GlobalResearch
Center for Research on Globalization

America's Inflationary Depression

By Bob Chapman
Global Research, April 09, 2011
International Forecaster 9 April 2011
Region: USA
Theme: Global Economy

We see signs that American workers are getting worn out. Management may have squeezed the last drops of extra work that they can out of them. That has been reflected in the latest worker productivity. Since WWII the average increase has been 2-1/2% year after year, but last week's numbers were terrible, up only 0.2% per year. Europe and the US have been able in part to offset advantages of foreign producers by consistently getting better productivity results. For those of you that are new to these statistics, they are a reflection of labor productivity, or advances in the way work is done. Such previous success have allowed companies to get the job done with fewer employees and in instances to offshore some work to take advantage of cheap foreign labor. If you use a combination of labor and investment funds, recent results are only up 0.1% for 2009. Those numbers are usually about half of regular productivity numbers. What low overall numbers mean is that throwing money at manufacturing problems is not working as well as it has in the past.

Recessions tend to supply lower figures and that is understandable. We are currently in an inflationary depression and have been since February of 2009, just over two years ago. Few economists agree with us, but that is normal. A few catch up in 8 to 12 months, the rest take two or more years.

Higher interest rates tend to be a factor, a negative factor. The higher the rates the larger the impact on the use of investible funds and productivity. The negative side coming from the cost of funds. During our recent depression the cost of funds has not been a factor, because interest rates are very low. As rates eventually move higher they will negatively impact employment at the worst possible time. Those higher rates will as well inhibit the level of capital investment and will contribute to corporate insolvencies. During the beginnings of this depression employment has paid a very heavy price, as corporate profits have boomed. Unemployment rates are about half of what they were during the "Great Depression." Current long-term unemployment is terrible and many over 40 years old caught in that web will never work again.

It is very discouraging and disconcerting when workers train foreigners to do their jobs and are then fired. The jobs go to some foreign land and the new worker is paid 20% or 30% of what the terminated worker was paid. In addition companies, especially large corporations, are taking advantage of the breaks government is offering and buying labor saving equipment so that they do not have to hire or re-hire personnel. The result as we have seen is long-term unemployment, which in many cases means permanent unemployment, particularly for those over 40 years old.

Using invested capital, interest rates and manufacturing productivity, along with monetary policy gives one a possible overview of where the economy is eventually heading. They also give you a solid view of where gold and silver and commodities are headed. In 2000 after 20 years of being in the doldrums these factors, especially monetary policy, told us that we were embarking on a long-term bull market in gold and silver. The dreadful monetary policy of the 1990s had set the stage for what we have seen since June of 2000, almost 11 years. At this juncture we are as yet anywhere near where the top is, but it certainly is not here. We are in the process of stage 2, which should take us to $2,400 to $3,000 and then stage 3 to $6,000 to $8,000, based on real inflation since 1980. Obviously that figure will be higher three to five years from now. One of the good aspects of all this is that once devaluation, revaluation and multilateral default come. There will be no further reason for the Treasury, the Fed and other central banks to manipulate gold and silver prices, if the new world reserve currency is 25% gold backed and we believe that will become reality. The elitists want another fiat currency, but nations will not stand for a repeat of what they have seen during the tenure of the US dollar. You had all better hope we are right, because a fiat alternative would create another world monetary disaster.

As we have explained many times in the past, since February 2009 the US has been in an inflationary depression. It has taken a while to get underway, but it is moving relentlessly forward.

We currently have real inflation in the vicinity of 8%, not less than 2%, which our government tells us. By the end of the year we will have 14% plus, matching 14-3/8% of 2-1/2 years ago, which was caused by an 18% increase in money and credit. Current inflation is mainly cused by a switch to quantitative easing, QE1 and $850 billion in stimulus from Congress, which will play itself out into next year. Fast on the heels of that monetary policy we will be exposed to the affects of QE2 and the $862 billion injected into the system by QE2 and stimulus 2. That will carry us into 2013. The big question is will we have QE3 and the answer is yes, officially or unofficially. Getting stimulus 3 will prove very difficult, if not impossible. That means the Fed will have to take up the slack in funding to keep the financial system afloat. Thus, next year or perhaps by the fall, the Fed will have to feed $2.5 trillion into the system just to keep it going sideways to slightly lower. Establishment economists are calling for 4% to 4-1/2% GDP growth for 2011. Remember without these monetary and fiscal crutches GDP would be minus 1% or more. Such performance will put ever-higher pressure on inflation taking 2012 to 25% or perhaps 30% in 2014. It is already in the pipeline.