Crises and money. This time is no exception. Crises cause policy makers to act. They need to do the obvious so that the country understands that everything is being done to minimize risk. These actions provide short-term psychological relief. However, they create, almost inevitably, a misallocation of resources and economic and financial problems in the distant future. These problems will eventually have to be solved and corrected.

Let me give you an example. Beginning in 1997 a series of crises erupted around the world (in Asia, Russia, and Latin America). The Fed reacted by letting the money supply soar to protect, rightly so, the banking system. The outcome of this overwhelming reaction has been a wave of "irrational exuberance", so much abhorred by Mr. G. The economy and equity markets boomed, fueled by the effects of a very generous injection of liquidity.

However, investors and economic players eventually paid for this splurge of money. The strength of the economy caused interest rates to rise. The increased cost of money burst the bubble in mid 1999. The economy has been in disarray since mid-2000 and stock market averages are now at the same level as in March 1998! Exactly as they were when the crises erupted.

Now we have a new awful, despicable crisis. There is a sense of *déjà vu*. Congress and the Fed are acting as we would expect. Taxes are being cut and spending is increased. Money is being printed aggressively and the interbank rate has been cut well below the inflation rate.

There is no doubt in my mind **we are in the process of manufacturing the next economic and financial bubble**. This bubble will be preceded by a strong stock market. The move has already started. We will then experience a very strong economy in 2002-2003. Sometime in 2002 interest rates, inflation, crude oil and most commodities will bottom and start to rise, signaling the beginning of the end of the bubble.

Toward the end of 2002-early 2003 policy makers and the Fed chairman will talk again about irrational exuberance. Monetary restraint will be recommended to bring inflation under control. The growth of the money supply will decline. And once again we will move from economic boom to financial bust as we did in 1995-1999 (boom) and 1999-2000 (bust).

And the financial cycles will keep repeating themselves as they have been since 1955. What is left for us to do is to profit from the lesson of history.

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