An Economy on Steroids: US Poverty Levels Equal to the 1930s

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Wall Street at least temporarily relieved of the burden of having to buy Treasuries & Agency bonds, is looking at the jump in oil prices as nothing more than an irritant to their plans for a higher market. Bill Dudley of the NY Fed, a most powerful member, continues to make a vigorous defense of Federal Reserve policies. He, and a few other Fed participants, and Chairman Bernanke believe liquidity is the key for solving problems. That is not only in the realm of debt purchases, but in the relief it brings to Wall Street and banking. It relieves them of the responsibility of having to make those purchases to assist the Fed. Those funds can then be directed toward other investments, such as la liquidity-driven stock market rally. The correlation between the movements in the Fed balance sheet and market can be traced to 85% of market movement for the past 2-1/2 years. An interesting result of Fed manipulative policy is low level of short interest during this period. Most of the professional market players knew the market was headed higher, because they knew such overwhelming liquidity injections would have to take it higher.

They also knew that the Fed had to keep the wealth affect going, because the market was the only generator of wealth left, as the bond market bubble would be broken eventually. The Fed has engineered a market recovery and Wall Street knew what they were up too. QE1 saved the financial community and QE2 saved the government debt structure at least temporarily. The wealth effect has been saved temporarily as well. The public has been left with a pile of crumbs as they struggle for survival. Unemployment has improved ever so slightly and now we have a new problem to increase the suffering and that is much higher oil prices.

The largess sponsored by the privately owned Federal Reserve has still not been enough to spur adequate growth and the effects of Fed monetary creation and deficit spending have not been enough to produce higher economic growth and now the economy has to deal with rampant inflation, the result of QE1 and QE2, plus stimulus, of what will turn out to be a subsidy of some $5 trillion, plus rocketing oil prices. It then is not surprising that we are seeing downward revisions of analysts in 3rd and 4th quarter growth estimates. We still are seeing declines in home prices and sales, as well as in orders and shipments. All this cannot help but negatively affect consumer spending. At the same time the states and municipalities are severely cutting back.

The inventory overhang, higher interest rates and lack of funds for down payments have again trapped the housing market. As we predicted long ago, before anyone else, that the downside in housing has at least two years to go, and perhaps four years, before a bottom is found. Then how long will it bump along the bottom? Perhaps eight years or 20 years, or more. Even new homes are facing lower appraisals.

There is lack of job creation and debt control. The Republicans want to cut $61 billion from the budget deficit, which is a pittance and an insult with a deficit of $1.6 trillion. They cannot be serious, but they are. This shows you how out of touch with reality most politicians are and that they only answer to those who are paying them off, not their constituents.

There has been no impetus on job creation at a time when real unemployment is 22.4%. It is like the American worker didn't exist. The situation at the state and municipal levels isn't helping at all either, as cutbacks and layoffs prevail. This while food and gas prices head toward the stratosphere. As we predicted earlier, 2011 is not going to be a good year for growth at 2% to 2-1/4% at best. The stock market is not expecting this, and when it becomes evident the market will fall.

It is interesting to note that personal income rose 1% month-on-month, but as tax relief is subtracted, you remember that pork package from December don't you, and growth would have been 0.1%. Hardly a number to write home about. As a result January spending fell 0.1% and that should continue negative. Don't forget all that credit card debt from November and December has to be paid off. As we predicted the fist quarter should show negative spending and consumption.

The personal question we are asked is when will the Fed find out it cannot continue to create money and credit? Whether most of you realize it or not present monetary policy has been in action for 11 years, so this is nothing new. That is how long inflation has been created over those years. It shows you that central banks have major leeway and a long time line to do their dastardly deeds. The problem for these bankers is that in the end they lose every time. Historically they have extracted themselves by buying everyone in sight. When the Lombard League collapsed in 1348 they were exiled and in 1789 in France their heads were removed.

What is interesting is that in each case and there were many, the bankers knew exactly what the outcome would be, but they proceeded in spite of that. Today, the Fed is trying to stabilize inflation at about 2%. Official figures are 1.5% when in reality the figures are between 7% and 9%. There is supposed to be a sustainable recovery in jobs. That has not happened as yet with only an official reduction of 1% in the U6. Needless to say, we question those statistics in as much as government has great difficulty telling the truth. 65% to 70% of jobs are created by small and medium sized businesses and loans to these businesses have been reduced by almost 30%, hindering the ability for these companies to expand and create employment. The situation hasn't changed.

For the most part only AAA companies have easy access to credit and percentage-wise they have cut employment most. Consumer growth has been limited by bankruptcies and unavailability of credit. 17 million jobs were created out of 26 million as a result of securitization of credit, a market that no longer exists. As a result over the past two years the economy has lost 2 million jobs. Those losses are complicated by the losses attributable to free trade, globalization, offshoring and outsourcing. Due to this trade policy the economy cannot increase output to any great degree, nor can it produce jobs. The birth/death ratio doesn't fool any inquiring mind. It is simply bogus and the millions of jobs created under its statisticians are lies and worthless. As long as we have such a trade policy we will have to have quantitative easing indefinitely.

QE2, which we predicted in May of 2010, began in June not later unbeknownst to most professionals. The full amount of funds to be used was $900 billion not $600 billion and it remains to be seen just how much money has again been created out of thin air. The purchase of CDS and MGS, known as toxic waste was supposed to have ended, but we know some was purchased from China. We wonder just how much was purchased and where it is being hidden? The QE2 and stimulus funds will have all been spent by June, which means the second half of the year will see an economic slide, which few are expecting. That could be in part why we are finally seeing a market correction. As far as we know the Fed is holding about $1.3 trillion in Treasuries followed closely by China, which has about $1.17 trillion. Americans hold $3.3 trillion and foreigners $4.45 trillion. The inflation created by monetization of US government debt is now showing in price inflation, particularly in food. That has been aided by a flight to quality to gold and silver, but also to all commodities. That flight will continue. The market may be telling us as well that quantitative easing is going to end. If that happens the world economy will collapse. Those who want an end to QE cannot understand what they are asking for. Deflation will immediately take over sucking the entire world economy down with it. The withdrawal of liquidity will be devastating, but for sometime price inflation already in the system would prevail, but would be on a downward slope. The Fed is the director and what happens depends on what they do. The inflation caused by QE 1 and 2 and stimulus 1 and 2 cannot be contained by the Fed. It is already in the system and it will have to play itself out unless the Fed begins QE3 this fall accompanied by stimulus from Congress. Sound economic growth hasn't existed for 11 years and it is worse now than ever. The Fed cannot hold up the economy indefinitely no matter how much liquidity they inject into the system. It is all only a holding action. We probably will get QE3 and there may be more, but in the end it is all for naught. This system has to self-destruct.

What the Fed has given Wall Street and banking, which owns the Fed, is an economy on steroids, which is not a cure but a continuing palliative. Debt and unfunded liabilities spread worldwide will end up dishonored. The Fed's idea is to inflate the problems away, but that can only work in general terms. How do you really inflate debt away without default? Perhaps the market is beginning to realize no matter how much money and credit is injected into the system that is not going to ultimately work. The elitists are at a dead end and they are well aware of it because they deliberately created this monstrosity. Everything is in place for economic, financial, social and political failure not only in the US, but in many other countries as well. The result will negatively impact the world for sometime to come. Materialism is coming to an end. You have been warned.

In the US living standards for some 16% of the population is already at poverty levels equal to the 1930s. Can you imagine where it would be without food stamps and extended unemployment, etc. this is caused by the wages of debt, accompanied by the disparity and inequality between the rich and the poor. That 16% is a total of some 45 million Americans.