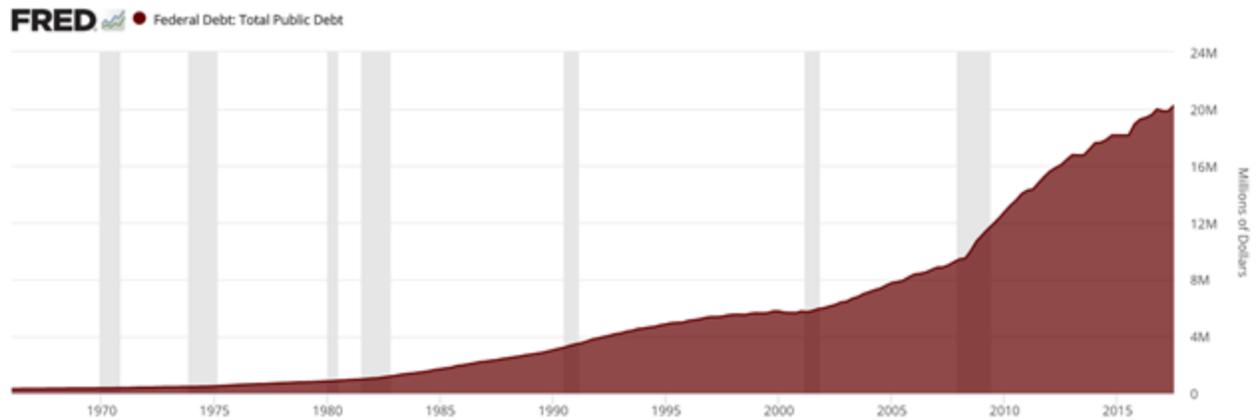
### *From Lord Macaulay: a few words about doomsday forecasts, and hope.*

First, a warning. Today's Outlook is long. But if we can call forth our patience and wade through it . . . we might be glad we did.

We investors must endure a lot of challenges to our confidence and patience; but some of the hardest are what we might call "The Doomsday Forecasts." Those are the predictions—very often made by eminent people, and supported by persuasive facts and logic—that not merely the next recession is around the corner, but something much worse: a real "Calamity" which may well ruin us—especially if we've been so bold as to place our fortunes in common stocks. Almost all such Doomsday Forecasts are based on debt, which makes sense because we know perfectly well that debt is indeed dangerous.

Here are a couple of charts which sum up the nightmares embedded in most of these forecasts. They're both about government debt, which has risen from nearly nothing to \$20 trillion since 1940; and taken off like a frightening rocket since 1980.





We can quibble with such charts all day long, as the experts do indeed: arguing that they either somewhat exaggerate the threat, or (more often) that in fact they're only the tip of an iceberg, whose actual threat is even more frightening if that's possible. But there's no need to take out the microscope: it's a lot of debt; it's grown fast; and there is some level of danger in it. But does this danger spell our eventual doom; or is there something else going on, in the investment world's biggest picture, which is so powerful that it shrinks the debt's danger to something far less ominous?

For the answer to that, let's listen to a man who wrote "The History of England" back in 1848. His name was Thomas Macaulay, which might ring a bell for investors whose school days were . . . a while ago. Now comes our need for patience. Lord Macaulay wrote in an old-fashioned style—but let's give him a chance, and we might find he had something worthwhile to say.



An excerpt from 19th Century historian Lord Macaulay's *History of England*, on hundreds of years of unwarranted panic about government debt. (Thanks to "The Institute of New Economic Thought" for unearthing Lord Macaulay's forgotten words.)

At every stage in the growth of Britain's debt the nation has set up the same cry of anguish and despair. At every stage in the growth of that debt it has been seriously asserted by wise men that bankruptcy and ruin were at hand. Yet still the debt went on growing; and still bankruptcy and ruin were as remote as ever. When the great war with Lewis the Fourteenth was finally terminated, the nation owed about fifty millions; and that debt was considered, not merely by the rude multitude, not merely by foxhunting squires and coffeehouse orators, but by acute and profound thinkers, as an incumbrance which would permanently cripple the body politic. Nevertheless trade flourished; wealth increased; the nation became richer and richer. Then came the war of the Austrian Succession; and the debt rose to eighty millions. Pamphleteers, historians and orators pronounced that now, at all events, our case was desperate. Yet the signs of increasing prosperity, signs which could neither be counterfeited nor concealed, ought to have satisfied observant and reflecting men that a debt of eighty millions was less to the England which was governed by Pelham than a debt of fifty millions had been to the England which was governed by Oxford. Soon war again broke forth; and, under the energetic and prodigal administration of the first William Pitt, the debt rapidly swelled to a hundred and forty millions. As soon as the first intoxication of victory was over, men of theory and men of business almost unanimously pronounced that the fatal day had now really arrived. The only statesman, indeed, active or speculative, who did not share in the general delusion was Edmund Burke. David Hume, undoubtedly one of the most profound political economists of his time, declared that our madness had exceeded the madness of the Crusaders. It was impossible to prove by figures that the road to Paradise did not lie through the Holy Land; but it was possible to prove by figures that the road to national ruin was through the national debt. It was

idle, however, now to talk about the road; we had done with the road; we had reached the goal; all was over; all the revenues of Britain's Island were mortgaged. Better for us to have been conquered by Prussia or Austria than to be saddled with the interest of a hundred and forty millions. And yet this great philosopher—for such he was—had only to open his eyes, and to see improvement all around him, cities increasing, cultivation extending, marts too small for the crowd of buyers and sellers, harbours insufficient to contain the shipping, artificial rivers joining the chief inland seats of industry to the chief seaports, streets better lighted, houses better furnished, richer wares exposed to sale in statelier shops, swifter carriages rolling along smoother roads. He had, indeed, only to compare the Edinburgh of his boyhood with the Edinburgh of his old age. His prediction remains to posterity, a memorable instance of the weakness from which the strongest minds are not exempt.

Adam Smith saw a little and but a little further. He admitted that, immense as the burden was, the nation did actually sustain it and thrive under it in a way which nobody could have foreseen. But he warned his countrymen not to repeat so hazardous an experiment. The limit had been reached. Even a small increase might be fatal.

Not less gloomy was the view which George Grenville, a minister eminently diligent and practical, took of our financial situation. The nation must, he conceived, sink under a debt of a hundred and forty millions, unless a portion of the load were borne by the American colonies. The attempt to lay a portion of the load on the American colonies produced another war. That war left us with an additional hundred millions of debt, and without the colonies whose help had been represented as indispensable. Again England was given over; and again the strange patient persisted in becoming stronger and more blooming in spite of all the diagnostics and prognostics of State physicians. As she had been visibly more prosperous with a debt of a hundred and forty millions than with a debt of fifty millions, so she, as visibly more prosperous with a debt of two hundred and forty millions than with a debt of a hundred and forty millions. Soon however the wars which sprang from the French Revolution, and which far exceeded in cost any that the world had ever seen, tasked the powers of public credit to the utmost. When the world was again at rest the funded debt of England amounted to eight hundred millions. If the most enlightened man had been told, in 1792, that, in 1815, after Napoleon's final defeat, the interest on eight hundred millions would be duly paid to the day at the Bank, he would have been as hard of belief as if he had been told that the government would be in possession of the lamp of Aladdin. It was in truth a gigantic, a fabulous debt; and we can hardly wonder that the cry of despair should have been louder than ever. But again that cry was found to have been as unreasonable as ever. After a few years of exhaustion, England recovered herself. Yet, like Addison's valetudinarian, who continued to whimper that he was dying of consumption till he became so fat that he was shamed into silence, she went on complaining that she was sunk in poverty till her wealth showed itself by tokens which made her complaints ridiculous. The beggared, the bankrupt society not only proved able to meet all its obligations, but, while meeting those obligations, grew richer and richer so fast that the growth could almost be discerned by the eye. In every county, we saw wastes recently turned into gardens; in every city, we saw new streets, and squares, and markets, more brilliant lamps, more abundant supplies of water; in the suburbs of every great seat of industry, we saw villas multiplying fast, each embosomed in its gay little paradise of lilacs and roses. While shallow politicians were repeating that the energies of the people were borne down by the weight of the public burdens, the first journey was performed by steam on a railway. Soon the island was intersected by railways. A sum exceeding the whole amount of the national debt at the end of the American war was, in a few years, voluntarily expended by this ruined people in viaducts, tunnels, embankments, bridges, stations, engines. Meanwhile taxation was almost constantly becoming lighter and lighter; yet still the Exchequer was full. It may be now affirmed without fear of contradiction that we find it as easy to pay the interest of eight hundred millions as our ancestors found it, a century ago, to pay the interest of eighty millions.

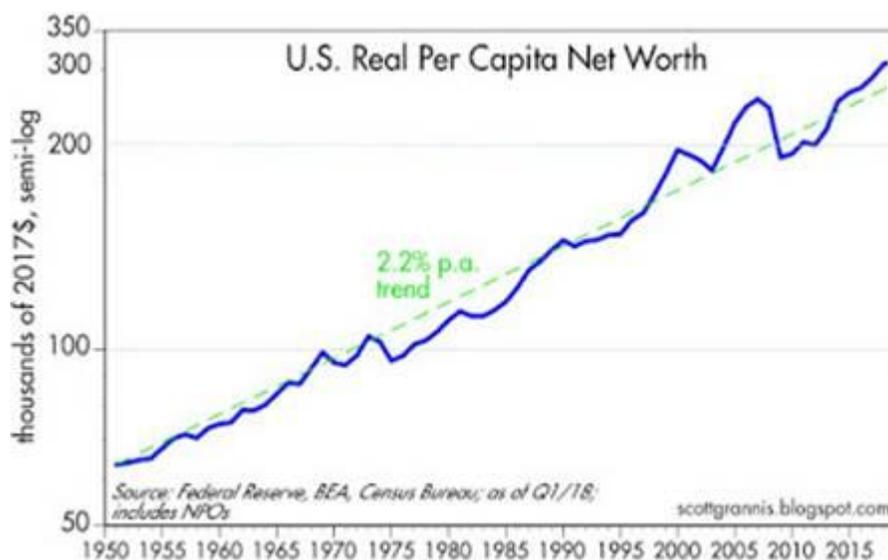
It can hardly be doubted that there must have been some great fallacy in the notions of those who uttered and of those who believed that long succession of confident predictions, so signally falsified by a long succession of indisputable facts. To point out that fallacy is the office rather of the political economist than of the historian. Here it is sufficient to say that the prophets of evil were under a double delusion. They erroneously imagined that there was an exact analogy between the case of an individual who is in debt to another individual and the case of a society which is in debt to a part of itself; and this analogy led them into endless mistakes about the effect

of the system of funding. They were under an error not less serious touching the resources of the country. They made no allowance for the effect produced by the incessant progress of every experimental science, and by the incessant efforts of every man to get on in life. They saw that the debt grew; and they forgot that other things grew as well as the debt.

A long experience justifies us in believing that England may, next century, be better able to bear a debt of sixteen hundred millions than she is at the present time to bear her present load. But be this as it may, those who so confidently predicted that she must sink, first under a debt of fifty millions, then under a debt of eighty millions then under a debt of a hundred and forty millions, then under a debt of two hundred and forty millions, and lastly under a debt of eight hundred millions, were beyond all doubt under a twofold mistake. **They greatly overrated the pressure of the burden; they greatly underrated the strength by which the burden was to be borne.**

*Macaulay, Thomas Babington. The History of England, from the Accession of James II — Volume 4 (1848).*

The underlines and bold type are courtesy of Outlook Capital Management. We can't possibly say it better than Lord Macaulay; nor see more clearly the deep truth of the matter, when it comes to our natural worries about the Doomsday Forecasts which beckon for our attention every week or two. We might draw to a close, though, with a chart from economist Scott Grannis, which stretches back 70 years:



This chart is more worth thinking hard about than 99% of the flood of studies, stats and graphs which wash through the investment world every day. Today, America's net worth per person is \$308,000. In 1950 it was \$64,000; that is, 64,000 of today's dollars. Yes: the wealth of the average American has grown from \$64,000 to \$308,000. Only a 2.2% annual growth rate . . . but despite the regular sharp dips (each of them terrifying at the time) American's net worth always recovered, and always began rising again. As Lord Macaulay so perfectly understood, this has happened because of "the incessant progress of every science, and the incessant progress of every man (and woman) to get on in life." Those are engines vastly more powerful than the danger of often-foolish levels of debt—for societies as a whole, as long as those societies don't crush the striving for "incessant progress," coming out of science, and out of determined people.

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Outlook Capital Management, LLC  
[125 S. Wilke Road, Suite 200E](#)  
[Arlington Heights, IL 60005](#)  
[847-797-0600](#)

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