

The Inflationary Depression

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Global Research, February 10, 2010

[The International Forecaster](#) 10 February
2010

Region: [USA](#)

Theme: [Global Economy](#)

The inflationary depression still dominates and probably will continue to do so. In time the stimulus will fail to work and the world will slip into total insolvency and deflationary depression. The old M3 is about 3%, but we still have \$23.7 trillion floating around. Not only is the US bankrupt, but also so is the rest of the world. It is now only a question of when the dominos will fall. It looks like the first wave in the collapse of the bear market rally is underway. Bonds will follow with higher interest rates and eventually commodities will be hit. Only gold and silver will survive, as the bankers and Wall Street complete their destruction of the world economy.

Holding currencies is also a loser. Eventually the best will fall to gold and silver. There is no possibility that quantitative easing can be curtailed and that means debt will continue to grow exponentially. By way of example in 2007 public debt as a percentage of GDP was 62% and this year it will be 94%; in England 44% to 82%; in the G-20 62% to 85%; in Europe an average of 63% to 85%, excepting Italy at 104% to 120%, and in Japan 188% to 227%. Over the next two years some of these nations are going to default, never mind Ireland, Greece, Portugal, Spain and Eastern Baltic Europe, which are well on the way to being basket cases. Due to current economic conditions these nations cannot generate revenue sufficient to even pay the service on the debt. Revenues are off 11% in the US and they are headed lower. In the President's budget \$100 billion is earmarked for incentives for job creation and \$25 billion for the states that are generally incapable of even paying unemployment compensation. Forty states are on the edge of bankruptcy. The President wants to double the aid to education in a totally failed system. Governmental debt is growing at a rate of more than 20%. Then we can pencil in the bailout programs and the bankruptcy of Fannie Mae, Freddie Mac, Ginnie Mae, FHA, AIG and GM. The 19 major banks are still insolvent. They are all keeping two sets of books and mark-to-model, not to market. That means their assets are worth what they say they are. The collapse of the credit crisis is still underway. All the kings' horses and all the kings' men cannot put America back together again.

As we have often said the turning point for the dollar and the American economy was on 8/15/71, when the US abandoned the gold standard. That was followed by de-industrialization, free trade, globalization, offshoring and outsourcing, which ripped the industrial heart of America, sending our companies and jobs to foreign lands, so that transnational conglomerates could be, enriched tax-free. The result since 1972, due to inflation, is that two incomes per family are needed to financially survive. A very sad commentary, and the direct result of the actions of government, Wall Street and banking. They ended sound money and gave us corporatist socialism, also known as fascism. The result is presently inflationary depression. The value of our homes have fallen 50% and many are buried in debt. If that wasn't enough, Congress increased the short-term debt limit

this week, adding an additional \$45,000 to the debt of every American. We are told by government and Wall Street there is very little inflation when in fact it is double what government says it is.

Ten banks control 70% of US deposits and they are all broke. The FDIC has \$93 billion. 2,055 banks are in serious trouble. If 1,000 go under the cost would be \$500 billion. The banks have already paid the FDIC fees due over the next three years. The FDIC does have a \$500 billion line of credit with the Treasury and we wonder if government dares use it. Of course the banking cartel - monopoly - the Federal Reserve can always print more money and inflate the debt away.

Sources in Washington tell us the administration expects Congress to pass another \$150 billion stimulus plan to augment the new budget. That should carry the economy through the election. It is not the \$500 billion the White House had in mind, but it is what they will have to work with. Incidentally, half of what government spends is borrowed.

We have warned you before to exit municipal bonds. You are looking at massive unfunded liabilities. These entities have no ability to repay debt under the circumstances.

Southern and Eastern European debt markets have sent currency, bond and stock markets reeling for the past month. The dollar rally was anticipated by insiders like Goldman Sachs, JP Morgan Chase and Citigroup in their massive long dollar positions. China overdid their stimulus plan of a net \$2.2 trillion in the short space of ten months. They now have bubbles in stocks and real estate that will cause real domestic problems. The yen carry trade is close to over, but how big is the dollar carry trade? Have these traders created too much liquidity? We do not know, but we would guess the dollar carry trade is not nearly as large as some believe it is. Corporations are talking about higher profits due to a surging dollar. We doubt that, and we ask how much will US exports be hurt and as a result how much worse will our balance of payments become? It seems like professionals in the bond markets worldwide are mesmerized and are accepting dangerously lower yields just to play the game - that can become a very dangerous one. They think nothing bad could possibly happen, when the debt bomb is so obvious. Junk is junk no matter how you cut it. Even in the so-called better quality issues the 5-year US T-note is yielding 2.15% and the 10s are 3.58%. With inflation in the real world over 7% why would any informed sane investor reach for such losers - never mind the junk? We are in a dead zone and shortly inflation is going to surge again. Oil will move higher, as will commodities. Gold and silver are as well posed to test their old recent highs. The world's financial problems are not going to go away anytime soon and that is why you have to be in gold and silver related assets.

This past week gasoline prices fell \$0.06 to \$2.66 a gallon.

There is much talk about how it would have been better to have Paul Volcker as Chairman of the Fed, but pundits forget they are cut from the same cloth and take orders from the same people. Such a change would have been a waste of time for Americans. Volcker was added to the socialist/Marxist entourage of our President to bolster his image and to show the world that Mr. Obama was going to bash Wall Street and the bankers. Do not hold your breath. They control our President. They put him in office with money stolen from you. He is bought and paid for and you paid the bill. Very little will be done in the matter of what goes on in Wall Street and in banking. They have the world by the throat and will continue to have it in their clutches, unless the system is purged, the Fed is done away with and returned to the Treasury and the revolving door between Wall Street and Washington is shut

down.

Nothing will come of Volcker's bank bashing. That was done to make the liberals and others happy. The elitists like running the country and they are going to keep it that way. The looting of America will continue with all of the leverage and outrageous risk, theft, conflicts of interest and the continuation of a criminal enterprise.

Yes, we need Glass-Steagall back. We can thank Phil Gramm and Larry Summers for that change. Look what it has brought us: the same conditions we had in the 1920s that led to our great depression. There are those in their ivory towers and those on Wall Street, that will tell you it prolonged the depression, which is untrue. The depression continued on because of FDR not purging the system or allowing it to purge itself. It would have meant the bankers and Wall Street would have faced bankruptcy, which should have been what should have taken place. Today we have the very same problem. We have to bailout the bankers again. In neither case did bankers and Wall Street follow the sound principles of risk management and leverage. They used leverage of 30 to 70 times deposits. Is it no wonder the system had a credit crisis. They knew what they were doing in a world where 8 to 10 times was risky and sufficient. They did this basically with your money – your deposits. In fact, in today's two sets of books system and marking-to-model, they are still trapped into leverage of 40 times deposits. This is why the credit crisis is not over. If it was why would the Fed create money out of thin air, lend it to banks and then receive the funds back and pay the banks a higher interest rate than what they were lending at? That last interest payoff comes out of your profits that should have been given to the Treasury. Glass-Steagall would force banking to constrain leveraged lending and bring order to the system.

This past week the Dow fell 0.5%; S&P 0.7%; the Russell 2000 fell 1.5% and Nasdaq rose 0.3%. cyclicals fell 11.0%; transports 1.9%; consumers 1.5%; utilities 2.1%; banks 3.7%; broker/dealers 1.0%; high tech gained 1.2%; semis rose 1.2%; Internets rose 0.6% and biotechs gained 0.3%. Gold bullion fell \$15.00, but the HUI rallied 4.1%. the USDIX roes 1.2% to 80.44.

Two-year T-bills fell 3 bps to 0.69%; ten-year notes fell 2 bps to 3.57% and ten-year German bunds fell 8 bps to 3.12%.

Freddie Mac 30-year fixed rate mortgages rose 3 bps to 5.01%. The 15's rose 1 bps to 4.40% and one-year ARM's fell 7 bps to 4.22%. The 30-year jumbos rose 2 bps to 5.90%.

Fed credit fell \$3.3 billion, but was up \$301 billion, or 21.2% yoy. Fed foreign holdings of Treasuries and Agencies fell \$1.3 billion. Custody holdings for foreign central banks has risen \$392 billion, or 15.4% over the last year. This is very misleading because of US dollar swaps with foreign countries.

M2, narrow, money supply increased \$6 billion to \$8.464 trillion. It is up 1.7% yoy.

Money market assets continued to fall due to lack of government guarantees and that due to the ability of funds to freeze assets. Holdings fell \$13.5 billion to \$3.205 trillion. Year-on-year assets fell \$702 billion, or 18%.

U.S. prime jumbo mortgages backing securities at least 60 days late rose to 9.6 percent in January from 9.2 percent in December, the 32nd straight increase for "serious delinquencies," according to Fitch Ratings.

“The trend line for delinquencies indicates the 10 percent level could be reached as early as next month,” Vincent Barberio, a Fitch managing director in New York, said today in a statement. The rate of non-performing loans almost tripled in 2009.

Jumbo home-loans are larger than government-supported mortgage companies Fannie Mae or Freddie Mac can finance. Their limits now range from \$417,000 in most places to as much as \$729,750 in high-cost areas.

A state judge on Tuesday ordered the foreclosure sale of the storied Riverton Houses, a middle-class Harlem enclave that ran into trouble a year ago when its new owner failed to make good on optimistic revenue projections and defaulted on his mortgage.

Justice Richard F. Braun of State Supreme Court in Manhattan ordered the sale of the complex at public auction to satisfy the owner’s \$240.6 million debt. The complex sits between 135th and 138th Streets, from Fifth Avenue to the Harlem River.

Riverton, like a number of complexes during the real estate boom, was bought for top dollar in 2005 by a company led by the developer Laurence Gluck, who had a plan to increase profits by replacing tenants in rent-stabilized apartments with market-rate tenants.

Emerging market equity funds lost \$1.6 billion in weekly withdrawals, the biggest outflows in 24 weeks... EPFR Global said. Investors removed almost \$1 billion from global emerging market stock funds in the week.

Treasury Secretary Timothy F. Geithner said the U.S. is in no danger of losing its Aaa debt rating even though the Obama administration has predicted a \$1.6 trillion budget deficit in 2010.

“Absolutely not,” Geithner said, when asked in an ABC News interview broadcast yesterday whether a downgrade is a concern. “That will never happen to this country.”

Geithner said investors around the world turn to U.S. Treasury securities and dollar-denominated assets whenever they are worried about global stability. That reflects “basic confidence” in the U.S. and its ability to bounce back from the global recession, he said.

Moody’s Investors Service Inc. last week said the U.S. government’s bond rating will come under pressure in the future unless additional measures are taken to reduce budget deficits projected for the next decade.

There is little if anything for governments and central banks to do at this point regarding Greece and others. So solons are trying to euchre the markets with verbal intervention.

Bailing out PIGS is not the major issue. If the EU does a bailout, it will only be a temporary aid because socialism is collapsing on a global basis due to the enormous, unserviceable debt.

Countries accustomed to the undeserved goodies that socialism promised but delivered on borrowed money do not have the political will to cut the unaffordable spending. So in the near future, the market will force the requisite changes.

At some point the borrowed money train will halt and the goodies will disappear, just like in the USSR.

Over the past year we have recounted numerous times that there has been no restructuring of the US economy or Europe for that matter. All that has been done is that sovereigns have absorbed trillions of dollars in private sector debt and crappy paper and issued trillions of dollars of debt to support more stimuli and crappy paper absorption.

If we have entered a new crisis phase in which sovereign nations have to bailout other sovereign by issuing more debt, the final crisis stage will occur when the market revolts against the debt of the nations that bailed out other sovereigns. This is checkmate.

The usual suspects trumpeted the better than expected House Survey in the January Employment Report. However, we found an anomaly in the survey that suggests a sloppy book-cooking gambit.

The Household Survey shows an increase of 541k jobs and a gain of 111k in the pool of available workers. This produced the decline to 9.7% in the politically sensitive unemployment rate...Part-time workers increased 252k, which is more than half of the 541k gain. <http://www.bls.gov/news.release/empsit.t09.htm>

Here's what makes the Household Survey job gain very suspicious. The entire gain is attributed to one category, 'Women, 20 years and over', which increased 529k...'Men, 20+' declined 1k!

'Self-employed' declined 128k; so women weren't starting businesses. <http://www.bls.gov/news.release/empsit.t08.htm>

Teenage male jobs (16+) increased 18k. Teenage women jobs declined 5k..."White Women" accounted for 495k of the 529k gain. White men are +31k. <http://www.bls.gov/news.release/empsit.t02.htm>

The Household Survey increase in jobs is NOT supported by withheld taxes, which show a 7.2% decline for January. Tax data measure real money going into workers' hands.

The Household Survey's highly improbable increase in only female employment suggests faulty methodology (malfeasance), some unqualified adjustment or a clumsy attempt to craft a better employment report for political expediency (fraud). The reasonable conclusion is the Household Survey job gain in January is bogus.

Please note the in the Household Survey people are counted as employed even if they received no income or had sustained absences from work. You can imagine what 'personal reasons' does to the data.

One last concern about the Household Survey in January Employment Report, from the lips of the BLS: Also, household survey data for January 2010 reflect updated population estimates...The change in population reflected in the new estimates results primarily from adjustments for net international migration, updated vital statistics and other information, and some methodological changes in the estimation process.

The BLS claims that the 'population control' adjustment reduced the Household Survey by 243k. This means that without the new adjustment 784k jobs would've appeared. If 529k job growth is dubious by tax data, January job growth of 784k would be side-splitting.

The BLS admits that December 2009 Household jobs have to be lowered by 243k...Ya think the BLS is doing this to confuse or frustrate people?

The NFP benchmark revision was -930k for the year ended last March; 824k was expected.

December NFP was revised sharply lower, to -150k from -85k; and the past five months through December were revised 245k lower! Yet there are pundits calling the January Employment Report 'good'. Some wrote that the report confirms the positive trend in employment!

Once again, we see the trend of revising past month economic data lower. This has been occurring for the past few years. You'd think more people would inveigh against the scheme.

The U6 unemployment rate, which incorporates part-time for economic reasons and discouraged workers declined sharply from 17.3% to 16.5%. Non-agriculture 'Part-time for economic reasons' declined 962k. Where'd they go? If you have not looked for a job in the past 12 months, you become a non- person to the BLS and disappear from the U6.
<http://www.bls.gov/news.release/empsit.t08.htm>

Further stimulus or jobs programs are anathema for most politicians because recent polls show the number issue is no longer jobs; it's the budget deficit/debt.

Rasmussen: Americans Reject Keynesian Economics [Good thing the Ivy League employs them.]

While influential 20th Century economist John Maynard Keynes would say it's best to increase deficit spending in tough economic times, only 11% of American adults agree and think the nation needs to increase its deficit spending at this time. A new Rasmussen Reports national telephone survey finds that 70% disagree and say it would be better to cut the deficit.

In fact, 59% think Keynes had it backwards and that increasing the deficit at this time would hurt the economy rather than help. To help the economy, most Americans (56%) believe that cutting the deficit is the way to go... Eighty-three percent (83%) of Americans, in fact, say the size of the federal budget deficit is due more to the unwillingness of politicians to cut government spending than to the reluctance of taxpayers to pay more in taxes...

http://www.rasmussenreports.com/public_content/business/general_business/february_2010/americans_reject_keynesian_economics

What is occurring in the US is not a peasants' revolt. Last year, numerous European clients asked us why there was no public turmoil or demonstrations. Our response was: Normally when the economy turns lower, the impact starts at the lowest demographic rung and then works its way up the 'food chain', just like what occurred in real estate with sub-prime.

But in the US, the entitlements, the food stamps, the unemployment benefits and community grants are still flowing. They real impact has been on the middle class and merchant class. That's why the Tea Party and non-incumbent Republicans are surging in popularity. It's also the reason that most American do not want any more stimulus, bailouts or increase in government deficits/debt.

U.S. companies' sales are expected to rise for the first time since the third quarter of 2008, but it may be too soon for investors to cheer the turnaround as proof the economy is about to take off.

The 7 percent estimated increase in fourth-quarter sales for corporations in the Standard & Poor's 500 index is largely tied to gains in the financial sector; without that, sales would be up just 2 percent, Thomson Reuters data showed.

A COURT-APPOINTED investigator is this week expected to shine fresh light on the role of JP Morgan and other financial institutions in the events running up to the collapse of Lehman Brothers, the American investment house...

It will focus on whether JP Morgan, Lehman's main short-term lender, dealt a fatal blow to the bank by increasing collateral demands on loans in the days immediately before its demise...

According to one source, the estate, which represents the interests of all the bank's creditors, is planning to launch a \$17 billion (£11 billion) claim against JP Morgan...it could trigger multi-billion-dollar claims from Lehman's creditors and bondholders. One bondholder said: "This is just the first move. We will be going after JP Morgan for a long time."

The investigation will also look at whether the Federal Reserve got preferential treatment as a creditor. Before Lehman filed for bankruptcy, the Fed lent it \$46 billion in cash and securities. This was repaid promptly while other debts running into tens of billions of dollars have been left to be resolved in court.

Well before the federal government bailed out A.I.G. in September 2008, Goldman's demands for billions of dollars from the insurer helped put it in a precarious financial position by bleeding much-needed cash. That ultimately provoked the government to step in.

The S.E.C. wants to know whether any of the demands improperly distressed the mortgage market, according to people briefed on the matter who requested anonymity because the inquiry was intended to be confidential...In addition, according to two people with knowledge of the positions, a portion of the \$11 billion in taxpayer money that went to Société Générale, a French bank that traded with A.I.G., was subsequently transferred to Goldman under a deal the two banks had struck.

Goldman stood to gain from the housing market's implosion because in late 2006, the firm had begun to make huge trades that would pay off if the mortgage market soured. The further mortgage securities' prices fell, the greater were Goldman's profits...

A November 2008 analysis by BlackRock, a leading asset management firm, noted that Goldman's valuations of the securities that A.I.G. insured were "consistently lower than third-party prices."...

It is unclear how much Goldman bought through the French bank, but A.I.G. documents show that Goldman was involved in pricing half of Société Générale's \$18.6 billion in trades with A.I.G. and that the insurer's executives believed that Goldman pressed Société Générale to also demand payments...

The government would soon settle the yearlong dispute between Goldman and A.I.G., with

Goldman receiving full value for its bets. The federal bailout locked in the paper losses of those deals for A.I.G. The prices on many of those securities have since rebounded.

Hank Paulsen, in an excerpt from this book, admits that he played both the financial terrorism and political blackmail cards on John McCain. [Were other key officials and executives threatened?]

Hank in the WSJ on Saturday: We'd devised TARP to save the financial system. Now it had become all about politics—presidential politics...I spoke with John McCain, who had just returned to Washington. The call did nothing to ease my mind. "We have to protect the American taxpayers," he told me, pointing out that nothing would get done in Congress without the House Republicans. They didn't like our proposal and I needed to listen more carefully to them, he said.

"John, our system is on the edge," I told him. "WaMu barely got bailed out today. Several other institutions are on the brink. If we don't get something done soon, this economy is going to collapse."

I was so concerned that McCain would do or say something rash that I resorted to a veiled threat: "I'm not a politician, but if you or anyone else does something that causes this system to collapse, it is not going to just be on me. I am going to go and say what I think to the American people."

"The Federal Reserve is considering adopting a new benchmark interest rate in what may be the most significant change in monetary policy in 30 years... War II, with former Fed Chairman Paul Volcker's money supply experiment shaded. 'The question for the Federal Reserve is what is the most efficient way to get your policy rate into other short-term interest rates,' said Marvin Goodfriend, an economist at Carnegie Mellon University and former Richmond Fed policy adviser."

"The Senate's defeat... of a plan to create a special debt commission shows how difficult it will be for Washington to chip away at the federal government's trillion-dollar deficits. The chamber rejected the push by some lawmakers to establish a panel whose recommendations on reducing budget shortfalls would be guaranteed floor votes in the House and Senate... Also, yesterday's Senate vote coincided with a new government report projecting that this year's deficit will total \$1.35 trillion."

"The Obama administration's \$300 billion Hope for Homeowners program may be retooled to help the growing number of Americans who owe more than their properties are worth... The changes would be at least the third lease on life for the program, which began in October 2008... Hope for Homeowners could be expanded to more directly help borrowers with negative equity. 'The Hope for Homeowners program is unique in that it involves equity writedowns, principal balance reductions to help the underwater borrower,' Stevens said. 'We're going to look at that program very closely to make sure it can be as effective as possible, because that's another segment of the population that needs to be addressed.'"

Las Vegas homeowners had the highest U.S. foreclosure rate last year, and California and Florida cities accounted for 17 of the nation's 20 worst markets... Rising foreclosure rates in Utah, Illinois, Oregon and Arkansas metropolitan areas showed home-loan distress spreading to 'previously insulated areas... RealtyTrac Inc. said... A record 3 million homes will probably

be seized this year, RealtyTrac has forecast. 'The dam will break and we'll see a significant increase in foreclosures,' Michael Lea, a finance professor at San Diego State University, said... 'The banks can't continue to hope the economy starts growing.'"

"New Jersey, the third-most indebted U.S. state, faces a \$2 billion budget gap in the current fiscal year, the Office of Legislative Services said. The figure is double the estimate of former Governor Jon Corzine. Revenue will fall \$1.2 billion below target in the period ending June 30, while rising joblessness and other fallout from the U.S. recession will force the state to spend \$669 million more than anticipated on social services..."

"Public school systems would get federal cash subsidies instead of tax credits to lure investors to their debt under a plan before Congress... The change to the Qualified School Construction Bond program, which won House approval in December, has a 'very high' chance of passing the Senate, said John Buckley, chief tax counsel for the panel... 'It is a way of turning what was a niche product into a broad-based product because the investor in the School Construction Bond would be no different than an investor in the Build America Bond,' Buckley said..."

"New York City faces \$1.3 billion in cuts and would have about 19,000 fewer city employees under the state budget that New York Governor David Paterson proposed for next fiscal year... The city, with a budget of about \$60 billion, faced a \$4.1 billion deficit in the 2011 fiscal year beginning July 1, without accounting for reduced state aid."

Fewer registered voters nationwide — 44% — approve of President Barack Obama's job performance than disapprove — 47%, according to a new Marist College poll. When Marist last asked about the president's approval rating in December, 46% thought well of Obama's job performance while 44% gave him low marks. For the first time since taking office, a majority of Independents — 57% — disapproves of how he is doing in the role. 29% approve, and 14% are unsure.

Democrats and Republicans are polarized with 81% of Democrats approve of the president's job performance while a similar proportion of Republicans — 80% — disapproves.

"If attracting Independents and bipartisanship are the aim, then the president clearly has a lot of ground to cover in year two," said Lee M. Miringoff, director of The Marist Institute for Public Opinion.

Global warming and climate change have been totally discredited yet our Marxist President continues to circumvent Congress in implementing such a wasteful program, hoping to keep alive the myth of global warming and climate change to allow international taxation and eventually a currency based upon carbon credits.

Employers are getting hit with a massive tax hike at a time when they can least afford it. Companies in at least 35 states will have to fork over more in unemployment insurance taxes this year, according to the National Association of State Workforce Agencies.

The median increase will be 27.5%. And employers in places such as Hawaii and Florida could see levies skyrocket more than ten-fold. Many of these hikes happened automatically as prolonged joblessness triggered state laws governing their unemployment insurance systems. But at least seven states voted to raise their taxable wage bases, the level of income subject to unemployment tax. And another 10 are looking at upping the wage bases

or tax rates.

The states are scrambling to restore their unemployment insurance trust funds, which cover claims. State trust funds have been decimated by the Great Recession, forcing a record 26 states to borrow a total of more than \$30 billion from the federal government. The numbers are expected to grow to 40 states borrowing \$90 billion by 2012, said George Wentworth, policy analyst at the National Employment Law Project.

“States are going to be facing higher unemployment tax rates for some period of time,” Wentworth said.

In addition, employers pay federal unemployment taxes. If states don’t repay their federal loans, businesses could see their federal tax go up as well in coming years, said Rich Hobbie, executive director of the National Association of State Workforce Agencies.

Higher taxes, however, dampen employers’ ability to hire new workers, crimping any nascent economic recovery. Companies pay taxes on each employee on the payroll.

“There’s no doubt it discourages hiring,” said Douglas Holmes, president of UWC-Strategic Services on Unemployment and Workers’ Compensation, an employers’ trade group. “In fact, it leads to increased unemployment.”

Cognizant of this, some states are looking to soften the blow through legislation that would delay the hikes.

States suffering: Texas is one of the hard-hit states. Though its unemployment rate is a relatively low 8.3%, jobless claims have soared. In December, Texas paid 330,000 residents a total of \$325.7 million, up from 228,000 people claiming \$216.8 million a year earlier.

The state began borrowing from the feds in July to pay unemployment benefits and now owes Washington \$1.6 billion, said Ann Hatchitt, spokeswoman for the Texas Workforce Commission.

So employers in the Lone Star State will have to pay at least \$64.80 in tax per worker this year, up from \$23.40 a year ago. This is the highest rate in 20 years.

“After having a period of high demand on the unemployment trust fund and rising unemployment, we had to set the rates for 2010 to replenish the trust fund,” Hatchitt said. Employers in some other states could face even steeper hikes, unless their legislatures act quickly.

In Hawaii, taxes automatically increased from an average of \$90 per worker in 2009 to \$1,070 this year. Part of the problem stems from the fact that the state was generous to businesses during prosperous times. In fact, lawmakers lowered the tax rate in 2007, when unemployment did not exceed 3.1%. The state’s jobless rate now stands at 6.9%. Concerned that this hike will crush local businesses, Republican Gov. Linda Lingle is urging lawmakers to limit the increase to 60% of the proposed hike.

“We believe strongly that anything beyond this 60% threshold will cause large job losses,” Lingle said last month.

Florida, meanwhile, has increased its minimum payroll tax to \$100.30 per employee this

year, up from \$8.40. About half of the state's employers pay the minimum. The state also raised the taxable wage base to \$8,500, from \$7,000.

When lawmakers approved an increase in unemployment taxes a year ago, they didn't realize what the impact would be, said Rep. Dave Murzin, who heads the state's Economic Development & Community Affairs Policy Council. The state's unemployment rate was 7.6% at the end of 2008, versus 11.8% in December.

Now that lawmakers see the numbers, they are working to minimize the effect on businesses. The council plans to take up legislation this week that would restore the taxable wage base level to \$7,000 and allow companies to pay the tax in installments over the next two years.

This means the Sunshine State's trust fund won't return to solvency until 2015, instead of 2012. But the governor and lawmakers feel this deal will keep more workers on company payrolls.

"It's still going to be an increase, but it won't be as dramatic an increase and it won't hit as hard," Murzin said. "You tell businesses to pony up and write a big check and that puts more people out of business."

Wholesale inventories unexpectedly decreased by -0.8% in December of last year, down from a 1.5% increase during the previous month. The market had expected wholesales stocks to grow by 0.5%.

The Obama administration proposed a new climate change agency yesterday to provide Americans with predictions on how global warming will affect everything from drought to sea levels.

The initiative, modeled loosely on the 140-year-old National Weather Service, would provide forecasts to farmers, regional water managers, and business operators affected by changing climate conditions. It is being proposed as skeptics have become increasingly effective in attacking the credibility of global warming forecasts.

The agency would be part of the National Oceanic and Atmospheric Administration, which monitors climate and conducts research. The National Aeronautics and Space Administration also directs similar operations.

"We currently respond to millions of annual requests for climate information, and we expect those requests to grow exponentially," said Jane Lubchenco, NOAA administrator, adding that with recent scientific advances, "the models will continue to improve, and we will be able to provide more and more information."

The move does not come with a designated boost in funding, but it would link NOAA's climate-research division to its more consumer-oriented services so they can operate, in Lubchenco's words, "cheek by jowl."

Commerce Secretary Gary Locke said the service would be able to provide advice on everything from where ski operators might want to refocus their activities to reflect snowfall patterns to which farm crops would need increased irrigation. In the same way businesses such as The Weather Channel and AccuWeather.com have taken advantage of the National Weather Service's predictions, Locke said, "You'll see much of the private sector will want to

build on this one-stop shop of climate services.”

The agency launched a web portal yesterday at www.climate.gov to provide a single entry point for access to climate information, products, and services.

In order to launch the reorganization, Locke said, the House and Senate appropriations committees with jurisdiction over NOAA will have to concur with the move, which is planned for Oct. 1.

Even without the reorganization, NOAA has been providing more detailed climate-related forecasts. The National Integrated Drought Information System, which became law in 2006, provides drought forecasts and impacts for the West and Southwest for at least a season and up to a year. Climate models suggest both these regions will experience increasing dryness over the next 20 to 40 years, and Lubchenco said the agency will expand this system to cover the Southeast as well.

Researchers are still trying to determine how to improve regional climate projections and pinpoint future changes in precipitation. Recently flaws have surfaced in some of the 2007 projections of the UN Intergovernmental Panel on Climate Change, including one that suggested Himalayan glaciers would all melt by 2035. This has led critics to question the value of climate computer models and predictions.

United Parcel Service Inc., the world’s largest package delivery company, plans to furlough at least 300 pilots unless it can find more savings in a joint effort with the employees’ union.

The layoffs would involve about 11 percent of its 2,800 pilots, starting in May, the Atlanta-based company said yesterday. UPS already is cutting 1,800 small-package jobs.

The city of Burlington, Vt., has filed a complaint against Morgan Stanley & Co. with the brokerage industry’s regulator, alleging that Morgan consultants sold the city’s pension fund investments that caused it to lose \$21 million.

Burlington said Morgan Stanley recommended investments that enabled the Wall Street firm to earn the most fees, according to the complaint.

Confidence among U.S. small businesses increased in January for the first time in three months as the outlook for sales improved, according to the National Federation of Independent Business optimism index.

The gauge climbed to 89.3, the highest level in 16 months, from 88 in December, the Washington-based organization said today. The advance left the measure close to the 2009 low of 81 reached in March, which was second only to a 1980 reading as the lowest on record.

The president of the Federal Reserve Bank of St. Louis said Monday that the U.S. central bank should begin gradually selling its mortgage-securities holdings later this year despite concerns from some investors the move would raise mortgage rates, yet NY FED chief Bill Dudley says the FED might monetize more MBS after 3/31/10.

US Treasuries sank because the Treasury will issue \$81B of debt today through Thursday. And tomorrow, Bernanke will testify to the Senate on the Fed’s exit strategy.

Zero Hedge, citing a blog by Jean Quatremer: According to reliable information that I received Friday from both authorities and market banks, a large U.S. investment bank (which has benefited from the bailout of U.S. banks) and two very large hedge funds would [sic] behind the attacks against Greece, Portugal and Spain. Their goal? Earn much money by creating a panic that allows them to demand of Greece interest rates ever higher while speculating on the CDS market.

According to my information, the two hedge funds that hold most of the Greek market of CDS were furious at having received only 2% of the last Greek loan, they attack on Greece in creating panic, "the CDS, is a bottomless pit with 200 million dollars, you play as if you had a billion dollars," said one market analyst. Same game for the U.S. investment bank, which hopes eventually to lend money directly to Greece became unable to borrow on the markets. Once the country to its knees, it will see the government to offer him a loan at a rate obviously prohibitive.

<http://www.zerohedge.com/article/two-hedge-funds-one-bank-there-concerted-effort-destroy-greece>

American Airlines quietly announced last week that it would eliminate free blankets in coach and sell an \$8 packet that includes a pillow and blanket starting May 1st.

How will the BLS account for this price hike in CPI calculations? With a hedonic adjustment they can conclude that the increased comfort for having a blanket increases the value of the flight experience so the blanket price hike is actually a price decrease. And yes, that's how it works with hedonic adjustments.

As the financial crisis worsened toward the end of 2008, CEO Jeffrey Immelt and other leaders at General Electric repeatedly assured the public that there was no need to worry about the company's ability to access credit markets and refinance its massive debts as they came due.

But in private conversations that alarmed then-Treasury Secretary Henry Paulson, Immelt laid out a different picture of GE's credit situation, according to Paulson's new book about the crisis.

Instead, Paulson writes, Immelt on at least four occasions expressed worries about GE's short-term debt, known as commercial paper, and eventually lobbied for access to special government guarantees for such debt.

The problem is wild leverage, missed evaluation of credit risk by credit rating agencies, that all should have been put in jail for their labeling of Triple A CDO's, Collateralized Debt Obligations, that were plainly BBB. Putting proprietary trading into a separate entity, such as a hedge fund, is not going to solve anything. If brokerage trading is not allowed then the firms may as well close down. This is how they make their big money - by front-running the public and even institutions. The whole episode is a sham. Wall Street will continue to do as they please, because our members of Congress, the CFTC and the SEC have their hands out. When they lose too much money and it threatens the system they expect and demand we bail them out, just as we are doing presently. Regulations mean nothing because the SEC and CFTC are told not to enforce them, because government is bought and paid for by our shadow government.

Then there is the enormous amount of insider information in all forms that allows Wall Street to profit handsomely, plus their naked shorting and black box front runnings, which the SEC refuses to address. The SEC exists to assist Wall Street in obtaining profits and does nothing to protect the public, even when they do act, as they should all the damage has been done. They were told about the Madoff scam for years and deliberately did nothing about it. This, like the late 1920s, is another heyday for crony capitalism. What are particularly galling are the abuses in the use of governmental insider information. We just saw that in the run up of the dollar. We can understand how Wall Street is exposed to insider information. It has always been that way, but 30 and 50 years ago firms usually didn't unethically take advantage of it. They sure do today. There has to be major changes and if they do not come we are fearful about what the public may do.

The propaganda regarding the PIIGS (Portugal, Italy, Ireland, Greece, Spain) in Europe is being manufactured to drive up the dollar. Money has to be scared into US Treasuries.

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