

# Europe and America: “Financially Burning”

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Markets are what they are today because that is the way government wants them. The stock market has stayed up for quite some time, but the best earnings are fading. The Street is well aware of what has been happening for a number of years. They just do not say anything and go along with the program. They have come to overlook situations worldwide as well as in America, because they believe that, “The President’s Working Group on Financial Markets” won’t let the market fall.

There are not many professionals that believe there will be no extension of the short-term debt limit to \$16.7 trillion. They do not believe default is possible. That tells us that extension has already, at least 80%, been discounted in the market. If approved, the event should not cause much of a future rally. Extension of hostilities in the Middle East could put further pressure on the market. There certainly will be much less debt created and that will change fiscal policy. It will tend to further slowdown an economy that cannot stand on its own. In fact, without an \$850 billion stimulus it will not most certainly fall into minus GDP growth. If the economy is to stay in growth the Fed will have to create the funds for both the funding of Treasury and Agency debt and perhaps purchase more toxic waste. They own almost \$1 trillion now whose value we cannot determine, and simultaneously fund the economy. If all of this does not take place then the economy will fall as will earnings and the market will as well. As you are well aware governmental, personal and corporate debt are overwhelming, which means it is going to take many years to try to pay this debt off. We do not see it ever being paid off. We expect a series of wars or a Third World War, which could cause a debt settlement by many nations, or in absence of a war there could be currency devaluations, revaluations and multilateral partial or full default.

The QE2 program was in effect for a year and unemployment did not improve in spite of stimulus 2, or the injection of \$862 billion. Housing isn’t going to improve anytime soon, nor is commercial real estate, both of which could remain moribund for many years. By the end of the year home inventories could be 3 to 3.5 million residences. Government has done almost nothing to create substantial numbers of jobs, as our Congress allows transnational conglomerates to keep foreign profits tax free offshore and under free trade, globalization, offshoring and outsourcing gut our job market. No effort is made to stop it. We have lost 11.7 million jobs in 11 years and 440,000 corporations that have moved offshore. We ask, why doesn’t the President and Congress start here and as well clear the 30 million illegal aliens out of the country? The administration is more interested in selling 30,000 weapons to criminals who operate drug cartels. Unemployment is 22.6% and government has to stop lying about the numbers. Government now wants to change the CPI, so ever more bogus figures can be produced. Do not worry we will always have the true figures.

Under such circumstances how can consumers increase debt and spend more? They simply cannot and that will soon show up in consumption as a percentage of GDP, when it again

hits 69% on its way to the long-term average of 64%. Yes, the ratio of household debt to disposable personal income has fallen from 130% to 150%, but with major unemployment will it return to 75% that existed during the last 25 years of the 20th century? Momentum is only headed in one direction and that is down.

We are not the only country with these problems, just look at England and Europe - they are in the same boat. In addition, their financial conditions are continuing to deteriorate. In Asia, Japan is trying to recover from its terrible destruction and China and others are raising interest rates and mandatory bank reserves to combat inflation.

The agreement on short-term debt extension will not include any meaningful budget cuts. They will just pile on more debt until the system collapses. For the paid-off politicians and those behind the curtain pulling all the strings it is just another game to control the populace and enslave them. The public is so entrapped they want debt extension and QE3. They do not care what the cost is they just do not want the game to stop and the music to end. Like in Greece if they can they want both parties out of government, but that is not going to happen unless there is a revolution. We will have a 10-year deficit reduction to bamboozle the people and it will mean little. Some higher taxes for the rich and more bread and circuses for the people. Future congresses are not going to be bound by legislation they'll just bypass it or pass offsetting legislation. This is really all a game of political posturing and theatre.

Low interest on mortgage loans still is not luring or qualifying many people to buy homes. Most buyers are speculators - many of which pay cash and rent the dwellings. Those millions of homes in lender inventory are not being sold or depleted. That inventory somehow is never mentioned in the mainline media coverage. It tells a good part of the whole story, America was overbuilt and it will take years to clear the inventory, as builders, build 550,000 new homes a year. That means lower prices and years of illiquidity.

The housing bubble is still being liquidated and as long as that is in progress there will be no American recovery. Manufacturing has in large part been shipped overseas, so what will create jobs and prosperity if housing and manufacturing are moribund? It certainly won't be services that provide \$10.00 per hour wages. The lost jobs paid \$30.00 an hour. The tacks the US Congress and transnational conglomerates have taken are sure to destroy America as a first world nation. All they have done is enrich themselves and betrayed fellow Americans. Most banks are certainly insolvent and the government made the conscience decision to effectively nationalize housing. We believe that decision was made ten or more years ago, when we predicted this would be the outcome. If government owns all the houses the only people who can rent them are those that do what government tells them to do, such as where you will work and where you will live. This fits in perfect with fascist political and economic philosophy.

We are making major inroads into informing the US and world public about what is really going on, yet, at least 50% have no clue as to what is really going on. They are deeply in debt and psychologically they have been wiped out by real estate losses. They have no food storage; water filters or means to defend their families. They have no gold or silver to carry them through hard times. For years Wall Street and government anti-gold and silver propaganda has left them at best confused. They are totally unprotected and are very liable to end up in dire straights.

We again have been fortunate in predicting this past week's moves in gold and silver. Gold rose almost \$60.00, up some 6% versus euros and almost 4% in dollars. In many countries the yields are rising on government bonds and as we have said since 1967, that has been a harbinger of higher gold prices. Worldwide yields are at record lows, which means that yields have nowhere to go except up. Worse yet, debt is increasing everywhere if for no other reason than it is cheap to borrow. Add to the debts mix in a lack of confidence because of fiat currencies and you have major problems now and looking down the road. As time passes more investors will want gold and that means as currencies are dumped gold and silver will be the beneficiaries.

Investors are concerned because everything government does turns out poorly. Debt based money has always been a ticket for disaster. There is only the euro, which has about 5% gold backing, down from 15% ten years ago. As a result all currencies have lost an average of more than 20% annually versus silver and gold. That means there are some who just do not want paper if they can avoid it. In just the past ten years 60% of US debt has been added of the 97% loss since 8/15/71. Recently we have seen many sovereign-debt down grades, which should have taken place years ago. Why did they now all come at once? It is because those on Wall Street and at the Fed want investors looking at other nation's problems, not America's problems, which are 100 times worse than those of Greece and the other five European sovereigns.

Don't forget the rating agencies are controlled by Wall Street; just look at their deliberate mis-rating of CDOs and MBSs. That should be proof enough. Just recently Germany refused to accept their ratings. They said they were bogus and politically charged. We realize the debt situation with these six countries is dire, and will worsen and more and more funds will be needed to pay interest to the bankers. Their market interest rates have risen and will continue to do so, at rates that will destroy these nations and perhaps the lending nations and the IMF as well. Delaying the inevitable is a very dangerous policy that will end up being terminal for all. If these nations that are in trouble cannot borrow they cannot recover. Austerity eliminates jobs and reduces government income in the form of taxes. Then the victims need more loans, which eventually cause collapse, as we saw in Argentina in the late 1990s. These countries cannot devalue their debts because they are trapped within the euro and the only way to recover is to default and leave the euro and go back to their original currencies. The elitist powers in Washington want the euro to collapse so that the US dollar remains the world reserve currency. This is currency war aided and abetted by the rating agencies captive subsidiaries of Wall Street.

How can a nation such as Greece with 11 million people pay off \$675 billion? Obviously they cannot, so we see the exercise of one of destroying Greece, the other five nations, and eventually the euro. The key to the collapse of the weak euro zone members is that they cannot devalue and that is why they have to exit the euro, or remain in bondage for the next 50 or more years. The US on the other hand can raise the debt limit; euro zone members cannot do that. This is what the US has been doing since 2000 via the creation of money and credit and as a reflection of that in dollar terms is the rise of gold from \$260 to \$1,577 and silver from \$3.50 to \$50.00. That tells the whole story. Today it is worse as the US borrows about half the money it spends. Over the past three years that debt tripled at the rate of \$1.5 trillion annually. Under present circumstances this scenario has to worsen, because just to maintain more and more money and credit has to be shoved into the system. We have just seen in Stimulus 1 and 2 and QE 1 and 2 that the results of almost \$5 trillion in spending has brought two, six to nine months periods of growth that fizzled once

the infusions ended. QE 3 is now upon us and the Fed will do the same thing again getting the same poor results. In the US economy the minute the money and credit stops the bottom falls out.

As we have said many times before the only way to end this crisis is to have a meeting of all nations. Revalue, devalue and multilaterally complete debt default. That is what has been done in the past and that is what has to be done now. We know problems are far greater today than the past and the depression to follow will last for five or more years. That is far better than letting the system collapse, trying to rebuild and suffering 20 or more years of worldwide depression. Due to this indecision the crisis worsens with each passing day.

The world financial system has been built on sovereign debt once that system goes into crisis, which it is in the process of doing, and then the entire system will collapse. Europe is the beginning and we believe the interconnectivity will first take down Europe, then England, then the US, and in varying degrees the rest of the world, unless soon the meeting we mentioned begins.

The US needs to act and act quickly to bring about such a meeting - at least within the next few years. At the present pace the dollar problem could be stretched out for a number of years, but the longer it is stretched out the worst will be the final result. During the immediate timeframe the dollar's world reserve status could be maintained, if the meeting's held and the dollar returns to a gold standard.

Europe is figuratively financially burning. In Greece everyday there are demonstrations ranging from 200,000 to two million at any given time. The price of gold in euros hits a new high almost every day. The bankers and leadership in Europe are delusional. They simply refuse to face the reality they have created. The end of QE 2 is a joke. The Fed has not refrained from monetizing Treasury debt, as its balance sheet hit another high on July 6, 2011. That was a total of \$2.854 trillion, consisting of \$1.625 trillion in Treasuries. The total was \$600 billion plus \$250 billion from reinvested funds. We had estimated more than a year ago participation of \$900 billion net. This \$850 billion will continue to be invested on a rolling basis. The maturities will dictate participation and how much more funds would have to be added to absorb 80% of Treasury issues and to stimulate the economy. As you can see the Fed has lied again and the crossover to QE 3 has been silent and seamless. There is no limit and as we pointed out long ago, there will be no limit. There cannot be because in the absence of perpetual funding comes collapses.

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