The US Economy in the Doldrums: No Evidence of Solvency or Recovery

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Global Research, January 07, 2012
International Forecaster 7 January 2012

Region: USA
Theme: Global Economy

Irrespective of the trillions of dollars thrown at the US economy since 2006 there is no evidence that long-term solvency or recovery has been achieved. The debt that has been added and created means we'll see higher inflation and perhaps hyperinflation. Comments by administration officials last week that if necessary the dollar will be crushed, are hardly comforting. Remember, just a week before Fed Chairman Bernanke said to Congressmen that the Fed was not going to lend Europe money to bail their members out and one week later we have a $1 trillion swap, loan program to bail Europe out. There is no effort at all to prevent eventual insolvency; as a matter of fact we believe that if Europe's problems were not on the front burner the dollar would be selling at lower levels, a reflection of solvency issues. We should know better by the month of May how Europe stands, and if their situation is even short-term positive you can expect the dollar to head lower, not only versus the USDX but versus gold and silver as well.

Yes, the US economy will hold its own this year with more lending by banks to small and medium companies, which creates 70% of jobs. This effort rose 10% in the last five months of the year. The Fed is buying toxic mortgage bonds from banks to give them liquidity to purchase Treasuries, Agencies and to speculate in the markets. We do not know what leverage the banks are using, 7 to 1 or 32 to 1 – we will find that out later because they won't tell us now. Then the economy will get the slosh over from the $1 trillion plus being created and used to keep Europe afloat. That means US GDP could range from plus 1-1/2% to 2-1/2% in 2012. The street saw slight growth, but the newsletter writers have been caught flatfooted. This kind of Fed manufactured growth comes in part from money and credit creation and that does little to help long-term debt problems. The Fed's only concern is to keep the financial system safe and functioning, particularly in the US, UK and Europe. Extend and extend until you cannot extend anymore. These Wall Street and fed types that run around telling the world inflation is easing are just plain liars. We predicted last year that unemployment would stay about the same, and it did due to governmental layoffs at the state, county and city levels. And the federal government hired to offset that. Having made cuts now these entities are selling municipal bonds to cover the rest of their shortfalls. They still refuse to cut sufficiently to balance budgets and offset ongoing major losses. We expect many states and municipalities to continue this mode of operation, which will eventually bury them.

We have just seen via a swap, loan arrangement, that the Fed will do anything necessary to prevent a collapse. We figured the Fed would do this, which tells us anything goes to keep the system in control and afloat. If the system goes down the elitists go down with it and their key to power is lost. As a result of these actions there is a deepening crisis of confidence. In spite of a $1 trillion Fed injection, 10-year Spanish and Italian bonds still yield close to 7%, thus, the jury is still out on how effective the Fed's action will be.

As we said we should know by May if Europe is going to squeak by for the year, or whether Greece and others will default. Upsets, or defaults could again strengthen the US dollar, but if Europe gains momentum then the dollar will come under pressure, as inflation climbs in the US, UK and Europe. That also means pressure will push gold and silver higher as inflation becomes more and more evident.

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