

How to Keep a Damaged Financial and Economic System Afloat?

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The elitists who run America from behind the scenes have serious problems in trying to keep a badly damaged financial and economic system afloat. Ironically, these same characters are the ones responsible for the system and the condition that it is in today. It is not only confined to the US, but it prevails in England, Europe and other countries as well. Central bankers are all in constant touch with each other to employ tactics that will extend the current system in the hope that something they are doing will turn into at least a temporary solution. The US maintains virtually zero interest rates and floods the economy with money and credit. The European Central Bank, the ECB, raises interest rates, but continues injecting money and credit into the system. In Europe the higher interest rates are supposed to offset the inflation caused by the increase in money and credit. On the short term it isn't going to work. On the long term much higher rates will work, if the increase in money and credit is lowered or stopped. The unpalatable problem with that is this medicine will collapse their economies. All these parties should have purged the system in the early 1990s when they had the chance, or just three years ago, when they had another chance to do so. The result is the inflation we see today, 6% in Europe, 12% in Britain and 10% in the US. The path these bankers have laid out will lead to hyperinflation and ultimately to deflationary depression. The approaches employed by both the US and Europe won't work and the elitists know they won't work. Historically these conditions are nothing new. We have seen them over and over again. More often the solution is to have another war, which can take the blame for the monetary, fiscal and economic profligacy and at the same time relieve the world of copious useless eaters.

Real inflation is now at about 10% based on earlier formulas, as opposed to present official government doctored figures. These are close to the numbers of the 1980s. Officially those numbers were 10%, but we were there and the numbers were 14%. We expect real inflation of 14% or more by the end of the year as QE1 and stimulus 1 effects play havoc with consumer purchasing power. Presently the PPI, the Producer Price Index, is 10% and that same figure applies to the cost of imported goods as well. As long as interest rates remain at zero and the creation of money and credit continues, inflation will climb ever higher. The Fed tells us that there will be no change in rates until after September. The Fed just observed the ECB raising rates. The next rise was set for June and we have already been told that won't happen. Except for Germany all of the EU, not just the euro zone, is faltering. Europe and the US may not see higher rates until inflation exceeds 25% next year. As long as interest rates remain below the real rate of inflation little will be accomplished to bring inflation under control. These numbers are all within the confines of QE1 and QE2 and stimulus 1 & 2. We see no way to avoid QE3. Who will buy the Treasury's debt? That being the case inflation three to four years out could reach 50%. Needless to say, rates would have to exceed 50% to slow down the economy and that would eventually entail a

deflationary depression. During such a process as rates reached a peak, commodity prices would falter and begin to reverse. Gold and silver would lose their assisting inflationary impetus, and their course would depend on the strength of currencies. Both could strongly represent the only real money as they have in the past. We won't know the final outcome until we get there, because many other factors could enter the equation, such as world war.

Higher oil and food prices cannot go on indefinitely nor can the creation of money and credit. Much higher prices would collapse demand and higher rates might not be needed. We are sure of one thing world trade will diminish as all this goes forward and we believe it is only a matter of time before the un-level playing field of trade prompts congressional action to institute tariffs on goods and services. China is a major exporter to the US, but they have tariffs. As an example, they have a 30% to 50% advantage in the sale of luxury boats. That is certainly deliberate and such action can only invite retaliation eventually. China has had it all their way for 15 years due to US debt problems. Now that China is reducing its US dollar-denominated position they have lost a great deal of leverage. If they indiscriminately dump dollars they will shoot themselves in the foot.

China already has very strong inflation. Raising bank reserves and interest rates have yet to arrest inflation, but at the same time such actions strengthen the yuan, China's external currency. China also has its problems. They have made many of the same mistakes that the US and Europe have made. China, even though they are deeply involved in the use of commodities, will become victims of their higher prices that will be passed on in the form of inflation and higher export prices. China will as well become a major exporter of inflation. The question then arises, will commodities rise too quickly and will they collapse, which would stem inflation? The answer is we don't know. If prices rise at a moderate pace that might not happen. We won't know until we get there. As you should know economics is not an exact science, it is an art form.

The US then has the issue of 22% unemployment, much of which consists of permanently unemployable and discouraged workers who are existing on welfare of one kind or another. We have lost nine million jobs over the past 11 years to free trade, globalization, offshoring and outsourcing. Many of those companies and jobs would return to America. It is not a cure-all, but it would certainly help. In many instances time has raced ahead of many of the unemployed and their skills are no longer in demand, or technology has left them behind. The evolutionary process has been interrupted deliberately by shipping some of the best jobs overseas for profit for transnational conglomerates, who pay no taxes on those profits and destroy the structure of manufacturing and services.

Wages are increasing in baby steps as price inflation rages at 10%. Except in certain areas in certain countries inflation is high in most countries and very high in some, like the UK and the US. The Fed says such inflation is temporary. Three years ago it was 14%. Inflation fell to 6% and now at 10% it is climbing to 14% by yearend and that is only the effect of QE1 and stimulus 1. Next year we'll see the inflation of QE2 and stimulus 2 taking it to 25% to 30%. A QE3 could take inflation to 50%. What do workers do then - starve while Wall Street and banking scoop up billion dollar bonuses? Purchasing power will not expand to augment these conditions. The government and banking will not be unhappy as debt will be repaid with deeply depreciated dollars as those dollars plunge in value not only versus other currencies, but more importantly versus gold and silver. Keynesians live in cloud coo-coo land. Purchasing power will not expand and commodities have not and will not increase in cost at a moderate rate, but at an exponential rate. We could very well be looking at

another Weimar experience, only time will tell. To think that official inflation will peak at 10% is totally irresponsible. We are already at 10% via the 1980 formula.

As a result of massive debt there is a weak dollar. A reflection of that is the threat that over the next two years the US could lose its AAA rating. S&P says there is a 1/3 chance that they'll lower the rating after the next election. The collusion between S&P, Washington, banking and Wall Street is simply criminal. This is the same S&P that was never indicted for bond fraud regarding the false ratings they put on mortgage securities.

The answer from Treasury's Mr. Geithner as he spoke at the Council on Foreign Relation, CFR, was that there was no risk of downgrading. He has instructed congressional leaders to bring down the budget deficit and set it on a declining path. The problem is that won't happen until 2015, three and a half years from now. Most Americans and most investors worldwide didn't read or hear about what Mr. Geithner had to say because little is reported to the outside world of what goes on in the inner sanctum of the nefarious CFR. Mr. Geithner, "Our policy has been and will always be for a strong dollar that is in the best interest of America." He said, we will never weaken our currency to gain economic advantage at the expense of our trading partners. Of course that is not true, but on the other hand other nations, since WWII have all deliberately depreciated their currencies to gain economic and export advantage. The US never said much regarding such cheating until recently regarding China. The cheaters bought the US's massive debt so it tended to be an even swap. In recent years it has been secret policy to force the dollar lower. This is the Orwellian world we live in. All nations are equal, but some are more equal than others. This is the stamp of realization that government has become dictatorial socialism. The Fed is supposed to have a policy of stability and maximum employment. All the Fed does is save the financial sector from insolvency and purchase government debt with money created out of thin air, unemployment is still 22% and inflation is 10%. That doesn't sound like a successful policy to us. Stability has proved elusive with oil up 23% and the CRB commodity index up almost 9%. A good part of higher prices for petroleum products has been a lower dollar, which has fallen more than 7% as of late. This is a reflection of the corporate fascist model, which unfortunately is practiced in most every nation today. Government is married to corporations and all policy serves those corporate interests. The crumbs are thrown to the people. All in that realm are too big to fail. Thus, the tightening noose of totalitarianism engulfs the people as you are now seeing in the US. This control planning gives Wall Street and banking a big advantage in competing with the public. They do not use inside information; they create it. That is how brokers can go three months without losing money in trading. They know what is going on inside, others do not. These interests own 95% of Congress, so corporations have stimulus programs on demand. Then there are the sweetheart loans from the Fed to the banks, and the purchase of toxic waste mortgage bonds from these lending institutions. This process had led to instability and massive inflation and will continue to do so.

Many think Wall Street and banking depend upon government. The truth is that they control government. They own the Fed and the Treasury and policy is what they say it will be. The victims are small and medium sized businesses and the public. The public generally knows what is going on, but doesn't know what to do about it. Politicians believe government spending is their entitlement and part of their reelection process along with bribes - that is campaign contributions, to return them to Congress where they believe is where they belong. Thus, in America there will be little austerity and light tax increases, as we close in on the next presidential election.

The short-term government debt extension has to be at least \$2.2 trillion to fund basic necessities by debt government. The Republicans want \$300 billion cut from the Budget. Those decisions are to be made in July.

The Federal Reserve continues to strive to gain or to keep the confidence of the average American. That is not easy to do when Mr. Bernanke has to tell consumers that the official government inflation is 1.9%, when they know it is really 10%. Everyone shops so they know what is going on. This is far from price stability. This past month U6 unemployment rose back to 15.9% from 15.7%. That puts real unemployment at 22.2% if you eliminate the birth/death ratio. These both are Fed mandates and the fed has failed miserably in supplying the American public with policies that will bring about stability and growing employment.

Faith in the system has tenuously been maintained by creating a colossal amount of money and credit. First they were injected into the financial sector and then used to support the Treasury market. Such usage may have kept the financial system from failure, but it has done little to help Americans. As a result perhaps 60% of the people are hoping the Fed can hold it all together. The other 40% are far more skeptical and most believe the system is in serious trouble. The public is tired of the subterfuge and wants much better performance. Little do they realize the Fed is trapped. Perpetual creation of money and credit is the only avenue left open to them. That is why they have to support the financial sector, fund the Treasury and keep the stock market afloat, while suppressing commodity, gold and silver prices.

We don't see higher official interest rates for at least a year and probably much longer. As a result of QE3, or whatever it will be called, we see an increase in money and credit of at least \$1.5 trillion and by perhaps as much as \$2.5 trillion by June 2012. Not only will 80% of Treasuries and Agencies have to be funded, but so will the economy. We see no help coming from Congress, which hopes to cut costs. The last two sets of stimulus coming from Congress were \$850 billion and \$862 billion.

As a result of such programs the USDIX shows an 8% fall in the dollar this year. We believe that is somewhat misleading because we believe that the US dollar was deliberately allowed or forced to go lower to provide a higher euro, as a buffer for the possible default of Greece. That doesn't mean the dollar is not headed lower, it is. All that monetized money and credit is coming home to roost in the form of monetization and much higher inflation. Most say they don't know what will happen next, we do. The Fed will print until it cannot anymore. We will go to hyperinflation and then to the worst deflationary depression in the last 300 years.

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