

# Governments going broke

Throughout history, those societies with a high degree of economic freedom have not only been more prosperous, but healthier and happier.

The opposite is true for those whose governments heavily interfered in business and commerce.

And yet, despite all the evidence, all too many governments seem intent on reducing economic freedom these days.

They do so by spending enormous sums of borrowed money and taking away the ability of individuals to make decisions for themselves.

This is not the path to prosperity or freedom. It is a formula for misery and national bankruptcy.

## Binge spending

Individuals who insist on spending more than they make not only go into debt, they eventually go bankrupt. The same is true for governments.

At some point, both borrow more than they can ever pay back. They reach that point even sooner when income drops.

The hallmarks of government overspending are easy to spot. They include wasteful programs, record deficits and frightening levels of national debt.

Last fiscal year, the U.S. government saw its tax receipts fall by more than 16 percent, yet its spending rose by more than 18 percent.

That spending included more than

\$1 trillion in borrowed money, much of it earmarked for pet projects in the name of “economic stimulus.” Such spending pushed the federal deficit to a record \$1.4 trillion.

Not surprisingly, Congress recently raised the overall federal debt ceiling by \$1.9 trillion to a record \$14.3 trillion.

To be clear, the blame for such fiscal irresponsibility is non-partisan. During the recent Bush administration, Congress approved eight increases in the debt ceiling totaling \$5.4 trillion.

From Britain to India to Mexico, debt ceilings have recently been raised, often to unheard-of levels. Clearly, debt ceilings do nothing to limit government debt if they are continuously raised.

## Do the math

When consumers max out their credit cards (charge the limit on them), is it wise to keep raising their borrowing limit?

When government debts rise, economic growth lowers. On average, nations with debts exceeding 90 percent of GDP have less than half the growth rate of when debt is less than 30 percent of GDP.

By its own accounting, the U.S. government has unfunded liabilities exceeding more than \$100 trillion, more than the entire value of the nation’s economy.

Those liabilities include Social Security, Medicare and pension benefits that the government has promised to its citizens but has no money to pay.

With the world’s third-largest population – much of it rapidly approaching retirement age – the United States is facing the real prospect of bankruptcy. Many would argue it already is bankrupt.

## Deadly deficits

If citizens do not hold their governments accountable and insist on fiscal responsibility, the situation can only go from bad to worse – a frightening prospect for those whose finances are already under pressure.

To overcome large deficits, governments have few choices. These include raising taxes, cutting spending and inflating the volume of currency to water down debts.

The Bank of England has already chosen the last option (called quantitative easing) by creating £200 billion out of thin air.

The debt level of the Greek government has led its Prime Minister to suggest raising individual income tax rates as high as 90 percent while cutting Social Security payments by 10 percent.

For award-winning TV newsman John Stossel, U.S. government overspending is cause for concern – and some grim humor.

“I’d say they’re spending like drunken sailors,” quipped Stossel, “but that would be insulting drunken sailors, who spend their own money.”

## U.S. PUBLIC DEBT

2008	21% of GDP
2009	42% (projected)

# Postal Pipeline

Letters may be edited for length and clarity

We thoroughly enjoyed reading the October *Discovery* magazine. We wish somebody would go to Washington and drum into their heads some of the ideas put forth in this edition.

Regarding the picture of the five presidents across the front page and on page seven – we don't know who most of those men are. We'd like them identified in print.

**Jane Melton**  
Coordinator, personnel  
Koch Specialty Plant Services  
Houston, Texas



The Presidents of Koch Industries and their tenures (from left to right): Bill Hanna (1987-1999), the late Sterling Varner (1974-1987), Charles Koch (1968-1974), Joe Moeller (1999-2005) and Dave Robertson (2005-present).

For decades, Koch companies have advocated for a market-based approach to public policy development. The following letters regarding that advocacy were received at [kochind.com](http://kochind.com).

I read Byron York's article in the *Examiner* on the current push to blame your company for "everything that kills us."

To sum up my feelings, thank God for people like you, for without you we would surely sink.

Thank you for your values and for your propensity to project these values in the current toxic political environment.

**Charles Jones**  
Brownsboro, Texas

I read with interest that your critics are blaming Charles and David Koch as the reason the "progressives" are having such a problem in winning the hearts of America.

If this is true, as an American who is concerned with the freedoms of our country, I thank you for doing what you are doing.

My greatest hope is that we as Americans will wake up in time.

**Bob Schneider**  
Topeka, Kan.



Until reading a recent article in [biggovernment.com](http://biggovernment.com), I was unaware of the outstanding work your company and employees have done in the realm of charity and defense of true American values.

I thank you for your support of the traditional American values that have built this exceptional nation.

**F.J. Foley II**

Due to the attacks on your company, my family will research your companies and attempt to purchase or recommend anything you sell.

We appreciate your courage in standing up to the demonization of all of our country's producers.

**Stephen Tougias**  
Raleigh, N.C.

On behalf of hundreds in the Dominican Republic, I want to say a hearty thank you for INVISTA's donation of surplus desktop and laptop computers!

We are on the constant look-out for items that will enhance development in a way that brings the greatest number of people out of wretched poverty.

These computers will be used in a small community computer lab in a suburb of Santo Domingo. We have already graduated one small class of community members. The donated computers will do that job so much faster and easier!

**Linell Stabler, President**  
ACES North America  
Williamsport, Penn.

John Allen of INVISTA has coordinated the donation and delivery of more than 700 used computers to the Dominican Republic. These computers will help Dominicans develop marketable skills.

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**Sète** - This port city serves markets in southern and eastern France and along the Mediterranean.



**London** - There are half a dozen Koch companies, including Koch Carbon, with employees in or near London.



**Brussels** - Koch Companies Public Sector now has employees in Europe as well as Canada and the U.S.

**Sète** – Koch Fertilizer Trading Sarl has signed an agreement to expand a fertilizer import terminal in Sète, France. The new facility will serve markets in southern and eastern France as well as the Mediterranean.

The agreement calls for SEA-invest Sète, S.A. to build a 25,000-metric-ton storage facility for exclusive use by Koch Fertilizer Trading. Construction should be complete by the end of this year.

Koch Fertilizer will be able to market a number of products from the expanded terminal, including urea, CAN, ammonium sulfates, phosphates and potash.

These products can be transported to and from the port via barge, truck and rail shipments. This agreement is the first of several international agreements by Koch Fertilizer likely to be announced this year.

Similar projects involving new deepwater terminals or expansions of existing port operations in South America, Europe and the Asia-Pacific region are also in development.

In 2008, Koch Fertilizer expanded internationally by acquiring a U.K.-based fertilizer import and marketing firm, and also entered into a terminal agreement involving Avonmouth Port in the U.K.

“Operating fertilizer terminals in ports around the world enhances our global marketing, distribution and production network,” said Steve Packebush, president of Koch Fertilizer, LLC.

“It also puts us in a better position

to add value to our expanding global customer base.”

**Brussels** – In years past, if a Koch company had an issue to discuss with local policymakers, it would send its own representative. Three or four different representatives might call on the same legislator during the course of a year.

From the policymaker’s point of view, this approach must have seemed disjointed. Why not have just one Koch representative?

With the formation of Koch Companies Public Sector, LLC last year, that’s exactly what has happened.

KCPS is one of several shared services organizations owned by KII. Others include Koch Aviation; Koch Business Solutions, LP; Market-Based Management®, LLC; Koch Companies Services, LLC; and Koch International Shared Services, L.P.

As a shared services company, KCPS can provide legal, government and public affairs assistance to other Koch companies domestically and, through Koch International Shared Services, in several international jurisdictions.

If a member of parliament happens to have three different Koch companies with facilities in his district, a single KCPS employee can now answer questions or keep him up to speed on them all.

Under this shared services model, Switzerland-based Thomas Dubois, who originally joined INVISTA in 2005, now serves as a central source

for European and other international government and public affairs work.

On behalf of INVISTA, Georgia-Pacific, and other Koch companies, Dubois can tap into internal and external resources, including INVISTA’s government affairs staff members in South America and Asia, and outside consultants in regions around the world. This helps leverage knowledge of a wide range of global policy issues that affect Koch companies’ business strategies.

Katarina Elbogen, based in Germany, has begun serving the communication and public affairs needs of not only INVISTA, but also other Koch companies with a European footprint, such as Koch Chemical Technology Group and Koch Supply & Trading.

The numerous Koch companies with facilities and issues in Canada now turn to Paul Brown, based in Ontario, for government and public affairs help.

“This is so much more efficient and effective,” said Dubois. “Sharing information and work product and presenting integrated points of view to external entities really benefits all of us, including our counterparts in government.

“Before this change, each Koch company that did business in a given jurisdiction had to go through the same learning curve.

“That can be very wasteful, and, quite frankly, inconsistent with MBM® principle six, which is all about sharing and leveraging knowledge.”

# Lowering standards?

The production and use of transportation fuels accounts for about one-fourth of all carbon emissions in the United States.

By limiting the carbon “intensity” associated with gasoline and diesel, Low Carbon Fuel Standards proponents hope to reduce carbon emissions.

Ethanol and biodiesel are familiar examples of this kind of thinking.

## Paying the bills

Although the emissions benefits of LCFS are debatable, one thing is not: LCFS will increase energy prices.

Consumers will pay those higher energy prices in several ways. The first is through tax dollars.

In the U.S., ethanol production is subsidized at a whopping 45 cents of taxpayers’ money per gallon.

Another cost to consumers comes in the form of increased fuel purchases.

Because ethanol delivers about one-third less energy than gasoline, drivers have to buy more ethanol-blended fuel to travel the same distance they used to get with a gallon of gasoline.

“If a low carbon fuel standard is enacted,” said Brad Razook, president of Flint Hills Resources, “it would be very bad news for our industry, our employees and our customers.”

## Crude logic

“LCFS would not only mean higher costs at the pump,” said Razook, “it would force us to purchase more crude oil from the Middle East and less from our neighbors in Canada.”

FHR’s Pine Bend Refinery in Minnesota is one of the most efficient refineries in the world. It was specifically designed to process heavy, sour crude piped in from Canada.

“Low carbon fuel standards have a large cost in terms of efficiency and effectiveness.”

- American Economic Journal

If Canadian crude cannot be processed in the U.S. because of LCFS, that oil will probably be shipped (at a much higher cost) to countries with high demand but perhaps lower emissions standards.

The net result of that switch would be



Relying on unproven technologies – such as those for producing cellulosic ethanol – is risky and impractical, at least for now. Converting sawgrass (above) into fuel is a promising concept, but it may not be commercially viable for many years to come, especially in the quantities necessary to meet the demands of the market at a reasonable cost.

Meanwhile, jobs will be lost in both the U.S. and Canada as highly efficient refineries and pipelines end up with much less product to process or transport.

## Conclusion

All Koch companies believe in the efficient use of resources and maintaining a clean and healthy environment.

By ignoring such improvements and forcing a different approach, LCFS proposals have the potential to inflict a host of unintended consequences.

“We don’t believe that many of our political leaders have a full understanding of the implications of LCFS,” concluded Razook.

“LCFS means higher energy costs for consumers, lower employment, less reliable foreign oil sources and probable fuel shortages.

“Then, to make matters even worse, you have the prospect of even higher global emissions. Let’s face it: LCFS just doesn’t make sense.”

As LCFS is debated at the state and national level, Razook encourages all Koch company employees in the U.S. to learn about this issue.

“You can never be too aware of policies that affect your business,” said Razook.



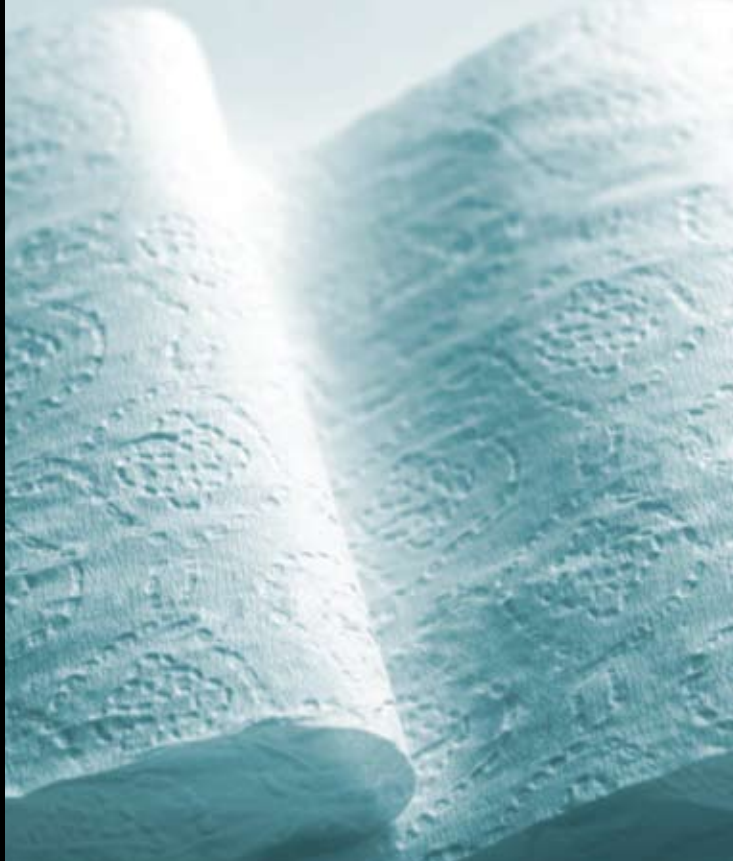
Pine Bend Refinery in Minnesota was designed to process high-carbon Canadian crude.

Unlike cap-and-trade (see page 9), which is essentially a tax, LCFS would also raise costs by making the energy industry less efficient.

an increase in global greenhouse gas emissions, including those from tankers moving crude oil halfway around the world.

# JANUARY

- 20 Crude oil prices drop to \$32.70 per barrel.
- 21 Barack Obama is inaugurated as the 44th President of the United States.
- 30 Charles Koch's *Discovery* editorial compares proposed policy "solutions" with those that prolonged the Great Depression.



31

Georgia-Pacific Professional named a Champion by the U.S. EPA for its tissue manufacturing process and hand soap products.

# MARCH

- 08 Due to low jet fuel demand, FHR's North Pole, Alaska, refinery shuts one of three jet fuel processing units.
- 18 The U.S. Federal Reserve decides to inject \$1 trillion into the U.S. economy.
- 18 FHR announces plans for a new central Texas fuels terminal.
- 23 Koch Nitrogen completes upgrade and expansion of its Enid, Okla., plant.



26

# FEBRUARY

- 05 The Bank of England cuts its lending rate to 1 percent, lowest rate since its creation in 1694.
- 05 INVISTA completes a \$1.7 billion refinancing and recapitalization effort.
- 19 Dow Jones Industrial Average sinks to 7,465.95, a 47 percent drop from its record high in Oct. '07.
- 26 President Obama proposes a \$3.6 trillion budget with a \$1.75 trillion deficit.



Flint Hills Resources announces plans to contribute \$400,000 for engineering scholarships at Texas A&M – Corpus Christi

05



INVISTA wins Norfolk Southern Railroad's Thoroughbred Chemical Safety award for safe shipping of hazardous products.

# MAY

- 13 FHR receives nine National Petrochemical and Refiners Association safety awards.
- 29 General Motors stock drops to 75 cents per share in anticipation of the company's bankruptcy filing.



Koch Pipeline completes eight years (6 million work-hours) of operation without a lost-time incident.



08

Koch Nitrogen signs a new UAN agreement with Oklahoma's Pryor Chemical Co.

# APRIL

- 27 Concern over an H1N1 ("swine flu") outbreak prompts precautionary measures at many facilities around the world.
- 30 U.S. home prices drop an average of 19.1 percent, the largest quarterly drop ever.



22



Grand opening of the billion-dollar Cowboy Stadium in Arlington, Texas, built with 3.4 million square feet of Georgia-Pacific's Gypsum Dens™ and ToughRock® products.

06

# JUNE

- 04 John Zink Co. receives two safety and health awards from the Oklahoma Safety Council.
- 24 Robert Pamplin, former chairman of GP, dies at age 97.
- 30 GP's gypsum business is assigned U.S. Patent #7,553,780 for panels with UV-cured moisture-resistant coating.

# JULY

25 INVISTA's manufacturing facility in Paulínia, Brazil, celebrates 35 years – more than 23 million work-hours – without a lost-time injury.



01

INVISTA announces OXYCLEAR™ scavenging resin, a high-performance PET oxygen barrier for clear applications such as juice and water.

# SEPTEMBER

09 Koch Nitrogen provides a challenge grant to help fund the purchase of rescue equipment for the Enid, Okla., fire department.

10 INVISTA's DACRON® fiber celebrates its 50th anniversary with product extensions and a new marketing campaign.

16 Koch Carbon's pet coke facility in Long Beach celebrates California VPP Star status.

30

# AUGUST

## 2009 YEAR IN REVIEW



Matador Ranch becomes the first contributor to commit to a video project documenting the history of Motley County, Texas.

31



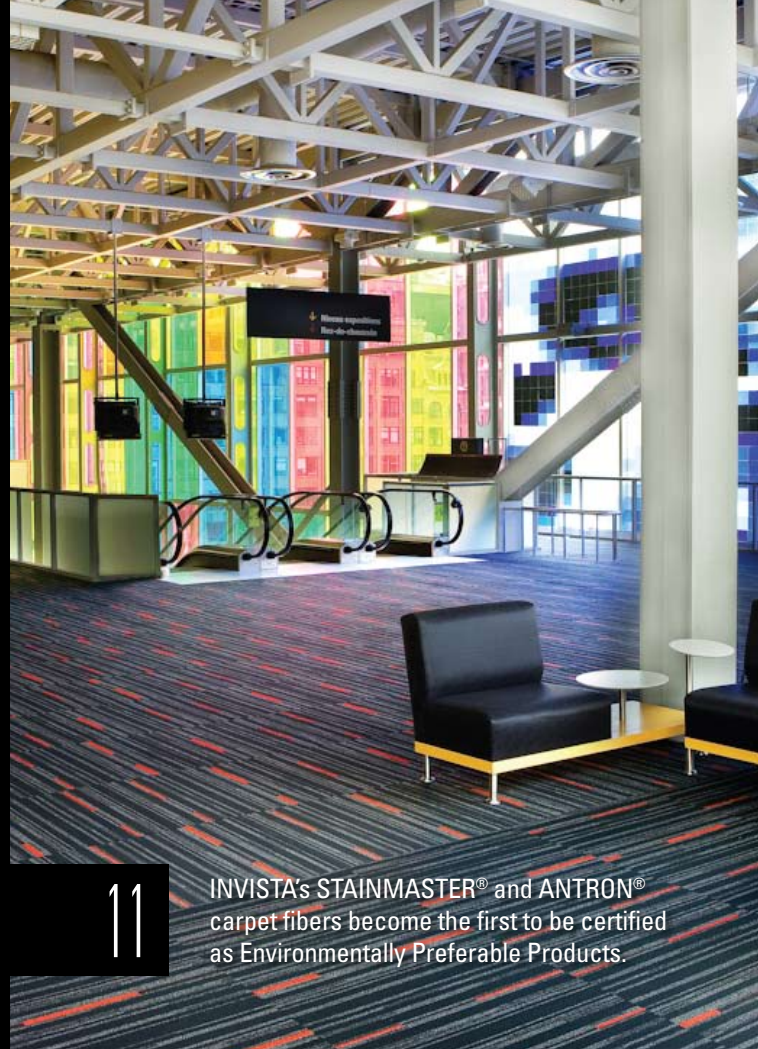
The Smithsonian announces the David H. Koch Hall of Human Origins, scheduled to open in March 2010.



Former KII president Sterling Varner, 89, dies.

# NOVEMBER

- 13 An Illinois jury finds BP guilty of misrepresenting assets sold to Flint Hills Resources and awards FHR \$41.7 million.
- 30 Koch Pipeline announces a 25 percent expansion of its South Texas crude transportation capacity.



11

INVISTA's STAINMASTER® and ANTRON® carpet fibers become the first to be certified as Environmentally Preferable Products.



# OCTOBER

- 01 Amount of U.S. natural gas in storage reaches a record 3.589 trillion cubic feet.
- 01 Koch Chemical Technology Group sells its Unifin International unit to Wabtec Corp.
- 21 Crude oil trades at its highest price for the year: \$82 per barrel.
- 31 U.S. unemployment hits 10.2 percent, the highest in 26 years.

14



Employees at FHR's Corpus Christi complex celebrate nine years without a lost-time incident.

23

# DECEMBER

- 02 Gold trades at a record \$1,218.40 per oz.
- 31 Koch Supply & Trading concludes its most successful year ever.
- 31 GP closes the books on the most profitable year in its 83-year history.
- 31 GP had two brands with more than \$1 billion in sales in 2009: Angel Soft® and Quilted Northern® bath tissue.

# Blowing smoke

We are often told our planet will be devastated unless we immediately make drastic reductions in man-made greenhouse gas (GHG) emissions.

The list of possible climate catastrophes caused by GHGs seems endless.

The BBC warns there may be no more fish in the sea in 50 years. Greenpeace frets that summer ice in the arctic could disappear completely by 2030.

The Intergovernmental Panel on Climate Change, a United Nations Organization, asserted that Himalayan glaciers may be gone by 2035.

Meanwhile, professors from Penn State University say polar bears are becoming extinct as we swelter through the hottest decade in history.

Interestingly enough, all of these claims have been disproven or grudgingly retracted.

So why would a reasonable society rush to implement far-reaching (and costly) climate change policies based on such shaky understanding of the science?

Furthermore, are the actual outcomes of these policies even going to be beneficial?

## Feeble foundation

Climate misinformation has gotten so out of hand that a high court in London has ruled the film “An Inconvenient Truth” amounts to promoting “partisan political views” and cannot be shown to schoolchildren unless its many factual errors are addressed.

So why are such unproven or false claims promoted?

Al Gore’s explanation in a magazine interview was: “It is appropriate to have an overrepresentation of factual presentations... for opening up the audience.”

Advocates of GHG proposals want us to believe they have a monopoly of scientific thought on their side.

But what the recent “Climategate” scandal at the University of East Anglia may have illustrated is just how suspect many of those scientific assumptions may be.

Correspondence indicates that when the data didn’t support their hypothesis, leading climate change advocates in England decided to change, hide, or, if necessary, destroy conflicting data.

The scientific process of discovery is completely undermined if important information gets modified, manipulated, distorted or dropped if it contradicts a preferred outcome.

Scientists have also perverted the peer review process, doing everything possible to prevent opinions contrary to the alarmist view from being heard.

Leonard Weinstein, a senior research scientist with 30 years of experience at NASA, is one of those voices climate change proponents are trying to silence. “Any reasonable scientific analysis” of man-made global warming, said Weinstein, “must conclude the basic theory [is] wrong.”

Rather than encouraging open and honest scientific enquiry and debate about the issue, climate extremists are trying to shout down any and all dissenters.

All of this should be a warning flag for anyone proposing actions to respond to climate change on the mistaken assumption that “the science is settled.”

## Cap-and-trade

In the United States, the most-discussed proposal for addressing climate change is a cap-and-trade scheme that involves charging companies for permits to emit greenhouse gases.

Cap-and-trade advocates claim this will gradually diminish GHG emissions and generate large revenues without damaging the economy.

Experience proves otherwise.

In Europe, overall emissions went up, not down, after the world’s largest



**Camden, S.C.** – This INVISTA plant uses coal as a fuel, as do INVISTA plants in Chattanooga, Tenn., and Waynesboro, Va. Forcing plants to convert to other energy sources would cost hundreds of millions of dollars, threatening productivity, competitiveness and jobs.

emissions trading program was established in 2005.

The revenue stream expected by E.U. officials and many traders has failed to materialize. Instead, that revenue went to politically favored companies and developing countries.

And to make matters worse (especially for consumers), prices for electricity and gasoline are now significantly higher.

Due to the E.U.’s disappointing results, many legislators and environmental activists are now urging a flat-out tax on carbon emissions of any kind, whether from power plants, cattle or lawnmowers.

As drastic as that sounds, others want to go even farther. The director of the European Environment Agency has proposed not only taxing carbon in all forms, but non-energy resources such as water.

## Cause for concern

Cap-and-trade is essentially a stealth tax on energy. As such, it inevitably leads to higher energy costs and job losses.

The U.S. Office of Management and Budget, a non-partisan government agency, calculates cap-and-trade proposals would add at least 77 cents to the cost of a gallon of gasoline.

Spain learned the hard way that only one

in ten new “green” jobs tend to last even a year. And each new green job displaces more than two “traditional” jobs.

In 2009, White House officials estimated the value of cap-and-trade revenues in their budget proposal at \$646 billion over ten years. Subsequent estimates have tripled that amount.

For any government running record deficits and burdened with unprecedented levels of debt, such a huge source of new revenue must be enticing. But is it worth devastating the economy?

Policymakers have a history of using new revenue streams to promote pet projects and punish what they consider to be “bad” industries.

If, for example, the U.S. Congress wants to reduce all CO<sub>2</sub> emissions, why would proposed regulations penalize refining emissions at six times the rate of emissions from utilities?

### Wrong focus

Richard Muller, a physics professor at the University of California, Berkeley, has raised serious concerns about the effectiveness of proposed climate change policies in North America and Europe.

Estimated costs of a U.S. cap-and-trade program with a goal of 70 percent CO<sub>2</sub> reduction

4 million jobs lost

\$7,000 less annual household income

129 percent increase in electricity prices

Sources: U.S. Energy Information Administration, SAIC, Heartland Institute

Regardless of what developed nations do about climate policy, he says, emerging nations are the real issue.

Even under a “best case scenario,” with the U.S. reducing carbon emissions by 80 percent and other developed nations by 60 percent, Muller believes global

carbon emissions will quadruple.

That’s because emerging countries, such as India and China (which already emits 30 percent more carbon than the U.S.), will inevitably increase their emissions as their economies grow.

Utilities “will pass that [cost] on to consumers under my plan of a cap-and-trade system. Electricity rates would necessarily skyrocket.”

- Barack Obama, 2008 interview

It takes energy to achieve economic growth and quality-of-life improvements for a society. No developing nation on earth – large or small – is likely to reduce its carbon emissions if it means suffering economically.

### Opportunity or obstacle?

Mark Dobbins, executive vice president for Koch Supply & Trading in Houston, is helping develop corporate strategies for emissions trading.

“It’s clear from the data that the science on greenhouse gases is not really settled,” said Dobbins. “But, at the same time, emissions trading has already been launched in the U.K. and E.U., and on a regional basis here in the U.S.”

Emissions markets are fundamentally different from other markets because they’re mandated by government.

“So it’s essentially a compliance market that wouldn’t exist if not for government. But a second-order effect of that is government can always change the rules.” Court challenges from unhappy parties can add to the uncertainty.

“With emissions we’re talking about commitments five or ten years out. There’s no confidence if the rules can change in a way that would modify or eliminate these markets.

“In Europe, they’ve continually tinkered with the rules. In the middle of a scheme one nation suddenly gets a few more credits, which then upsets the supply/demand balance.

“It’s very scary, but it’s what you’d

expect from government, which has a history of not keeping hands off.”

### True costs

Last year, the Minnesota Pipeline System spent close to \$9 million on fuel and power. That line item for energy is one of the largest of its operating expenses.

“If our throughput and crude quality remain the same but electricity prices go up 129 percent because of cap-and-trade,” said Kim Penner, president of Koch Pipe Line Co., “we could be looking at roughly \$20 million per year for power. That’s a huge increase for a business our size.”

If company plants with coal-fired boilers or generators – such as those owned by INVISTA and Georgia-Pacific – have to switch to other fuels because of new policies, hundreds of millions of dollars will be spent on conversion projects with little or no return.

The enormous amount of capital spent on those conversions would then be unavailable for projects that could create permanent jobs and products that people value.

### What should be done?

Last November, Kenneth Green, an environmental scientist, testified before the Senate Committee on Finance about global warming. His conclusions are worth repeating:

“The earth’s climate is prone to sharp changes over fairly short periods of time. Plans that focus simply on stopping climate change are unlikely to succeed; fluctuations in the earth’s climate predate humanity.

“Rather than trying to make the climate static, policymakers should focus on implementing resilience strategies to enable adaptation to a dynamic, changing climate.”

In other words, since we can’t control Mother Nature, let’s figure out how to get along with her changes.

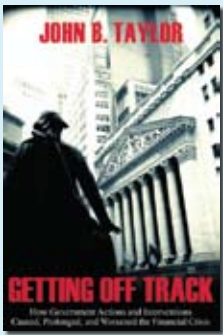


## Noteworthy

### Getting Off Track – by John B. Taylor

The subtitle of this slender book speaks volumes: “How government actions and interventions caused, prolonged and worsened the financial crisis.”

Taylor, a former economic advisor to several Presidents (Republicans and Democrats alike), is a senior fellow at the Hoover Institution and a professor of economics at Stanford.



Taylor’s thesis is simple. If you can avoid a boom, he says, you can avoid a bust. And avoiding a bust is essential for avoiding a crisis.

In less than 90 pages, Taylor makes several simple but devastating arguments.

First, without the government-sponsored boom in the housing market, there would have been no bust.

Second, misguided U.S. government policies intended to address the bust only deepened and prolonged the crisis.

As a result, global economies derailed, uncertainty increased and a great deal of harm was inflicted upon millions.

Taylor makes a point of offering constructive processes, too.

If, writes Taylor, the Federal Reserve Bank had stuck with the monetary policies that led to stability (and growing prosperity) from the early 1980s through the middle of this decade, the current economic crisis could have been avoided.

## Namesake and mentor

Charles de Ganahl Koch, chairman and CEO of Koch Industries, thinks it is quite unusual for somebody to name a child after a business associate.

And yet, that is exactly what Charles Koch’s father — and grandfather — did when their second sons were born.

Newspaper publisher Harry Koch, a Dutch immigrant, settled in Quanah, Texas, in 1891. One of his first acquaintances there was a local businessman, Fred Chase.

When Harry and Margaret Koch’s second son was born Sept. 23, 1900, he was named Fred Chase Koch.

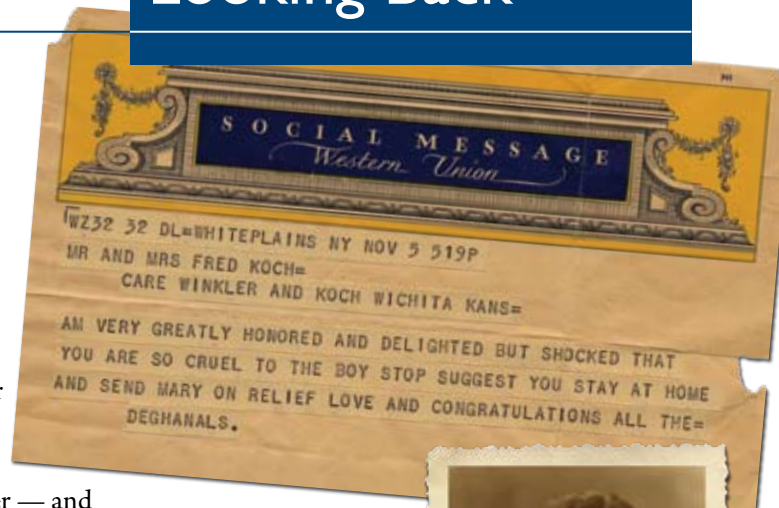
Similarly, Fred C. Koch’s second son, Charles, was named after Charles de Ganahl, a Texas-born entrepreneur who, in 1924, hired Fred Koch to help design and build a refinery in England.



(Left - right) Charles, Fred and Harry Koch. Both Harry and Fred named their second sons after business associates.

By the time Koch completed his work on that project, de Ganahl was calling Fred “the soundest chemical engineer in the world.”

“There was a mutual respect there,”



This congratulatory telegram was sent following the birth of Charles de Ganahl Koch on Nov. 1, 1935.



Charles de Ganahl (1869 - 1939)

said David Koch, Charles’ brother and executive vice president of Koch Industries. “I’m sure that father thought of Charles de Ganahl almost as a second father.”

Fred and Mary Koch visited de Ganahl in Kenya in 1933. Fred also corresponded with de Ganahl, and his sons Frank and Carl, for many years.

“My father developed great admiration for Mr. de Ganahl,” said Charles Koch.

“He believed he was an excellent entrepreneur with great integrity. He was also very intense, very disciplined and a very generous person.

“So my father ended up naming me after him.”

Charles de Ganahl died in 1939, less than four years after his namesake was born. Following de Ganahl’s death, Dr. James Ewing of Memorial Hospital in New York wrote a moving tribute.

It said, in part: “At the end of a busy life he had organized enterprises on three continents, in sugar production, river transportation, oil production, ship building, exploration, gold mining in Africa and in British Columbia, and finally in airplane manufacture – thus completing one of the most versatile careers in the history of American industry.”

As a lifelong student of history, I have always been eager to learn from our past.

History clearly shows that societies have benefitted from the encouragement of certain principles. Those principles include personal accountability, political

freedom, the rule of law, sound money, open markets and respect for property rights.

To the extent that nations have embraced these freedoms and disciplines, their citizens have benefitted in every measurable way, including longer lives.

But, as is often the case with history, we can

learn at least as much from the world's failures as we can from its successes. Let me share two such examples with you.

## Argentina

At the beginning of the twentieth century, Argentina was one of the freest and most prosperous nations on earth.

When my parents visited Buenos Aires during their honeymoon, Argentina was one of the 10 wealthiest nations in the world.

For half a century, annual incomes there grew by an average of 7 percent per year (essentially doubling every decade).

This began to change in the 1920s and completely changed when Juan Peron came to power in 1946.

Peron's government nationalized entire industries, censored media critics, promoted runaway budget deficits, multiplied government programs and increased taxes. It also demonized successful businesses and the wealthy.

As a result, the Argentine Republic was transformed – and not for the better. Unemployment jumped, as did inflation, which hit 50 percent in 1956 and soared even higher in later years.

Even after Peron was eventually deposed, a series of military coups left

citizens demoralized and powerless, and their economy in a shambles.

Argentina now ranks 105th in the world when it comes to economic freedom. (Hong Kong is first, Zimbabwe is last.) Annual inflation is estimated at 22 percent and current unemployment at 23 percent.

## Venezuela

For nearly 40 years (from 1920 to 1957) Venezuela was a prosperous and thriving nation, with growth rates even greater than those of West Germany, Europe's economic powerhouse.

In 1960, the gross domestic product per Venezuelan worker was equal to that of Canada, Australia and Switzerland.

Venezuela's downhill slide began when new administrations (including those of Betancourt and Perez) instituted a series of devastating policies. Taxes went up, the government began to bloat and runaway budget deficits became the norm.

In 1976, President Carlos Andres Perez nationalized the oil industry, taking control of projects largely developed and funded by British, Dutch, French, Norwegian and U.S. companies.

Living conditions in Venezuela have deteriorated under current President Hugo Chavez, whose policies have included further nationalizations, wage and price controls, media censorship and suppression of dissent.

Venezuela now ranks 138th in economic freedom, suffers from 30 percent annual inflation and has negative growth rates.

Although rich in natural resources, including several forms of energy, Venezuela suffers routine power outages. Food shortages are becoming more widespread as the economy collapses and freedoms are being curtailed.

## Parallels

Today, regardless of whether we prefer to focus on policies coming out of Brussels or Washington, there are too many disturbing parallels with South America's failures to overlook.

Nations that have benefitted from freedom and prosperity are now saddled with governments that want to assert ever-increasing control over every aspect of our lives. Supporters of these policies are enriched and ennobled; opponents and detractors are punished and demonized.

In the U.S., where economic freedom and the standard of living have traditionally been among the world's greatest, the push for centralized government control is unprecedented.

In just one year, the U.S. government has bought a stake in or bailed out more than 600 firms. Entire industries have essentially been taken over, enabling bureaucrats to dictate who earns what, who makes what and who gets to stay in business.

Like Chavez, who recently lectured Venezuelans on limiting their showers to three minutes of cold water, Washington and Brussels are throwing cold water on their citizens. All these governments are taking control away from individual consumers regarding how resources are used.

Such centralized control comes at an enormous cost. In the U.K., the government swung from a budget surplus of £2.2 billion to a deficit of £7.7 billion in just one year. Net debt as a percentage of the U.K.'s GDP has more than doubled.

German officials recently admitted their budget gap for 2010 will exceed E.U. limits by more than 33 percent. France, Spain, Ireland and Greece are also out of compliance by even larger percentages.

Meanwhile, the current U.S. administration is on the biggest spending spree in history, dwarfing even the huge increases piled up during the Bush administration. In fact, this year's U.S. budget deficit is larger than the combined budget deficits of the past eight years.

The new administration says it wants to "fundamentally transform America." Given what we've seen so far, which looks alarmingly similar to failed policies of the past, is this the kind of transformation we really want?

