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The World is Defenceless Against the Next Financial Crisis, Warns BIS

Peter Spence

Monetary policymakers have run out of room to fight the next crisis with interest rates unable to go lower, the BIS warns

Central bankers have ventured beneath the "zero lower bound" on rates to combat economic weakness

The world will be unable to fight the next global financial crash as central banks have used up their ammunition trying to tackle the last crises, the Bank of International Settlements has warned.

The so-called central bank of central banks launched a scatching critique of global monetary policy in its annual report. The BIS claimed that central banks have backed themselves into a corner after repeatedly cutting interest rates to shore up their economies.

These low interest rates have in turn fuelled economic booms, encouraging excessive risk taking. Booms have then turned to busts, which policymakers have responded to with even lower rates.

Claudio Borio, head of the organisation's monetary and economic department, said: "Persistent exceptionally low rates reflect the central banks' and market participants' response to the unusually weak post-crisis recovery as they fumble in the dark in search of new certainties."

Continued on page 3

When The Tide Turns Into Cash

Dr. Jeff Lewis

Here comes the "Better than Cash Alliance".

So unless they can find a way to exempt themselves from this madness it will die in Congress.

The tighter they grip it, the more sand falls through their fingers.

Whistling past the graveyard for as long as they can, "living in the aborted moment". This will never work for simple reason.

How will the criminals in government be able to keep taking their bribes?

If, suddenly, all transactions are electronic and subject to oversight they will suddenly have to become honest politicians, and we all know that will never happen.

Continued on page 3

Also Inside This Issue:

The Punch Bowl Stays

Peter Schiff

It is well known that I don't think much of the ability of government officials to correctly forecast much of anything. Alan Greenspan and Ben Bernanke have made famously clueless predictions with respect to stock and housing bubbles, and rank and file Fed economists have consistently overestimated the strength of the economy ever since their forecasts became public in 2008 (see my previous article on the subject). But there is one former Fed and White House economist who has a slightly better track record...which is really not saying much. Over his public and private career, former Fed Governor and Bush-era White House Chief Economist Larry Lindsey actually got a few things right.

Back in the late 1990s, Lindsey was one of the few Fed governors to warn about a pending stock bubble, and to suggest that forecasts for future growth in corporate earnings were wildly optimistic. He also famously predicted that the cost of the 2003 Iraq invasion would greatly exceed the $50 billion promised by then Secretary of Defense Donald Rumsfeld, a dissent that ultimately cost him his White House position. (But even Lindsey's $100-$200 billion forecast proved way too conservative - the final price of the invasion and occupation is expected to exceed $2 trillion).

Now Lindsey is speaking out again, and this time he is pointing to what he sees as a painfully obvious problem: That the Fed is creating new bubbles that no one seems willing to confront or even acknowledge. Interviewed by CNBC on June 8th on Squawk Box, Lindsey offered an unusually blunt assessment of the current state of the markets and the economy. To paraphrase:

"The public and the political class love to have everything going up. We had "Bubble #1" in the 1990s, "Bubble #2" in the 00s, and now we are in "Bubble #3." It's a lot of fun while it's going up, but no one wants to be accused of ending the party early. But it's the Fed's job to take away the punch bowl before the party really gets going."

Continued on page 4

The Pre-Crash Warnings Begin

Jeff Nielson

As regular readers are well aware; the bubble-and-crash cycles manufactured by the Western banking cartel and its central banks are nothing but organized crime. What makes this scripted, financial theater so absurd (and infuriating) is that there are very rigid and obvious patterns as these systemic crimes are perpetrated.

The most obvious (and rigid) pattern to this organized crime is timing. The bubble-and-crash cycles are almost precisely eight years long, reflecting the U.S. presidential cycle. For administrative convenience; each U.S. puppet-president now serves two terms apiece. The Corporate media (another tentacle of the One Bank) “blames” the outgoing regime as the villain/scapegoat for the crash, and hails the incoming regime as the White Knight who will “fix everything”.

For this banking crime syndicate, which has (literally) bought-and-paid-for *both* parties, nothing changes except the colour of their servants’ stripes. Neat and tidy. The Perfect Crime. The scapegoat is (conveniently) banished – but not punished – for precisely eight years. At that point in time; all is forgotten/forgiven (by the brain-dead electorate), and then the *former* villain is re-branded as the (new) White Knight.

Have you ever wondered how billionaires continue to get RICHER, while the rest of the world is struggling?

"I study billionaires for a living. To be more specific, I study how these investors generate such huge and consistent profits in the stock markets -- year-in and year-out."

However, that is only one of the repetitive aspects of this surreal theater-of-corruption. Another aspect of this pattern which is always present (because of its extreme importance) are the Pre-Crash Warnings. With the banksters (and their most highly-placed servants in the Corporate media) fully aware of the scheduled dates for these crashes; such “warnings” are Machiavellian exercises of pure cynicism.

Goldman Sachs sent a note to clients Monday that said the U.S. stock market is the most overvalued in 40 years, excluding the tech bubble.

Then there was this more-impromptu theater between Glen Beck and Jim Rickards, a few weeks ago:

[Beck] *…an event unlike anything at least this generation and I believe anything like the world has ever seen before.*

A catastrophic failure and reset in a way that we don’t know what we’re doing for a while. We all kind of have to – kind of figure it out on our own. And most likely, at least for a while, ends in marshal law [sic]. *And ends in some pretty frightening times. The – the Great Depression would look like a picnic, quite honestly. And James is here to comment on that. Do you agree with that?*

[Rickards*] I agree. I think we can see it coming. One of the things is – let me talk about what it’s not going to be like. I don’t think we’ll all be living in caves. Canned goods. It’s not going to be the end of the world.*

[Beck] *Right. We make it through this.*

[Rickards] *We make it through, but it’s a different world when we come out the other side* [i.e. more of “the New Normal”]. *You know Mussolini’s mantra was, everything in the state, nothing outside the state. That was their succinct summary of what fascism was. Well, you get to a world where the government controls all the money. Everything, first of all, is all digital.* [Emphasis mine]

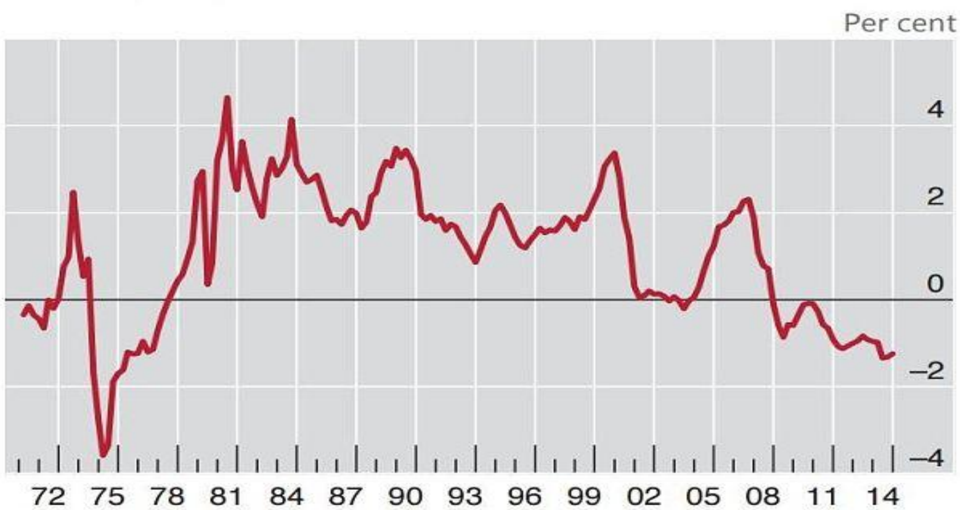
Note how we have the lackeys here not only “predicting” an economic collapse unlike “anything…the world has ever seen before”. We also have them predicting social engineering *and* political oppression, unlike anything ever seen before in our (supposedly) democratic societies.

Martial Law. Fascism. A ban on cash. But also note *how* these dutiful lackeys make their predictions about these “frightening times”:

Continued on page 4

The World is Defenceless Against the Next Financial Crisis, Warns BIS

Continued from page 1



G3 real interest rates have never been so low for so long

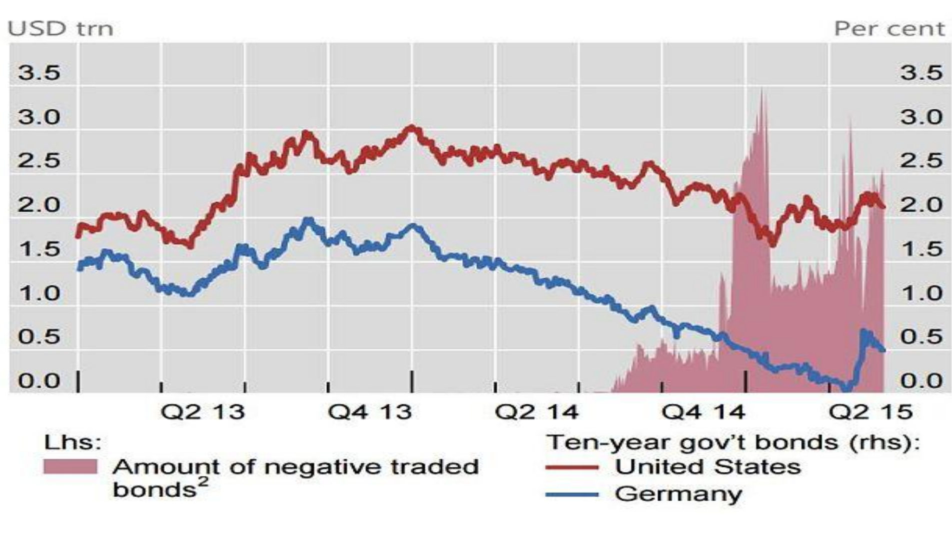
“Rather than just reflecting the current weakness, they may in part have contributed to it by fuelling costly financial booms and busts and delaying adjustment. The result is too much debt, too little growth and too low interest rates.

"In short, low rates beget lower rates."

The BIS warned that interest rates have now been so low for so long that central banks are unequipped to fight the next crises.

“In some jurisdictions, monetary policy is already testing its outer limits, to the point of stretching the boundaries of the unthinkable,” the BIS said.

Policymakers in **the eurozone**, **Denmark**, **Sweden** and **Switzerland** have taken their interest rates below zero in an attempt to support their economies, contributing to a decline in bond yields.



The decline of bond yields into negative territory is the "most unusual development" of the last year

Continued on page 5

When The Tide Turns Into Cash

Continued from page 1

Where do precious metals fall in with all of this? The establishment is "forbidden" to make any mention of or in any way (re)-legitimatize the metals as money or currency. Because any official mention, or so much as a simple audit, would immediately lift the thin veil that keeps the truth about money hidden.

The "Better Than Cash Alliance" Has an Orwellian Plan
https://www.moneymetals.com/news/2015/06/03/better-than-cash-alliance-000716

In the fall of 1910, under the pretense of a duck hunting trip, a group of powerful bankers, political figures, and businessmen met at Jekyll Island, GA to plan the creation of a central bank for the United States. The “game” that this elite group of “hunters” brought back to their ivory towers of Lower Manhattan and Capitol Hill was the blueprint for one of the most destructive financial institutions in modern history, the Federal Reserve.

One hundred years later, another group of powerful bankers, political figures, and businessmen have converged to promote a cashless society, an economic system that would compel every man, woman, and child to utilize proprietary, government-monitored electronic systems to make purchases of any kind. This group, which calls itself the Better than Cash Alliance, is as dangerous as the group of “outdoor enthusiasts” that met at Jekyll Island that fateful early 20th Century November.

And, just like the Jekyll Island group sold their grand plans based on a lie (they claimed that the Fed would guarantee liquidity in times of financial panics), the Better than Cash Alliance is selling the idea of a cashless society based on the farce that eliminating cash would stimulate entrepreneurship among the poor. In reality, the elimination of cash would reduce a great many opportunities for entrepreneurship for people of few means.

Gone would be the informal businesses the working poor often operate: roadside

Continued on page 6

The Punch Bowl Stays

Continued from page 2

To his credit, however, Lindsey sees how this is sowing the seeds for future pain, saying:

"The current Fed Funds rate is clearly too low, the only question is how we move it higher: Do we do it slowly, and start sooner, or do we wait until we are forced to, by the bond market or by events or statistics, in which case we would need to move more quickly. By far the lower risk approach would be to move slowly and gradually."

In other words, he is virtually pleading for his former Fed colleagues to begin raising rates immediately. I would take Lindsey's assertion one step further; the party really got going years ago and has been raging since September 2011, the last time the Dow corrected more than 10%. (That correction occurred at a time when the Fed had briefly ceased stimulating markets with quantitative easing.) Since then, the Dow has rallied by almost 58% without ever taking a breather. With such confidence, the party has long since passed into the realm of late night delirium.

As if to confirm that opinion, on June 8th the Associated Press published an extensive survey of 500 companies (using data supplied by S&P Capital IQ) that showed how corporate earnings have been inflated by gimmicky accounting. Public corporations, upon whose financial performance great sums may be gained or lost, are supposed to report earnings using standard GAAP (Generally Accepted Accounting Principles) methods. But much like government statisticians on the dismissal of bad first quarter performance), corporate accountants may choose to focus instead on alternative versions of profits to make lemonade from lemons.

Using creative accounting bad performance can be explained away, moved forward, depreciated, offset, or otherwise erased. Given the enormity and complexity of corporate accounting, investors have deputized the analyst community to sniff out these shenanigans.

Continued on page 6

The Pre-Crash Warnings Begin

Continued from page 2

We don't know what we're doing for a while.

Not only do they predict that this imminent martial law, fascism, and related shredding of what's left of our democracies/economies/societies will be an 'accident', but it will be almost an *involuntary accident*. It's a pre "mea culpa": don't blame the U.S. government for what *it is about to do*, because it's about to become temporarily insane "for a while" (sound familiar?). In typical (perverse) Machiavellian fashion; we're told by these lackeys that it won't be our (corrupt) governments who are imposing their fascism upon us, but rather our governments are going to trip-and-fall-into this fascism, by accident (perhaps via another "terrorist attack"?).

One glance at the real world immediately exposes this Revisionism for the cynical lies that it is. Since the *day after* "9/11"; the U.S. government (both parties) has been furiously constructing hundreds of "detention centers" all over the country. It has eviscerated the "Constitutional rights" of all Americans. It has instituted (illegal) saturation "Big Brother" surveillance. And, again in violation of its own laws; it has begun "deploying" military units on U.S. soil.

Does this sound like a regime about to 'accidentally' trip-and-fall into fascism and martial law? It's already there. Note the inadvertent logical disconnect, produced by the exchange between Rickards and Beck. We have Rickards saying that "we can see it coming", while we have Beck lamenting that (supposedly) "we don't know what we're doing for a while". And the two of them emphatically *agree* with each other.

How can the U.S. government descend into a *level of shock* to the point where it literally doesn't "know what it is doing" (i.e. temporary insanity) "for a while", with respect to an (obviously) foreseeable crisis? It can't. The "shock" will be feigned, the pretext for overtly embracing the fascism which these regimes already implicitly embrace.

Instead of acknowledging that they are pseudo-whistleblowers, simply reporting *a premeditated crime*(their Master's crime); these frauds depict themselves as market/economic savants, the few visionaries who can "see" what remains invisible to the rest of the Herd. These phony "warnings" serve several purposes, but to properly understand this propaganda shell-game, it is necessary to consider how the Corporate media operates, as a whole.

One of the most important traits of this 21st century propaganda machine is "selective memory", otherwise known as Revisionism. This is how that trait relates to these scripted warnings. Six to twelve months before the full detonation of the crash event, a small number of the One Bank's lackeys in the Big Banks and Corporate media (and the charlatan discipline of "economics") are instructed to cease being cheerleaders, as the bubble-blowing of various asset classes reaches its insane peak.

Instead, these lackeys are given the roles of Contrarians. They "sound the alarm", warning people that they see cracks in the Goldilocks Economy (or in this case, Never-Ending Recovery) which the Fed-heads, and government, and media all claim (on a daily basis) has been achieved in the U.S. Meanwhile, 95% (99%?) of the lackeys in the Big Banks, government, and mainstream media continue their inane cheerleading. "Woo-hoo! Pedal-to-the-metal. The good times are *never* going to end!"

Note also that these (pseudo) Contrarians are carefully distributed amongst key tentacles of the One Bank. There will be one or two contrarians in the Federal Reserve. One or two contrarians in each of the most-important Big Banks. One or two contrarians amongst the charlatan economists, and one or two contrarians in the Corporate media. There are rarely any contrarians placed in the (out-going) government, since it has already been cast as the scapegoat for the crash.

Continued on page 7

The World is Defenceless Against the Next Financial Crisis, Warns BIS

Continued from page 3

Extraordinarily low interest rates are not a “new equilibrium” said Jaime Caruana, general manager of the BIS, **rejecting the theory of so-called “secular stagnation”** which some economists blame for the continued decline in global lending rates.

“True, there may be secular forces that put downward pressure on equilibrium interest rates … [but] we argue that the current configuration of very low rates is neither inevitable, nor does it represent a new equilibrium,” he said.

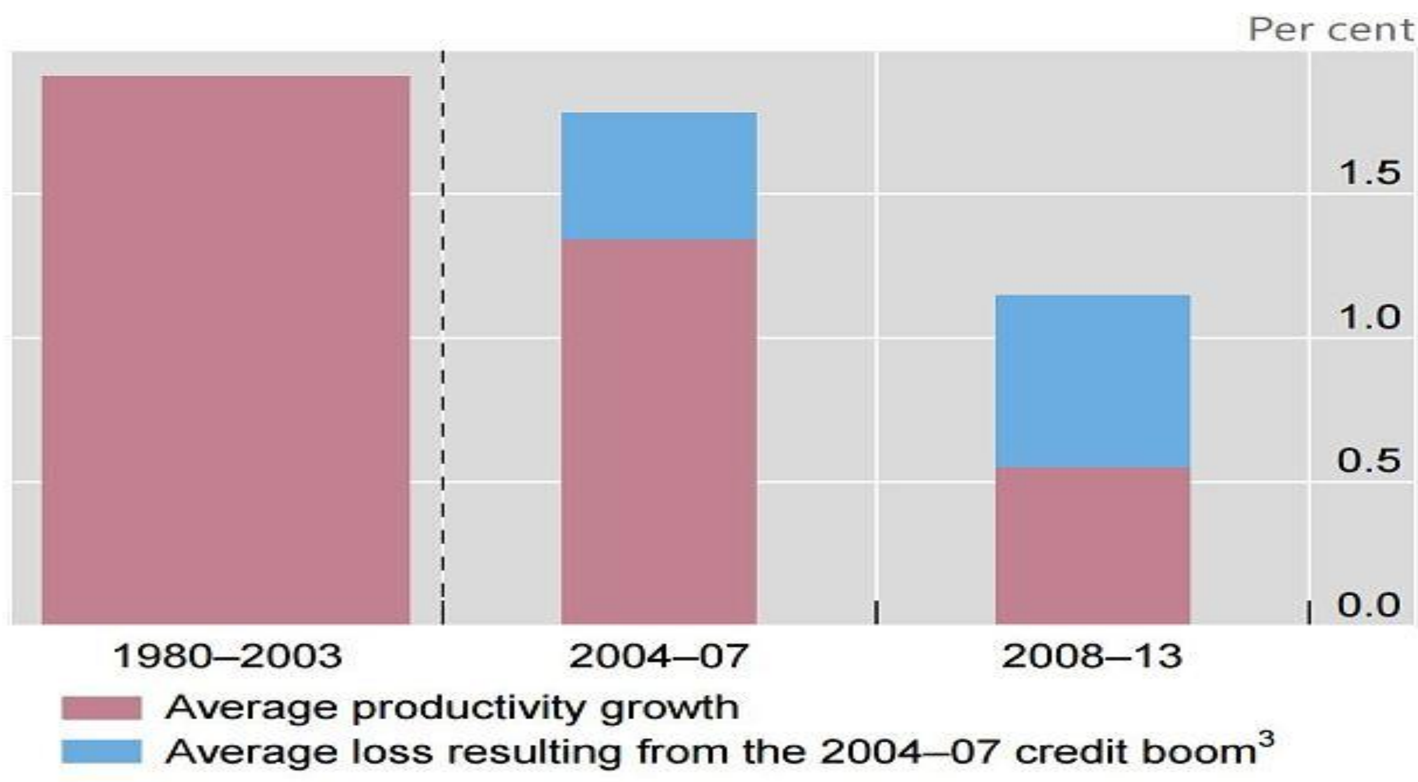
Mr Caruana said that interest rate hikes “should be welcomed”, as global economies have started to grow at close to their historical averages, and a slump in oil prices has provided the global economy with a boost.

- Fed primed to raise rates as the US engine roars back into life
- Pay growth surge could force Bank of England to raise interest rates
- Why European banks are a buy despite potential Grexit

The BIS report described the threat of a new bust in advanced economies as a “main risk”, with many reaching the top of the economic cycle.

The economies worst hit by the last crisis are now suffering the costs of persistent ultra-low rates, the organisation said, which could “inflict serious damage on the financial system”, sapping banks and weakening their balance sheets and their ability to lend.

And the continued misallocation of resources during busts prompted by central banks’s rock-bottom interest rates has also hammered productivity growth, the BIS said, as a prolonged reliance on debt had been used in its place.



Economic mismanagement has hampered productivity growth

This problem is compounded as the world’s populations continue to age, the organization warned, making debt burdens harder to bear.

Continued on page 8

The Punch Bowl Stays

Continued from page 4

Unfortunately, our deputies may have been napping on the job.

The AP found that 72% of the 500 companies had adjusted profits that were higher than net income in the first quarter of this year, and that the gap between those figures had widened to sixteen percent from nine percent five years ago. They also found that 21% of companies reported adjusted profits that were 50% more than net income, up from just 13% five years ago.

But with the fully spiked punch bowl still on the table, and the disco beat thumping on the speakers, investors have consistently looked past the smoke and mirrors and have accepted adjusted profits at face value. In a similar vein, they have looked past the distorting effect made by the huge wave of corporate share buybacks (financed on the back of six years of zero percent interest rates from the Fed). The buybacks have created the illusion of earnings per share growth even while revenues have stalled.

So kudos to Lindsey for pointing out the ugly truth. But I do not share his belief that the economy and the stock market can survive the slow, steady rate increases that he advocates. I believe that a very large portion of even our modest current growth is based on the "wealth effect" of rising stock, bond, and real estate prices that have only been made possible by zero percent rates in the first place. In my opinion, it is no coincidence that economic growth and stock market performance have stagnated since December 2014 when the Fed's QE program came to an end (it has very little to do with either bad winter weather or the West Coast port closings).

Prior to that, the $80+ billion dollars per month that the Fed had been pumping into the economy had helped push up asset prices across the board. With QE gone, the only thing helping to keep them from falling, and the economy from an outright recession (which is technically a possibility for the first half of 2015), is zero percent interest rates.

Continued on page 8

When The Tide Turns Into Cash

Continued from page 3

produce stands, street performances, handicraft tables, and day labor. Contrary to the assertions of the BTCA, a cash-free society would limit entrepreneurship to those with the means to incorporate a business, afford the proprietary system required to accept payments, and understand the local, state, and federal tax burden the payment system would create.

Although they won't admit it, the twelve central governments that currently support the BTCA (the U.S. is one of them) do so because a cashless society would enable them to track and tax every purchase made with sovereign currency within their borders. In addition to producing new government revenue streams, the payment systems would increase governments' social engineering capabilities. They would compel consumers to purchase goods and services from tax-paying, licensed organizations.

Freelance service providers such as barbers, music teachers, and tutors would be forced to either jump through the hoops of incorporation or seek work with licensed businesses (which would inevitably take a cut of their earnings and subject the remainder to payroll taxes). The black market would also be squeezed, escalating the War on Drugs, and subjecting every "sin" and self-defense purchase to government scrutiny, under the guise of "national security", of course.

A number of financial institutions, including, but not limited to Citi, Visa, and MasterCard, support the BTCA-- for obvious reasons. In a cash-free world, these institutions would not only make profits on the front end by selling electronic payment devices and charging a fee for every transaction, but they would also make money on the back end by compelling everyone to deposit all of their earnings and cash holdings into their coffers.

The BTCA claims that a cashless society would enable the poor to "participate in the financial system".

In reality, it would compel everyone to patronize banks. And while a cashless society would be a windfall for the banking industry, it would place a heavy burden on the elderly, who often hold large amounts of cash and are hesitant (and in some cases, incapable) of making electronic financial transactions. Among the numerous social problems the BTCA's plan for cashless society would create is that incidences of elder abuse would certainly increase.

Inevitably, some people would find a way to circumvent a government-mandated electronic payment system, at least for some purchases. Some would find ways to barter or use non-government-issued crypto or de facto currencies. (Interestingly, some black market circles use liquid Tide laundry detergent as a currency.)

From The Christian Monitor:

http://www.csmonitor.com/Business/The-Circle-Bastiat/2012/0329/The-US-government-s-war-on-cash

"As has been widely reported recently, an unlikely crime wave has rapidly spread throughout the United States and has taken local law-enforcement officials by surprise. The theft of Tide liquid laundry detergent is pandemic throughout cities in the United States. One individual alone stole $25,000 worth of Tide detergent during a 15-month crime spree, and large retailers are taking special security measures to protect their inventories of Tide. For example, CVS is locking down Tide alongside commonly stolen items like flu medications. Liquid Tide retails for $10–$20 per bottle and sells on the black market for $5–$10. Individual bottles of Tide bear no serial numbers, making them impossible to track."

So some enterprising thieves operate as arbitrageurs buying at the black-market price and reselling to the stores, presumably at the wholesale price. Even more puzzling is the fact that no other brand of detergent has been targeted. What gives here? This is just another confirmation of Menger's insight that the market responds to the absence of sound money by monetizing highly salable commodities. It is clear that Tide has emerged as a subsidiary local currency for black-market, especially drug, transactions — but for legal transactions in low-income areas as well.

Indeed, police report that Tide is being exchanged for heroin and methamphetamine and that drug dealers possess inventories of the commodity that they are also willing to sell. But why is laundry detergent being employed as money, and why Tide in particular?

Continued on page 7

The Pre-Crash Warnings Begin

Continued from page 4

This is where we get to the Revisionism, and the main reason why we see it in such a relentless, endemic form, in virtually every facet of our societies: "controlling the Message." First of all; what is meant by this term/concept?

The meaning and purpose of controlling the Message is very simple. With any authoritarian regime which uses propaganda as one of its primary weapons (i.e. all authoritarian regimes); it is necessary that its media propaganda machine, and key institutions attached to the regime retain credibility, at least with the majority of the oppressed masses. How do serial liars retain credibility? Through the process of controlling the Message, via Revisionism (i.e. selective memory).

It is here where we see the primary reason/purpose for Pre-Crash Warnings, as part of the process of controlling the Message. In real time (meaning the weeks/months immediately prior to the scheduled crash); we will see the vast majority of the Big Bank lackeys, government lackeys, central bank lackeys, and media lackeys continuing to play their parts as shameless market-pumpers.

This occurs in the context of a general population of Lemmings that has been conditioned to *always* "trust the herd". This is why the One Bank doesn't worry in the slightest when its sends out some of its own servants to "warn" the Lemmings about the imminent, scheduled crash of our markets (and economies). It already knows, via its own conditioning, that nearly all of the Lemmings will ignore those warnings – and instead will trust the Herd.

The scheduled crash then takes place, and as part of this surreal theater; it is universally characterized by the Corporate media as "a surprise", to (supposedly) exonerate all of the market-pumpers. Then, immediately after the crash, while the vast majority of the population are still in a literal state of psychological shock; we get the Revisionism (and selective memory).

"The Federal Reserve was right!" proclaims the entire flock of Corporate media parrots, in unison. "Goldman Sachs was right!" "JPMorgan was right!" Forgotten, entirely, are all the thoughts/words of the vast majority of lackeys in these institutions, cheerleading until the very eve of the crash. Instead, the Corporate media is instructed to carefully pluck-out the scripted "warnings" of the Contrarians, and edit-out (permanently) that the vast majority of these lackeys remained shameless market-pumpers, right to the bitter end.

This same process also takes place on an individual basis. "So-and-so was right! [insert name of lackey-economist]" chimes the Corporate media. These designated Contrarians then get to bask in their new (financially lucrative) role as "economic savants". *They* were right when *the Herd* was wrong. With populations brainwashed into believing that the Herd represents ultimate wisdom; nothing could possibly impress such Lemmings more.

Trust the Federal Reserve. *Trust* Goldman Sachs. *Trust* JPMorgan. Trust these economic rapists before, after, and *while* they are raping you. This is one of the underlying themes/purposes of this relentless Revisionism. The term "con game" is short for "confidence game", because in order for any gang of financial charlatans (i.e. thieves) to be successful in fleecing large numbers of people; they must retain the confidence of the Lemmings from whom they are stealing. To do that; they must continue to control the Message.

The Next Crash has already been laid-out to readers, in commentaries going back several years. The event itself was never in doubt, merely the timing. Could these Ponzi-scheme economies be held together (through market manipulation, and smoke-and-mirrors "statistics") all the way from the Crash of '08 to the end of the current U.S. presidential cycle? Improbably, the answer to that question appears to be affirmative.

All is presently proceeding according to the Script, and thus the Pre-Crash Warnings have now begun, in earnest. The Big Banks (and Bubbles Buffett) are *already* positioning themselves for the Next Crash, while their market-pumping lackeys do their best to ensure that the Lemmings keep most of their money in the various asset-bubbles about to be detonated. Business as usual.

Article by: Jeff Nielson
June 7, 2015
www.bullionbullscanada.com

When The Tide Turns Into Cash

Continued from page 6

Menger identified the qualities that a commodity must possess in order to evolve into a medium of exchange. Tide possesses most of these qualities in ample measure. For a commodity to emerge as money out of barter, it must be widely used, readily recognizable, and durable. It must also have a relatively high value-to-weight ratio so that it can be easily transported.

Tide is the most popular brand of laundry detergent and is widely used by all socioeconomic groups. Tide also is easily recognized because of its day-glo orange colored logo. Laundry detergent can also be stored for long periods without loss of potency or quality.

It is true that Tide is somewhat bulky and inconvenient to transport by hand in large quantities. But enough can be carried by hand or shopping cart for smaller transactions, while large quantities can easily be transported and transferred using automobiles.

Just like the highly publicized war on drugs that the U.S. government has been waging — and losing — for decades, it is doomed to lose its surreptitious war on cash, because the free market can and will respond to the demand of ordinary citizens for a reliable and convenient money.

For some, the elimination of cash would have little material effect on their lives. But, for most, the BTCA's agenda is a tremendous threat to their individual and economic liberties.

Like the Jekyll Island duck hunters, the Better than Cash Alliance is a cabal of powerful people who are pushing a dangerous agenda that would harm average Americans while increasing the elite group's power over them. Like Georgia mallards, the BTCA's plans must be shot down.

Article by:
Dr. Jeffrey Lewis
June 24, 2015

Dr. Jeffrey Lewis, in addition to running a busy medical practice, is the editor of Silver-Coin-Investor.com

The World is Defenceless Against the Next Financial Crisis, Warns BIS

Continued from page 5

Yet politicians have relied too much on temporary growth boosts by using debt, rather than making painful choices, said the BIS.

Mr Caruana said that during booms, workers and capital are shifted to slow-growing sectors, with a "long-lasting negative" impact on productivity growth. "Misallocated labour needs to move from these sectors to other parts of the economy," he said.

The BIS said that the current turmoil in Greece typified the kind of "toxic mix" of private and public debt being used as a solution to economic problems, rather than making the proper commitment "to badly needed" structural reforms.

Mr Caruana said that policymakers must now focus on the supply side of the economy, introducing the right reforms, rather than continue to lean on debt which will inevitably undermine growth.

Article by:
Peter Spence
Economics Correspondent
June 28, 2015
http://www.telegraph.co.uk/

The Punch Bowl Stays

Continued from page 6

Given this, even modest increases in interest rates could be devastating. Lindsey's gradual approach may be equally as dangerous as the rapid variety. But the quick hit has the virtue of bringing the inevitable pain forward quickly and dealing with it all at once.

Call it the band-aid removal approach; it may seem brutal, but at least it's direct, decisive and makes us deal with our problems now, rather than pushing them endlessly into the future.

The last attempt made by the Fed to raise rates gradually occurred after 2003-2004 when Alan Greenspan had attempted to withdraw the easy liquidity that he had supplied to the markets in the form of more than one years' worth of 1% interest rates.

But by raising rates in quarter point increments for the succeeding two years, Greenspan was unable to get in front of and contain the growing housing bubble, which burst a few years later and threatened to bring down the entire economy. In retrospect, Greenspan may have done us all a favor if he had moved more decisively.

Today, we face a similar but far more dangerous prospect. Whereas Greenspan kept rates at 1% for only a year, Bernanke and Yellen have kept them at zero for almost seven. We have pumped in massively more liquidity this time around, and our economy has become that much more addicted and unbalanced as a result. Arguably, the bubbles we have created (in stocks, bonds, student debt, auto loans, and real estate) in the years since rates were cut to zero in 2008 have been far larger than the stock and housing bubbles of the Greenspan era.

When they pop, look out below. Unfortunately, the gradual approach did not save us last time (worse, it backfired by making the ensuing crisis that much worse), and I believe it won't work this time.

In fact, the current bubbles are so large and fragile that air is already coming out with rates still locked at zero. However, unlike prior bubbles that pricked in response to Fed rate hikes, the current bubble may be the first to burst without a pin. It appears the Fed fears this and will do everything it can to avoid any possible stress. That is why Fed officials will talk about raising rates, but keep coming up with excuses why they can't.

Lindsey will be right that the markets will eventually force the Fed to raise rates even more abruptly if it waits too long to raise them on its own. But he grossly underestimates the magnitude of the rise and the severity of the crisis when that happens. It won't just be the end of a raging party, but the beginning of the worst economic hangover this nation has yet experienced.

Article by:
Peter Schiff
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www.europac.com

The Outstanding Public Debt

National Debt:
18,156,727,970,087.18
The estimated population of the United States is **320,855,501**
US citizen's share of this debt is
$56,588.49
The National Debt has continued to increase an average of
$2.10 billion per day
Business, Government, Financial and Unfunded Liabilities Debt exceeds
$100 Trillion