

Of Fires That Burn Out

With the recent volatility in the markets, here is a relevant essay from a commentator we follow. While none of us know what the near future holds for the markets, we trust you will appreciate this particular view.



On October 17, those who can even remember it will mark the twentieth anniversary of the day the great Yellowstone fire was contained.

The summer of 1988 would turn out to be Yellowstone National Park's driest in recorded history. But there was no way of knowing that in advance, as seasonal, lightning-sparked fires broke out in May, and burned into June. More storms in July brought more lightning; the fires spread and intensified.

Still, it wasn't until late July - when some four thousand people had to be evacuated from Grant Village, a collection of lodges, restaurants and a visitor center - that the nation's attention became riveted on Yellowstone. Hundreds of reporters descended on the park, as more than 25,000 firefighters fought the spreading blazes.

On August 20, which came to be known as Black Saturday, winds of up to eighty miles per hour doubled the size of the fire to 750 square miles, and on September 7 the historic Old Faithful Inn had to be evacuated. (It was saved essentially by a sprinkler system installed just the prior year.) Four days later the rains came, and by October 17, the fires were under control. In all, 1,875 square miles burned out - something like a third of the park -- in what was universally regarded as an ecological disaster of epic proportions, perhaps the greatest in American history.

No fewer than three separate Congressional hearings were held to review fire management policies at Yellowstone and on other public lands, and the National Park Service was pilloried for an alleged "let it burn" strategy - a policy it had in fact never maintained.

Today, as the leaves begin to turn again in Yellowstone, you will find it a renewed paradise. Trees have taken root everywhere among the burnt logs that litter the forest floor. The fires, it seems, cleared out the overgrown forest canopies, allowing new plants to bloom. Bird and animal life flourishes. And people who know and love the park say that it's greener than they've ever seen it. The fires weren't an ecological disaster at all; they were nature's way of cleaning out and renewing one of the most beautiful places in America.



This autumn, we find ourselves in the later stages of a great credit conflagration. Hordes of catastrophists on cable and the Internet decry an unprecedented disaster burning out of control and engulfing one great financial institution after another. In their view, the fire is beyond the capacity of nature and man, is constantly getting worse, and will surely end in the long-term destruction of the financial system.



It will do nothing of the kind, any more than the Yellowstone fire of 1988 did. Nothing that is occurring today is unprecedented - though it may be happening on a larger scale - and nothing is unnatural. This is nature's way of cleaning out the rot. And it will lead to a healthy renewal of the global financial system in ways that today's doomsayers cannot even imagine.

Between 2000 and 2002, the world unwound the greatest equity market bubble of all time. Last year and this, we have been unwinding the greatest credit bubble of all time. These are horrific processes as one goes through them, but it is useful to remember that they burn out - that the rains do come again, even after the driest summer, and that, as John Kennedy said, no human problem is beyond the capacity of human beings.

While waiting for the rains, it will be useful to ask oneself: if this is an unprecedented long-term destruction of the financial system, why does the equity market refuse to burn down?

From its false dawn last October, the broad equity market declined about 24% peak-to-trough through the close on September 15, 2008. A 24% decline over nearly a year is hardly a walk in the (national) park, but neither is it an indicator of Armageddon. Indeed, the October before the great Yellowstone conflagration, the equity market went down nearly that much between a sunup and a sunset. (This event, too, sparked any number of equally spurious Congressional investigations, to equally negligible effect.) But as the leaves turn yet again - even in this season of despair - the equity market stands nearly five times higher than it did that evening.

Perhaps it's time to turn the television off, and to make a weekend of it in Yellowstone. At the very least, this exercise might restore some very important long-term perspective.

But be sure to pack your slicker and boots. The rains are coming.