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The US monetary system is in serious trouble: It is not Incompetence, it is Policy Manipulation

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There is no question the US monetary system is in serious trouble and the situation continues to deteriorate. The smug elitist owners of the system are not getting the desired results and there is great consternation among the players. Since 1913 in running US monetary policy the Fed has had one recession after another and two depressions. The second one is the one we are now in. The Fed's creation was mainly to end recessions and depressions, something obviously they have been quite unsuccessful at. The reason is they never intended to be successful. The fed was created by its owners to bring them staggering profits, but more importantly, to control the nation politically, economically and financially. The owner's goal has always been to implement world government and the Fed's control was designed to bring that about.

True political control of both major parties began in the 1930s and had General Smedly Butler not exposed what this cabal was up too, the final attempt at world government would have happened much sooner. As we moved through the 1960s and 1970s, the political control became manifest with the purchase of most politicians in the house and the Senate. The difference between both parties became almost indistinguishable, as the flow of money grew greater and greater. It's so bad now that lawmakers do not even read the bills they vote for or against. As Mrs. Pelosi says, "Vote for the bill and we will tell you later what's in it." What a novel way of conducting government. The Fed runs the government; the monetary and fiscal policies and the economy make no mistake about it. Yes, they control every facet of policy in every branch of government. In this process they have neutered the Constitution and the Bill of Rights, and they make no bones about it. The separation of powers no longer exists; at least for now they control everything. The Fed owners, JPMorgan Chase, Goldman Sachs and Citigroup and other domestic players, as well as foreign owners, dictate exactly what is going to happen. The idea is to continually strengthen the corporate control over government and to make sure of the direction of the corporate elitists' government becomes ever more powerful in the hands of these monopolists.

The fed was not only set up to end recessions and depressions, but to be able to create money and credit as needed in the economy. Since its inception it has created booms and busts just as the Treasury Department did before it. As usual the problems have been greed and politics. Although privately owned the Fed has acted as a branch of government. It was not created to serve the public, but to serve its masters, banking and Wall Street and as an afterthought government. They have also been there to fund government when necessary through monetization, which resulted in inflation.

The results of the actions of the Fed have been a decline in the value of the dollar since 1913 of some 98%. This is what the unbridled issuance of money and credit has done to purchasing power over the past 97 years. A very poor and unenviable record and certainly justification for eliminating the Fed. That has not happen. As we saw recently all those bought and paid for representatives and senators made sure an audit and investigation of the Fed was stopped in its tracks.

The current era of the destruction of the dollar by the Fed began on August 15,1971, when President Richard Nixon closed the gold window. Ever since then dollar purchasing power has plunged and Americans have been stuck with a fiat currency. Those actions culminated in a fall in the value of the dollar, 14-3/8% inflation, $50.00 silver and $850.00 gold in 1980. That was followed by a monetary purge for three years, which was followed by the Fed doing the same thing over and over again. All we saw was debt piled upon debt by the Fed and the Treasury and the same thing happened universally worldwide. A world of Keynesians had been created to march lock step with the Fed. The result of these monetary machinations is a condition that is now irreversible. It's called deep systemic depression.

Since 1971 we have been enveloped in stagflation, a term created by Harry Schultz, the guru and father of all financial writers. You might liken the roller coaster ride of the past 39 years to planned chaos. Some called it business cycles. We call it Fed manipulation. The Fed switched from targeting money supply as we approached 1980, because it constrained their ability to issue vast amounts of money and credit thus they used interest rates as a manipulative device. Paul Volcker, Fed Chairman, learned a very important lesson in the 1980s and that was gold had to be suppressed if monetary policy were to work. In August of 1988 President Reagan signed the Executive order creating the "President's Working Group on Financial Markets," which has been used to suppress gold and silver prices ever since and manipulate markets worldwide ever since. This mechanism allowed the Fed to do anything they pleased. The result was during the late 1990s and into today's markets, we see banks that within the fractional banking system not only lend nine times underlying assets, which was considered normal, but they lent up to 70 times. That was truly a banking system out of control. There is no banker in his right mind that would have done such a thing if not instructed to by the Fed. That puts us right where we are today with banks still extended at 40 times assets. We are now learning that creating money and credit does not create real wealth. The result has been three years of credit crisis or as referred to as GFC, the Global Financial Crisis. There are many things that created such a crisis, but the main ones are unbridled creation of money and credit, a socialist-fascist welfare state, war and the absence of a gold standard, whose restraints would have prohibited what we have seen.

The last year of budget surplus was 1960. Bill Clinton's claim to surplus never happened. The build up of debt particularly since August 15, 1971, has been colossal. What kept the game going longer was the serial theft of Social Security funds.

The answer to these problems by the Fed has been, as we predicted, a new phase of quantitative easing. The legislature won't assist the administration by passing another stimulus plan so close to the election; thus, the administration has proposed a number of measures they hope to pass between November 5th and the end of the year. Remember, 95% of Congress and the Senate have already been paid off, so they'll pass anything their benefactors want whether they are returning or they are not. Congress felt it safe to pass an unemployment extension of $34 billion. The insider's quick fixes are as follows: allow companies to write off 100% of new investments in plant and equipment for 2011, plus $100 billion in research tax breaks. Big business has well over $1 trillion in cash, so this is a blatant attempt to buy votes. The cost will be $200 billion. Then there is to be $50 billion for infrastructure and $50 billion for underwater mortgages. That comes to $434 billion. Mr. Obama is yet to announce tax relief for low-income households and a payroll holiday tax for small businesses, which we estimate to be close to $200 billion. That puts social spending at $634 billion and he plans to get this all passed between November 5th and the end of the lame duck period after the election. We might add among this political largess nowhere is there a mention of creating jobs. As we have found out in sports, steroids eventually kill the user. In finance and economics the same is true. Ignoring the bogus birth/death ratio in employment is a perilous decision. We are seeing declines in full-time employment and the increase in part-time status. The litany goes on as we jump from one crisis to another.

We have identified the current malaise as depression. It’s been 33 months since a recession began. It’s been 18 months since the inflationary depression began. For those of you who do not believe that we are in a depression ponder the following. These numbers are from the peak until now. retail sales are off 4.5%; corporate profits 20%; compensation 3.7%; real GDP 1.3%; exports 9.2%; industrial production 7.2%; employment 5.5%; manufacturing orders 22.1%; shipments 12.5%; housing starts 63.5%; new home sales 68.9%; existing home sales 41.2% and commercial construction 35.7%.

Government transfers to households are up 31% over three years. Thirty percent of personal income comes from government. How can people buy homes with still falling prices, fear of unemployment and wages, which in real terms have fallen 8.4%. Everywhere you look major company profits are up, but sales are off. The higher bottom line has been achieved by laying people off, because they make up 70% of operating costs. Workers who are terrified of losing their jobs are working harder, but by the looks of last months productivity figures, minus 1.8%, that may have come to an end. Consumers are buying only what they have to buy. Consumers previously making up 72% of GDP now make up 69-1/2% and that number could go back to the mean since WWII of 64.5%. Those cutbacks mean more unemployment, fewer house sales and a downward spiral. Is it any wonder Americans are borrowing against their 401k’s, and cashing out cash value life policies and annuities? There are systemic and secular changes going on. We are headed back to a lifestyle of the late 1940s, 50s and 60s, so prepare yourself.

The bottom line is the only solution banking, Wall Street and the Fed have left is to substantially increase demand and put people to work and the only way that can happen is for the government to spend more, tax less, and for the Fed to increase money and credit – otherwise it is over. That is not really the right thing to do, but that is what they have to do – otherwise it is a deflationary depression. This is what the US has done over and over since WWII, only this time it’s different. The flip side of such policy positions is the tremendous debt that is created. Not only is debt piled up on debt, but the value of the dollar suffers as the world’s reserve currency, not only against other currencies, but even more so versus gold. Does the rest of the world really want to accumulate a currency of declining value? Over this past year China has sold $100 billion of US Treasuries. Could it be that the exodus from the dollars has already begun? Of course it has.

Many people would like to believe this terrible situation is the result of incompetence. The bureaucrats and others who run economic and political policy knows what they are doing won’t work. They have been playing for time only a game of musical chairs. Just look at what the Fed is doing. It wants to sell toxic waste back to the banks it bought it from, supposedly to clear its books. That may very well be true, but it doesn’t want the public to know what they paid and then sold for. If that ever hits the market the market for MBS and CDOs would collapse. It's nothing more than a 3-card Monte game. We know one of the excuses for creating the fed was the ability to have an elastic currency, but this is going a little too far. We believe Fed losses are well over $1 trillion and other central banks, or other parties are holding losses.