Towards The Inflationary Depression

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We believe an inflationary depression began in February of 2009, and little has changed. Since then factory output has increased, as have inventories and other outward signs, such as retail sales. We believe that one-year spurt is ending, unless a new stimulus program is put in place. This past week we saw a $78 billion addition to unemployment benefits and Larry Summers has said they need an additional $200 billion. In order to keep the economy going sideways a total of another $800 billion will be needed. The Fed may have cut back the creation of money and credit to zero, but it is still dishing out trillions to domestic and foreign banks, which can only affect the domestic economy in a residual way. The key is real personal income. Including government programs it has fallen $500 billion over the past 16 months. In addition real unemployment remains at a high of 22-3/8%. That is U-6 less the birth/death ratio. This terrible dilemma is a first and is surprising in as much as government addition to income has gone past 18% for the first time ever. We expect that part of the reason for both situations is the perpetual drag of free trade, globalization, offshoring and outsourcing, which has continued unabated.

There is no question that the $800 billion stimulus has come to an end. During the past 16 months $200 billion of that $800 billion has shown up in consumer spending. The rest has raced through the economy and the result is a budget deficit in the vicinity of $1.8 trillion.

Over the past several months we have seen a decreasing number of new unemployed, but last month those official figures rose. That to us was the signal that the growth in employment had ended as well as the mini-recovery. We will know better the situation when May's figures are released. The small increase in non-farm payroll tells us our appraisal of offshoring and outsourcing is correct. We predicted the effects of offshoring and outsourcing in 1967, but, of course, no one was listening.

Small business' contribution has been zero. Many of these businesses are failing and most cannot get loans. We expect that condition to persist indefinitely, which means job stability is nowhere to be seen in the immediate future. In spite of bogus government figures the economy is not growing and won't grow. Unless the system is totally purged in a classic way there will never be any recovery.

Sooner or later the deflationary depression and purging will come. The economy is stagnant and that is with an $800 billion stimulus program and $2.3 trillion in spending by the Fed, some of which had to have entered the economy. Just think of where we would be without both additions. With stimulus, over the past year, we have only seen an average of 2.38% growth. This is certainly a very weak "recovery," especially in view of the tremendous amount of money and credit injected into the economy.

As a result excessive spending is over. Over 70% of Americans expect to be savers and to lower their credit card balances; that is those who are still employed. We see consumers back at about 70% of GDP. Without stimulus we see much lower figures; with stimulus only 68% at best can be maintained.

Manufacturing is climbing yet employment in the sector is stagnant. That means people are working much harder to keep worker productivity at a very high abnormal level. This is all well and good, but who will buy the products produced? Exports did well through March, but we have to believe the much stronger dollar will make US exports at least 15% more expensive and those of the euro zone 15% less expensive. Exports make up 20% of GDP.

Even with auto and appliance incentives sales are still under the weather. We have also just seen an end to housing purchase incentives. All indications are we are headed toward a flaccid economy without major stimulus. Business will find out again how dangerous it is to listen to your government. The residential housing inventory is again going to build this time to a real three-year inventory overhang. We expect 20% lower prices over the next year. These are not the things recovery is made of.

As we look forward we see money supply plunge to the same levels of the 1930s. This is the same thing the Fed did between 1929 and 1933. We have zero interest rates, but they really only help the large borrowers and those with AAA ratings. In the first quarter $300 billion was removed from the economy, or a contraction of 9.6%. By the way that proves the upward move in gold and silver have not been the result of anticipated inflation, but by other factors, such as Europe's problems. We cited the fall a year ago of European M3 and M4 like figures, and as usual, no one was listening. We, as you can see, have had the same result in the US. These reductions obviously were well coordinated. In addition, the assets of institutional money market funds have fallen at a 47% rate, the sharpest drop ever. Part of this Fed move is for banks to raise capital asset ratios as the Fed removes and overpays them for their toxic assets, which the taxpayer gets to pay for. That in part is why banks won't lend to small and medium-sized companies, and this is why there cannot be a recovery. The banks, Wall Street, and insurance companies are selectively being bailed out, irrespective of the consequence to the US and European economies. Unfortunately, we are following the path of the "Great Depression." That means gold and silver are being purchased in a flight to quality. Yes, we believe inflation is on the way in bigger numbers, but unless things change dramatically it won't be long before that inflation is overcome and deflationary depression takes hold.

As you have seen the titans of banking and Wall Street savaged the market on 5/6, and again are in the process of doing so, to convince Congress not to audit the Fed and to give it tyrannical monopoly powers to run America. Congress is being threatened. They are being shown the power of the Fed and its owners, if they do not do what they are being paid to do. It shows you the power of Goldman Sachs, which controls 72% of all NYSE trades and can move the market at will by front running all orders and by restricting all credit into the system. Isn't this what derivatives are all about? They totally control all markets and it has to end. That is why you have to unseat almost all the incumbents in Congress and the Senate and bring this monopoly to an end. The Working Group on Financial markets" has to be disbanded and "Executive Orders" have to be terminated. The "Imperial Presidency" has to end if we are to continue to have a democracy. How can you have markets recovering every time they fall, as if by magic? You cannot have manipulation of markets, as we have experienced in gold and silver since 1988. We wrote our first article on the subject in August 1988 in the "Bull & Bear," which David still publishes. How can we continue to have SEC authorized rule breaking by allowing naked shorting?

How can we allow corporations to carry two sets of books and mark assets to model? What is wrong with American businessmen and our representatives? They allow this to go on supposedly for the better good, as they stuff their pockets with cash. Now they want to allow a Federal Reserve monopoly, what is wrong with these people? What has happened to our country? The Illuminists who run our country from behind the scenes do whatever they please and it has to stop. Our country has become the laughing stock of the world, as Europeans and Asians, as well as Latin Americans rush to buy gold and silver. They cannot get rid of dollars and euros fast enough. Obviously some people are waking up, but not more than 2% of Americans. In Wall Street and banking if you do not roll with the establishment you get destroyed. Look at what we have had to put up with for 50 years. Look at what happened to Bear Stearns, Lehman Brothers and countless others who you have never heard of. Most people on Wall Street know what is going on, but they won't talk about it. They do not want to be ostracized or run out of business. We as well can assure you Wall Street and banking owns the SEC, CFTC and most of the House and Senate.

It was a year and one-half ago we told you that $800 billion in stimulus wasn't enough. That is now proving to be the case. Get ready for another liquidity barrage, called quantitative easing. It will also mean real interest rates will rise again. The backbone of most all nations of the world is debt not gold, silver or a basket of commodities. Greece is being blamed, but all told, 19 nations are on the edge of bankruptcy. In fact, central banks in these countries are among the biggest speculators. In the euro zone countries cannot print money so they sell bonds in spite of the rules of the bailout. Many are having a hard time selling bonds. Thus other nations are secretly doing so.

There is talk of another Northern European currency backed by gold. If that happens the dollar will fall because it won't be able to compete. Those in the southern tier will have to return to their own currencies and do as Argentina did ten years ago. Those long dollars do not get too comfortable. The corporatist fascist corrupt model will fail because it is already bankrupt, as will many other countries.

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