

Introduction of James Grant
AEI Book Event: *Mr. Market Miscalculates*
Alex J. Pollock
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Along ago, Horace suggested that the purpose of literature is to “delight and instruct.” Many of us have been both delighted and instructed by Jim Grant’s essays and books on financial adventures.

This includes financial adventures of the past, which he has studied with unusual care in a field usually innocent of any historical knowledge; of the present, which he dissects insightfully; and of the future, about which he prognosticates provocatively, although naturally not always correctly.

We recognize his combination of wit, skepticism, recherche’ facts, sound principles, eye for the absurd, and recognition of the recurring patterns of financial foibles across the generations.

Jim knows that markets are the best way for ordinary people to prosper and achieve wealth beyond the dreams of the savage king. But he has also taken deeply to heart the great dictum of Benjamin Graham: that although in the long run financial markets are a weighing machine, in the short run they are merely a voting machine. As in other kinds of voting, they can make big mistakes.

So we have his new book, Mr. Market Miscalculates.

I can’t resist sharing a few favorite quotes from the book.

First, written in 2006:

“Average U.S. house prices rarely fall from one year to the next. Bankers, brokers, appraisers, loan servicers, mortgage investors, homeowners and the designers and promoters of collateralized debt obligations all attest to the truth of this assertion.”

“‘[H]istory is definitive,’ pronounced the *American Banker*... ‘The national average price of a home may remain relatively flat for a number of years, but it doesn’t fall.’”

Says Grant, “Let’s see about that.”

“[W]e conclude that a decline in house prices is already under way.... A return to the post-1968 trend line would imply a drop of 22%.” Not a bad call!

A second, Jim defending Thomson Hankey, an intellectual opponent of the celebrated Walter Bagehot:

“Hankey... marshaled two principal arguments against Bagehot.... No. 1, moral hazard: Let profit-maximizing people come to believe that the Bank of England will bail them out, and they themselves will assume the leverage, that will require them to be bailed out. No. 2, simple fairness: If Britain’s banking interest can claim a right to the

accommodation of the Bank of England, why shouldn't the shipping interest, the construction interest, the railroads, and agricultural interest? Shouldn't all economic actors 'be equally entitled to benefit by any favors?'

Sounds pretty familiar, as nearly everybody wants to benefit from the "TARP"

Speaking of the 19th century, Jim quoting

"Mary Elizabeth Lease, a populist in the age of Cleveland.... 'We want money, land and transportation.... We want the abolition of the National Banks, and we want the power to make loans direct from the government. We want the accursed foreclosure system wiped out.... We will stand by our homes and stay by our firesides by force if necessary, and we will not pay our debts to the loan-shark companies.'"

Then principles:

"Central bankers hold no greater claim to clairvoyance than the rest of us."

"Leveraged financial institutions are inherently prone to crisis."

Both clearly true.

Finally, there is a cartoon in the book, which can be a motto for our time: a harried Wall Street type is saying into the phone, "Fine. Let me try again. Pretty please, Mr. Margin Clerk, Sir, may I extend my loan?"

James Grant is the founder and editor of *Grant's Interest Rate Observer*, a financial markets journal. He is now the author of six books. In addition to this new one, a favorite of mine is *Money of the Mind*. He previously wrote for *Barron's* and the *Baltimore Sun* and is a TV personality, having been on *Wall Street Week*, *60 Minutes*, *CBS Evening News*, *Nightly Business Report*, and Bloomberg TV—and more importantly, he is a friend of AEI.

Jim is going to discuss his new book. Afterwards we will have comments from Jay Brinkmann and Desmond Lachman. Then we will open the floor for your questions. After that, there will be a wine and cheese reception and, of course, the chance to purchase Mr. Market Miscalculates.

Ladies and gentlemen, let's welcome Jim Grant.