

Much of the world economy remained stuck in the doldrums this past year. The recession is technically over though none of the dramatic shifts that many had been hoping for have emerged. There is a certain poetic justice in the fact that as a direct result of Washington's failed tactics to spend our way out of this mess many congressmen are now unemployed.

The \$560M *Deepwater Horizon's* oil rig exploded and sank in the Gulf of Mexico. 4.9B barrels spilled before the well was capped 87 days later. At the risk of belittling the tragedy, the entire spill added up to only about 6 hours' worth of U.S. oil consumption. And, while the accident had virtually no effect on the price of oil, crude is expected to climb above \$100/bbl next year due in large part to the booming Chinese economy. The United States is rapidly losing autonomy over its financial destiny. While the average American is content to hold onto his job, forgo pay raises, and even sacrifice benefits, workers in Guangdong Province recently went on strike 36 times in the course of 48 days for higher wages.

In a God like act two American biologists created a living creature, a bacterium, which had no ancestor. With this first step it is now possible to imagine a world in which new organisms, plants, and animals are designed on a computer and then grown to order. In another breakthrough, anti-matter (specifically anti-hydrogen) was made and trapped for a brief period of time. This technology beckons physicists to create new energy sources or even anti-elements that may repel gravity. Meanwhile, commercial space entrepreneurs such as Richard Branson (Virgin Galactic) and Elon Musk (Space-X) made giant leaps. Space-X designed the *Dragon* space capsule to supply the International Space Station, orbited the *Dragon*, and made a controlled re-entry to splash down in the Pacific. Meanwhile, Virgin Galactic started flight testing *Space Ship Two*, a small shuttlecraft like vehicle built to take tourists into space.

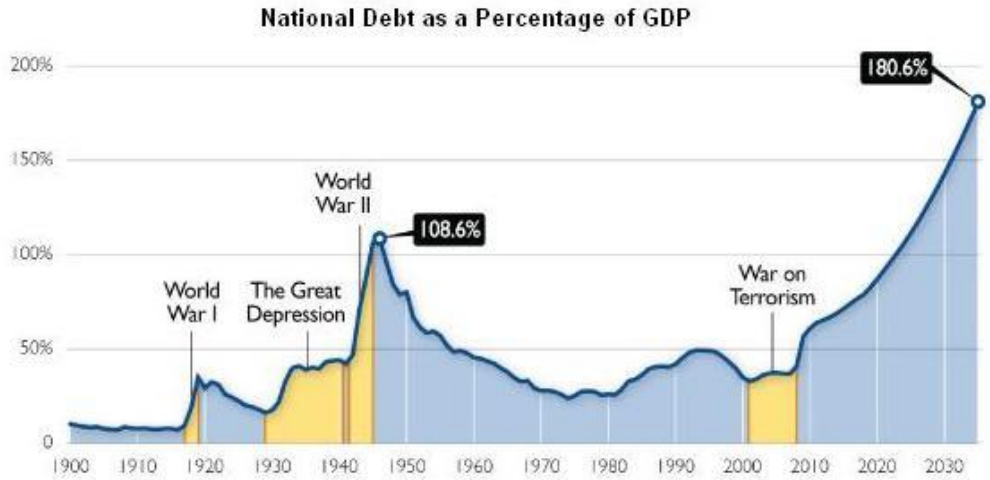
Despite its' promises the government has been unable to spur the economy. In addition to the 9.8% unemployment rate and 15M Americans out of work, the massive national debt weighs heavily on the economy. Meanwhile, Pelosi, Obama, and Reid rammed a 2,400 page healthcare bill through congress and made the government substantially bigger while doing virtually nothing to control costs. Universal healthcare has been the goal of democratic politicians for decades and now when entitlements are nearing the point of bankrupting our nation we've created another one that the vast majority of American's do not need and cannot pay for. The root cause of our problems stems from the fact that there is no political motive for our government to restrain itself or limit its growth. In less than 100 years Washington has gone from regulating interstate commerce and protecting citizens from foreign threats to standardizing decisions that affect every aspect of an individual's life.

Over the next few decades runaway spending on Social Security, Medicare, and Medicaid will drive the debt to unsustainable levels. Worse, the government is inept at running these programs. For example, instead of investing the Social Security payroll taxes that were levied on workers, it spent the money and now has no way to repay baby boomers without raising taxes on the next generation. As a consequence, in 2015, Social Security will begin to payout more than it takes in; Medicare will follow suit in 2020. Congress already borrows 40 cents for every \$1 it spends. If we continue on this path by about 2050 the government will spend every penny it collects just to service the debt and pay for entitlements. Discretionary spending, such as the Departments of Justice, Transportation, Treasury, Energy, Defense, Agriculture, Education, and NASA, will virtually be shut down.

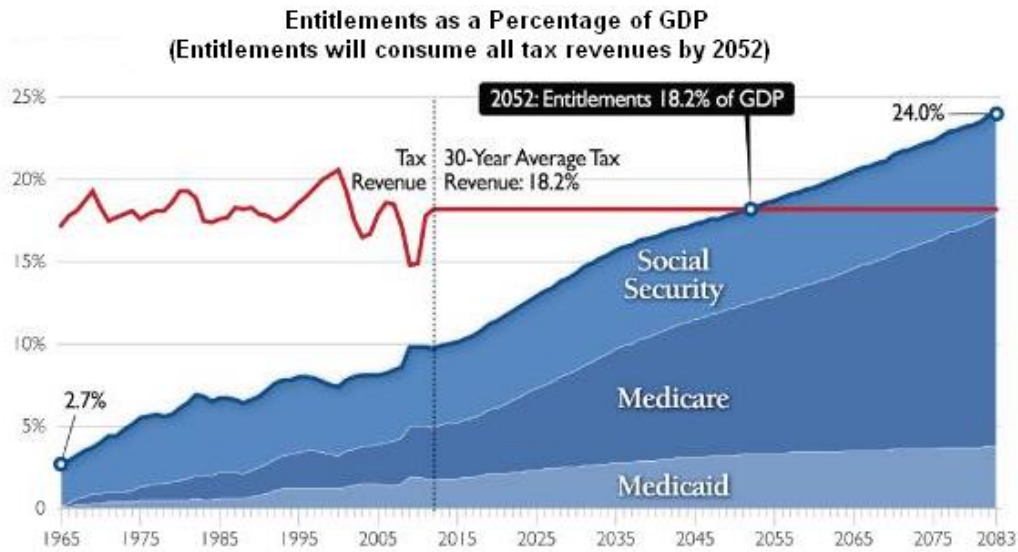
After the 2001 terrorist attacks American's were willing to accept a larger federal government in exchange for better national security. Unfortunately, the newer, bigger, more powerful government has failed to deliver. Witness the Times Square car bomber and the Northwest Airlines underwear bomber both of whom followed through intently with their plans, regardless of their inability. Certainly our luck will not last. The electorate's hostility was clear when congressional democrats lost almost 70 seats this year including Ted Kennedy's which had been held by the party since 1953.

The threat to American prosperity from the over-reaching federal government is clear for two reasons. First, the principles that our nation was built on and that led to our historical success are at odds with a centralized, controlling government. The framers of the constitution knew that citizens, acting through self-governing associations like families, churches, and businesses could take care of their own needs. They believed that government existed to secure the conditions, for example national security, where this was possible. In the prevailing view that has arisen during the past century, based on the theories of the Progressive Era, citizens are thought to be unable to manage their own lives without

extensive and detailed government control of the economy and social relations. In short, the resulting administrative and welfare state has radically altered the American way of life. Second, the growth of the federal government, liberal entitlements, and basic demographics in the U.S. will soon bankrupt the country. The pattern is analogous to the debt-to-income ratio that led to the disastrous housing bubble and current recession. The nation will succumb to radical change in the coming decades simply because the government has promised public entitlements that it cannot practically meet. Progressive policies have led the public to believe that there are essentially no costs associated with surrendering personal liberties or reckless fiscal policies.



Source: Heritage Foundation compilations of data from U.S. Department of the Treasury, Institute for the Measurement of Worth (Alternative Fiscal Scenario), Congressional Budget Office, and White House Office of Management and Budget.



Source: Congressional Budget Office.

As for us, we're still in California. Andrew's pursuing a computer science degree at UCSB; Liam's in elementary school. We explored the Turkish Mediterranean coastline last summer sailing a 40' boat through a genuinely ancient world. Sadly, our relatively young cousin passed away, too early in life, leaving his family and ours with broken hearts. He was an exceptional individual and our lives will not be the same without him. Regardless of how busy we are, we are sincere when we say that it is very important for us to hear from our family and friends. The invitation is always open to visit us, please keep in touch.

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*Merry Christmas and Happy New Year,  
 From the Cottrell Family*

*To preserve our independence, we must not let our rulers load us with perpetual debt - Thomas Jefferson*