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ORE-VISION

Views and Analysis on the Economy and Precious Metals

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ECONOMY: IN THE EYE OF A HURRICANE

Richard Benson

The $20 trillion of wealth in America that has gone up in smoke from falling stock prices, real estate, and other asset values, is being engulfed by rapid job loss. These combined losses have dealt a catastrophic blow to the consumer whose willingness and ability to spend has, in turn, caused the American and world economy to come to a screeching halt.

Job destruction is a relentless force behind this economic downturn. Unfortunately, real unemployment is grossly underreported almost every month because of the government's Birth Death Model (see: www.bls.gov), which magically adds jobs for firms that are estimated to have been started. For example, in the February 2009 job release, the Birth Death Model added 134,000 imaginary jobs. (How silly is that?) Therefore, the actual job loss in February was 758,000 not the 651,000 reported.

The mainstream financial press also fails to report that only 60 percent of people who lose their jobs are eligible to file for unemployment. Many millions of workers are independent contractors or private business owners who don't qualify for unemployment benefits. Even if you're a real estate agent, mortgage banker, insurance salesman, etc., good luck trying to file for unemployment. So, when initial claims are reported as being 600,000 for a week, you can safely assume one million people actually lost their jobs that week.

When it comes to forecasting the unemployment rate, sophisticated modeling isn't necessary. All you need to do is a little arithmetic: First, take out half a million "imaginary" jobs created from the Birth Death Model, and add a million or so a week to the unemployed number reported. Then, assume that only two-thirds of the people searching for work will actually find a job that pays any money.

Before the summer is in full swing, the national unemployment rate (now at 8.1 percent) will top 10 percent by August, and may rise to 12 percent or higher by early 2010. That means that the number of people officially unemployed will rise from 12 and a half million in February, to 15 million in August.

The unemployment data in our country is designed to keep the reported number as low as possible (our government likes to show the rest of the world how much better off we are). In Europe, for instance, workers are counted as unemployed if they are discouraged, working a menial part-time job, or otherwise marginally attached to the labor force. The closest thing we have to a normal measure of unemployment is the Bureau of Labor Statistics U-6, which shows an unemployment rate of 14 percent in January, or 16 million non-workers on an actual and non-seasonally adjusted basis.

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OUR MONEY

Ron Paul

Henry Ford once said, "It is well that the people of the nation do not understand our banking and monetary system, for if they did, I believe there would be a revolution before tomorrow morning."

Are you confused by all the talk about monetary policy, fiat money and inflation? You're not alone. Bankers and politicians have worked hand in hand for many decades to obscure their activities from the public. They hide behind elaborate structures designed to inflate the money supply while creating the false impression that they are looking out for our best interests.

Inflation is a very simple concept to understand: More money = less value. It may seem contradictory but it's very straightforward.

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Also Inside This Issue:

CENTRAL BANKS IN A 'PICKLE'

Christopher Laird

Now that we heard that Citi had a good quarter, which is laughable (after how much public bailout?), I bet this latest financial rally doesn't last more than two weeks. Here is why…

The US Treasury/Fed has put up $11 Trillion of bailouts and guarantees to the US and world financial system. But we don't hear virtually any specifics as to who got what. Why is that?

Derivatives Secrecy problem

That is because the world has well over $1000 trillion of derivatives out which are unregulated and deeply underwater. That is why we are not told who gets what, because if it were known how much loss is out there, we definitely would have had a world bank holiday, which has been narrowly averted two times in the last year and a half since Aug 2007.

Unregulated means unknown

Since the derivatives markets are unregulated and so huge, even the US Treasury and Fed (and anyone else interested) cannot find out who owes what, and who has lost what. If you follow the derivatives story, you see that this market grows over 15% a year…so, last year we had say $1000 Trillion of derivatives, and now this year over $1200 Trillion…

Now, the reason this market is growing like this is that most of these contracts are rolled over with new ones, and the losses are rolled over. Ok. And one reason the total grows 15% a year is that losses are carried forward if possible…among other reasons. So follow the math here…

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This could top 20 million by the fall. There are also currently 32 million people on food stamps, and that number could increase to 37 million by the end of 2010.

Not only are workers being pounded by the loss of jobs and falling incomes, as the downward spiral continues the newly-unemployed will deplete their meager savings, stop shopping all together, and struggle to pay their credit cards, auto loans, and mortgages. Adding insult to injury, banks and other lending institutions are slashing credit card spending limits, closing accounts, slashing rewards, raising interest rates, and increasing fees. In other words, America is being forced to live on cash, not credit.

Why should we be concerned about these pesky numbers? Well, the popular press is finally reporting that lending on mortgages to sub-prime individuals has brought the financial system of America and the world to its knees. The press is also willing to remind us that home prices are down about 19 percent in the past year, and the value of stock portfolios have been cut in half in just 16 months. But we rarely read about the turmoil in the lives of the 20 million people with no real job prospects, assets or income, or the shame felt by the 32 million people collecting food stamps, or the 16 million (and climbing) homeowners on the brink of foreclosure living in houses worth less than the mortgage.

In America, if you combine massive unemployment with household stock portfolios cut in half and home equity virtually eliminated, and add to that a desire to save and pay down debt, what do you get? To start, a major fall in retail sales, corporate profits, and declining cash flow to service debt. The affects of this recession on consumer businesses from restaurants, clothing stores, casinos, to taxis, are already profound. We are facing a gargantuan national tragedy that, sadly, could have been avoided if our country had honest corporate management and a responsible government.

A client of mine in Las Vegas who leases gaming equipment to the casinos there expects that every casino in Las Vegas will need to "restructure", which is a euphemism for bankruptcy. In York City recently a cabby mentioned his earnings were down by at least 30 percent compared to a few months ago and as we zigzagged along the avenue, traffic was much lighter than usual. The press has already reported that between November 2008 and March 2009, price expectations for commercial and high-end residential real estate in New York City have dropped 30 to 40 percent.

I do believe the reason that Citibank was only partially nationalized in its third but not last bailout, and 20 of the largest banks are going through "stress testing", is because the government is attempting to hide the magnitude of the bankruptcy problem.

The U.S. Treasury wants to buy some time as they try and handle crisis after crisis sequentially, rather than all at once. So, by the time the Treasury finishes doing the stress tests, it will be clear that unemployment will exceed the worst case scenario used in the test. It will also be obvious that the rest of the major insurance companies - besides the criminally negligent AIG - will need government bailouts. In 2009, the bankruptcies of corporations and major property owners will be filling the news and, in the end, consumer and corporate bad debts will destroy more wealth than financial deleveraging has.

So, what will mark the bottom of the chasm? The recovery plan will not be enough to sustain the economy and more stimulus will be needed. It will take at least six months for the world to realize how bad the world economy really is, even though many investors want to play the recent bounce in stock prices as a testament that the worst is over. But with so much uncertainly in the stock market, we don't want to touch the stock market or risk credit markets with a ten foot pole until the intensity

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OUR MONEY

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For illustration purposes, join me on a brief journey of the imagination. One beautiful morning, you wake up and realize that you own twice as much cash as you had just last night. Magic money elves entered your home and bank account and simply doubled your entire cash assets. You're now twice as wealthy (or half as poor as the case may be).

But you soon realize that the same thing happened to everyone else in the country. The money supply (total amount of money) has doubled! It's just a one-time event and your regular income remains the same… you just got lucky this one time. It's okay to dream, so stay with me.

What happens next? If you're like most people, you probably start spending. You buy things you always wanted to buy but couldn't afford. You pay back some debts. You buy stocks. In other words, you put the new money into circulation. So do most other people in the country.

Demand for many products increases because a lot more people can afford them now. Consumers are buying so much stuff that some shortages occur. To protect themselves against these shortages, shops and businesses decide to increase their prices. They know that once prices go up, fewer people will be competing to buy the same products, and the situation will be back to normal.

As a side effect of these higher prices, shop owners start earning higher profits than usual. They have more money in their bank accounts, which allows them to increase their spending. They will invest in new stock or expand their business. They might pay out dividends to their investors and bonuses to their employees, allowing these people to buy more products as well. This additional demand puts even more pressure on other shops to increase their prices.

A few months later, prices of almost everything have gone up. Suppliers and manufacturers are faced with the same threat of too much sudden demand from their clients so they too decide to start charging more.

You went on a one-time buying spree and look what happened! Your income stayed the same, but after a few weeks you can suddenly no longer afford the products you used to buy all the time because all prices in the economy have gone up.

Naturally, you demand a higher salary from your employer. If you're self-employed or in business, you have to charge your customers more money just so that you can maintain your standard of living. Everyone else is in the same situation. Higher prices keep spreading throughout the entire economy, and it's getting more and more difficult to make a living.

Can you see how this lucky one-time incident which at first seemed so exciting was extremely harmful not just for you but for the entire country? You briefly had a good time but now you're worse off than before. In our story there are now twice as many dollars in circulation, but your income remains the same and each dollar you earn is worth only about half as much as it used to be. You're really hoping for those money elves to come back.

As a matter of fact, some people, companies and banks have managed to develop an inside connection to the "money elves", allowing them to receive new money into their bank accounts whenever they want to. The money is officially a loan (credit), but they know they never have to pay it back… they just "roll it over", i.e. take up even more debt. With all that easy money in their accounts, and after hearing on TV that stocks only go up and that real estate prices will continue to rise forever, they tend to get a bit lightheaded and start making bad investment decisions. They know that if anything happens to their investments they will be bailed out by the government, so they do not hesitate to take huge risks with their new found "wealth".

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THERE IS MORE WHERE THIS GIFT HAS COME FROM

Antal E. Fekete

In Wednesday, March 18, another handsome gift was delivered by the Fed to the bond bulls. It was the announcement that the Open Market Committee has made a unanimous decision for the central bank to buy $300 billion in long-term Treasury bonds and notes over the next six-month period. The yield on the 30-year Treasury bond immediately fell from 3.8% to 3.5%, while the yield on the benchmark 10-year Treasury note fell more: from 3% to 2.53%, increasing the price of the note by 42/32 from 9726/32 to 10128/32 , the biggest one-day rise in years. The gift of risk-free profits is granted to the bond bulls through courtesy of the Fed, in telling them in advance about its intention of buying long-dated government debt.

Note that in the past Fed purchases of long-term Treasurys have been exceedingly rare. The last time the Fed resorted to it was in 1959. But half-a-century ago it was not meant to be a permanent fixture of monetary policy. This time is different. Wednesday's announcement is the opening salvo in a brand new game of serial interest-rate cuts in the high-end of the yield-curve now that the Fed has chewed up the low end. It has used up all its ammunition in the short-term T-bill market where the rate is only microscopically greater than zero, rendering the Fed helpless and impotent. A new bag of tricks is coming into play: the monetization of long-term government debt. The market tells it all. The dollar index fell 3%, the biggest drop in more than two decades.

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THE PARTY IS OVER…LET THE HANGOVER BEGIN

Peter Souleles

The party was good while it lasted or at least that is what we thought. Unsolicited credit cards in the mail, automatic increases in credit limits, bank managers offering lines of credit at low rates of interest, large retailers offering interest free terms and credit card companies supplying millions of frequent flyer points.

And then the music stopped. For some quite suddenly. For others little by little. Ask yourself how many people you have come across who have, sold their homes, had their working week reduced or job lost, withdrawn their children from private schools or complained that their business takings are down by 20-30 percent. At the very least they have witnessed redundancies in their workplace.

Ask any superannuation retiree or person intending to retire and the response may contain a host of four letter words. The damage to their super is untold and unless they can come out of retirement or delay retirement by at least 10 years, the situation is grossly disturbing.

Virtually every soothing and calming pronouncement by any government or banker worldwide over the last 18 months has proven wildly optimistic. Sure, it kept the masses feeling reassured about tomorrow and resulted in only one bank run in the UK, but in the process they have shown how out of touch they are and how little control they have over the situation.

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CENTRAL BANKS IN A 'PICKLE'

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I want to show you something. In case you don't quite understand what unregulated means: You and I can make a derivative agreement right now for $1 billion. We merely take a napkin and scribble a note which we both sign to say bet on a currency between us, and the total amount we 'wager' is $1 billion. One or both of us put up a minute amount of capital behind our bet, say $1000. And depending on how things go, we agree that if the gain/loss exceeds that, we roll it forward, but eventually will have to settle at the end. At first, all that is risked is $1000 each. But there is upside and down side of up to $1 billion total exposure (this is the notional value or amount leveraged).

In case you buy the story from derivatives makers that the notional value is not that bad, well it is that bad as it is the actual amount being leveraged, so that is a red herring excuse to say the notional value is not really that much, it IS that much.

That's all there is to it. There is no law no regulation that can stop you and me from making a $1 billion derivative contract on a napkin over a martini lunch…. See it's not regulated, these are essentially private agreements. This action (non regulated exchange) is called over the counter OTC- a private sale/agreement between just you and me and no oversight exchange involved….And as you can see, the leverage can be astronomical.

Derivatives subsumes entire financial universe since 1990

Now, take this idea in 1990 when the total derivatives market worldwide was about $20 trillion. Then, take sophisticated investors and banks institutions of all types, like GE, GMAC, Morgan, BoA, Citi, etc, AIG. And even mid sized financial companies and insurance companies and even money market funds and every type of bond market (government, corporate and muni) and add in all the world real estate market… and start securitizing everything and then… follow me here, then start the OTC derivatives between whoever wanted in the game, starting at size of $20 Trillion in 1990…

The majority of the derivatives markets are OTC (unregulated). It has grown from $20 trillion in 1990 to now $1200 trillion in notional value. That is the total amount of leverage exposure. And that is not the entire derivatives market, since commodity derivatives and such are not included in this.

Now, understand that since these are OTC, who owns what is impossible to know. The immense losses are not being revealed because of the panic the Central banks know will ensue, hence even the US Congress can't get the Fed or Treasury to reveal who got what. The only way we have averted a world bank holiday on two occasions was for the US Treasury/Fed to basically sweep all the trillions of losses so far under the rug - at a cost so far for the US alone of $11 trillion.

The point here is, with $1200 trillion of derivatives exposure out, and it being OTC mostly and thus secret, the only way for the world financial system to hold together is for the public sector to sweep the entire mess under the public domain….and as the losses continue to accumulate, more and more has to be done, yet nothing appears to improve in the overall credit markets.

Now, can you tell me how $11 trillion, which is admittedly a lot of money, will be enough to cover the mounting losses on $1200 trillion of leverage??? Clearly they cannot stay ahead of this. Can they? I don't think so.

Deleveraging is taking down the public treasuries

Now to our pickle analogy. I assume that people know what that is in baseball. A runner is trying to get from second base to third base, but the third baseman and second baseman have him in a 'pickle' ie he is caught between the two. Ok so if they tag him he is out right? So they narrow in on him and cut off his path to either base,

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Let's stop dreaming and look at the reality of things. What if I told you that these "money elves" do exist and that they spring into action not just once in a lifetime, but every couple of weeks? And that they repeatedly give money to their closest friends, but not to you? That prices are going up because the total amount of money in circulation increases, but that you're missing out on all the fun?

Well, that's inflation at work. Who benefits from inflation? Only those who are at the top of the pyramid and receive all that new money directly from the source. As you might have guessed by now, the source is the Federal Reserve, and its recipients include the government which "borrows" a lot of new money each year, without any intention of ever paying it back. Another beneficiary these days are failed banks that are being "bailed out" for the good of the "economy", or defense contractors that receive money to build up our military so we can have a constant presence all over the world and fight never-ending and unnecessary wars. There was even a huge number of small-time beneficiaries who received consumer loans and sub-prime mortgages they would never be able to pay back.

What, then, is fiat money? It's exactly what we just talked about: money that can be inflated or increased at the push of a button at the say-so of a powerful person or organization. Nowadays most dollars are just blimps on a computer screen and it's extremely easy for the Federal Reserve to create money out of thin air whenever they want to.

If our money were backed by gold and silver, people couldn't just sit in some fancy building and push a button to create new money. They would have to engage in honest trade with another party that already has some gold in their possession. Alternatively, they would have to risk their lives and assets to find a suitable spot to build a gold mine, then get dirty and sweaty and actually dig up the gold. Not something I can imagine our "money elves" at the Fed getting down to whenever they feel like playing God with the economy.

As you can see, inflation and fiat money are very seductive and beneficial to those at the top, and very dangerous to everyone else and the nation as a whole. That's exactly what Henry Ford was talking about. He knew that every country that relies too much on fiat money is ruined sooner rather than later.

There is only one possible solution to the inflation problem: Stop creating money out of thin air. But we're already in such a mess that the only way to have a real impact on the money supply is to increase interest rates so that people pay back their loans and borrow less money from the banks, which decreases the amount of money in circulation. However, higher interest rates might very well crash the economy. So the Fed's current "solution" to overcoming inflation is… creating even more of it.

Fiat money is a dangerous addiction. Even if the Fed found a way to stop inflation, as long as the current system persists the temptation will always be there to resume pushing the easy money button. That's why we need to get back on the gold standard and eliminate the Federal Reserve altogether.

But that won't happen "before tomorrow morning", as Henry Ford said, or even this year.

Article by:
Ron Paul
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Ron Paul has been an advocate of the gold standard and open competition in currencies for many years. He is the Federal Reserve's most outspoken opponent in Congress and has frequently questioned Alan Greenspan and Ben Bernanke about the Fed's actions.

THERE IS MORE WHERE THIS GIFT HAS COME FROM

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Actually, as I have suggested in several earlier articles, 'serial cutting of interest rates' is a misnomer. The correct phrase is 'serial halving of interest rates'. The nuance is important. Serial cutting comes to an end when you have cut it to the bare bones: all the way back to zero. Not so serial halving that can be fine-tuned like water-torture. It can continue indefinitely, while each halving causes the same devastation in the economic landscape as it doubles the liquidation value of total debt.

Central banks in Japan and the United Kingdom have announced similar monetary policies. The Bank of Japan has said that it will increase its volume of bond purchases by 30%. According to Mr. Shiraskawa, the governor of the bank, "bond purchases are not intended to finance the Japanese government's spending. That would be too dangerous." Who is the governor kidding? As long as the Japanese government spends more than its revenue from taxes, every act of buying a government bond is an act of financing the government. Even in Switzerland, the paragon of monetary and fiscal rectitude, where the Swiss National Bank is hard put to find a government bond it can buy, they have to do something to enter the mad race to find out which country can increase the money supply at the fastest rate. The Swiss are resourceful: since they cannot increase the money supply through purchases of bonds, they will increase it through sales of Swiss francs. All masks are off. The Swiss will not let others outbid them in the

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and it looks funny, he runs back and forth, and they just keep moving in till one tags him out….

Now, you might wonder why all the panic last fall and the drama right, with Paulson and the Bernanke and telling Congress we were about to have a total world financial collapse (We almost did too, and averted it by a few hours but that is another story).

Our players: The base runner is the US Treasury and Fed. Third baseman is deflation. Second baseman is inflation. The game is the entire world financial market. Then, whoever tags the base runner, the Fed out, is the endgame…either inflation or deflation wins…ok so let's continue. But basically, the Fed is caught in a pickle between inflation and deflation and not enough money to get safe.

Now, clearly, either there will be inflation or deflation as the final outcome. If the Fed just monetizes everything, the USD will definitely collapse. We will have what might be a terminal inflation in the US at that point, where the value of the USD collapses totally in 2 years after the Fed is tagged out. Then the only solution is terminal inflation of the USD - called hyperinflation.

If the Fed chooses not to monetize, then, well all the derivatives continue unwinding relentlessly, in this secrecy, where no one knows who is next. Unless the Fed uses the public purse to sweep more and more unwinding derivatives under the rug, the entire world financial system collapses. I am serious….I am not exaggerating. We almost had this happen on two or more occasions that I recall since Aug 2007…

Now, the question arises, is it possible to avoid uncontrolled inflation and the destruction of the USD, or uncontrolled deflation and a total implosion of the $1200 Trillion of world derivatives that has subsumed the entire world of money. I think the answer is negative.

Why? Simply because if the basic issue here is that the world financial system is deleveraging, and it's $1200 Trillion in size affecting every financial institution you can name, how can $11 trillion stop it? That is less than 1% of the amount out there!

Now, who else other than the US Fed even can raise another $11 trillion for the next year or two or more? No other central banks can, except possibly the ECB or China can raise this money, or maybe they all throw in with Japan and anyone else who wants to jump into this emergency….

Which is why Bernanke said he needs more authority to deal with 'systemic risk' and why Obama just stated the G20 needs a world stimulus….

If you have followed along with who has been throwing tons of money out there to stop the world financial panic, the US Fed is by far the leader. Then the ECB, and then China and others in smaller degrees. But I have estimated that the entire world effort so far to stop the deleveraging at not more than $20 trillion so far. That is not even 2% of what's out there.

Public Running out of money

And the Central banks are running out of money. The bond markets are showing increasing interest rates on the 10Y UST for example, which has risen from around 2% to now 3% roughly. Once the bond markets blink, the Fed has no alternative but to buy the US Treasury issues itself, which is printing USD to finance the US budget. So far the Fed has blinked on that step. That step is verboten in the bond markets.

Gold and USD in this 'pickle'

Now, we have been talking about how flight to safety has been moving both to the USD and to gold and is why gold has held up some when practically everything else has not. What happens when/if the Fed actually starts to buy US Treasuries? We hope that does not happen for a while, and so does everyone else…because that is when the USD will face a day of reckoning.

How long the world bond markets and currency markets tolerate that activity is a question. Basically, if they do not tolerate it, then the USD will fall drastically, probably by 50% over a year at least. If they tolerate the Fed monetizing the US Ts, then maybe we have more time.

What should happen at this point if/when it happens (Fed buying US Ts directly) is that gold and the USD should separate. Recently, they have rallied and fallen together based on what the flight to safety situation is that week. We at PrudentSquirrel are very closely tracking this issue.

Article by:
Christopher Laird
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No one and I stress no one is able to predict with certainty how and when the whole situation will unravel. The reason I say this is because no one can predict what irrational schemes the governments of the USA and Europe will try to put into practice. Equally unpredictable is the reaction of China to the USA now printing money and therefore weakening the dollar and the value of Chinese dollar holdings. Finally, matters become even more complex depending on whether there is an increase in Middle East tensions either by an Israeli attack on Iran or some rogue group being able to perpetrate a 911 type action.

As a result these unknowns and the order in which they might or might not occur, make predicting a guessing game. What is virtually certain however, is that "things will get worse before they get worse" as one blogger recently said.

Homes, jobs and businesses will be lost in one wave after another before we finally touch bottom. Many shops and factories will close. Those that will fail will be the ones with tremendous debt, low savings with which to ride out the storm, inability to reign in spending and businesses that are operating on low margins or high break-even points.

The sooner these events take place, the better. Don't be disturbed or angry by this statement because if the current situation drags out, it will end up exhausting individuals and businesses of their buffer and leave them with precious little to re-start their engines.

It has now become a game of survival. Profit and wealth creation have been put on the back burner. In fact, the value of homes may suffer further if job losses start to climb and share values may drop even further as companies post little or no profits.

Government stimulus packages are doomed to failure largely because they are a caffeine-hit rather than a vitamin drink. Building halls for schools, giving handouts to taxpayers and other such gestures do little to enhance the productive capacity of the nation and once spent do not perpetuate any ongoing activity.

But governments will spend and when this does not succeed they will spend even more. Governments will feel some sort of divine urge brought on by their sense of destiny to keep the printing presses going. Their sense of infallibility will give way to inflammability as inflation puts its torch to our income and savings. Deflation is also not out of the question and it may be that both may be experienced concurrently depending on the asset or product as well as the location you may find yourself in and the currency you are holding.

Of course there are many that remain hopeful. Hope is vital, but it is not a strategy if not combined with preparation. "What preparation", you may ask. In a nut shell the only sane and reasonable strategy is the "simple life". I know it sounds simplistic but getting there can be darned hard. But there it is, the simple life, combined with a healthy sense of community may inspire a grass roots adjustment to a new reality. A reality that will be enhanced by innovation, lateral thinking, reduced strife and less consumption. Above all, we must have government that restricts itself to defending us at our borders and not in some foreign land. It must be a government that taxes us to do only those things that we cannot do as a individuals or small groups such as justice and the protection of our currency's integrity. A currency, I might add, that is anchored in time honored and disaster proof gold and silver.

Article by:
Peter Souleles
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game of bidding down the value of national currencies around the globe.

This is competitive currency debasement at its most vicious. It is a cover-up for the underlying trade war.

Why should we worry about a monetary policy that depends on risk-free profits offered to speculators betting on higher bond values? Because it reflects the utter corruption of the profit-and-loss system on which capitalist production is based. It makes the businessman appear foolish who takes risks in the producing sector while trying to satisfy the needs of the consumers - when risk-free profits are available in the financial sector. As a matter of fact, the risk-free profits of the bond bulls do not come out of nowhere. They come right out of the capital accounts of the producers. These gains are the flipside of the capital losses suffered by the real risk-takers, the sitting ducks in this shoot-out.

I have been in a minority of one in my quest to inform the public about the single cause of the present economic disaster. In fact I have been predicting it for the past eight years. The single cause is the Fed's deliberate policy to drive down interest rates through serial halving. This policy is animated by the economic theories of John Maynard Keynes, according to which interest ought to be abolished so that the stone can be turned into bread and water into wine. The miracle is worked by a central bank well-equipped with printing presses and a factory to produce green cheese in unlimited quantities,

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of this storm is clearly understood. Living in Florida we have been in the inside of the eye of a hurricane and for a brief period everything seemed fine, until the storm came back and blew the roof off of our neighbor's house. But not everyone is at risk. If you have lived modestly and saved money, have no debt and actually own your home, you can sit back and watch the show without being asked to get up on stage and play a role in the tragedy.

However, it won't be easy avoiding getting stuck with the bill as a result of your neighbor's mortgage fraud, or from the Wall Street criminals who stole bonuses, or from the proposed tax increases and lower interest rates you'll be receiving on your savings accounts for months to come. Screwing the prudent saver and sticking it to the taxpayer is becoming the new national sport. I wouldn't be surprised if the government's actions led to a taxpayer and saver revolt down the road.

Article by:
Richard Benson
March 19, 2009
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The Outstanding Public Debt

National Debt:
11,051,072,643,457.67
The estimated population of the United States is **305,863,696**
US citizen's share of this debt is
$36,130.71
The National Debt has continued to increase an average of
$3.79 billion per day
Business, Government and Financial Debt exceeds
$59 Trillion

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to shove it down the throats of savers who are trying to provide for their twilight years, or for the education of their offspring, or just for a rainy day. Continuing or even accelerating that disastrous monetary policy of unlimited green cheese production will not alleviate the crisis. It will make it worse. Much worse.

Look at it this way. The present contraction of the world economy is not due to a glut in global savings for which businessmen can find no good use, and which consequently has to be mopped up through expanding the balance sheet of the central banks all over the world, as "explained" by Paul Krugman and his friend, mentor, and former boss Ben Bernanke. The contraction is due to the lethargy of businessmen who see their past investments turn sour one after another at each interest-rate cut. Businessmen will not make new investments, no matter how badly central bankers want to force-feed them at the trough of newly created money, as long as the mad driving-down of interest rates continues. Would you buy a car today if you were told that its price will be cut tomorrow? Of course you wouldn't. Well, it is the same with businessmen. They would not make an investment today if they were told that tomorrow they could finance it at a cheaper rate and, the day after tomorrow at a rate cheaper still. It is as simple as that.

Now the Fed is saying that it has got a new toy-grenade to try on the economy: the T-bond purchase plan. Businessmen conclude that this is time to go into hibernation-mode. They just want to survive with their remaining capital intact until this madness runs its full course. They will come back and start investing again in saner times, when interest rates are stabilized at their natural level. Those who listen to the siren song from the Fed and other central banks, and invest at today's teaser-rate will get massacred at the next halving, when even lower teaser rates will be offered.

The present monetary system promises risk-free profits to bond speculators. This guarantees that the interest rate structure will keep falling indefinitely. Astute businessmen who understand the interaction between finance and production will stay on the sidelines. They will not join the mad tea party of teaser rates whether offered in the subprime mortgage market or whether offered on loans to finance future production. Teaser rates are there to tempt individuals and businesses to commit hara-kiri. This raises the question just how sound a monetary system is that wants to create money, lots of it, but can only do it through bribes and blackmails. This also raises the question how it is possible to treat Keynes' system with respect.

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