

Cri De Coeur

June 19, 2006

Yes, we had to look it up also – it means “an impassioned out cry.” We believe you all know we are not great fans of Keynesian Economics, but it is our responsibility to follow their positions on economic and financial matters. They have, however, a much greater following than the Austrian Economic model which we presume to be more valid. That said, the Levy Economics Institute of Bard College is a fine economic research organization of the Keynes persuasion. We follow them closely and they, in our opinion are dead right when they say, “Many papers published by the Levy Institute during the last few years have emphasized that the US economy has relied too much on the growth of lending to the private sector, most particularly to the personal sector, to offset the negative effect on aggregate demand of the growing current account deficit.” The debt problem, in our opinion, is the overriding concern facing this country, and perhaps the world’s greatest problem.

The Federal Reserves Z.1 report for the first quarter of 2006 came out on the eighth of this month. We had hoped it would show a decrease in borrowing from the fourth quarter of last year, but no. The total borrowing on a SAAR was up 11.3%, the greatest increase since 1986, and the highest in history. We are awash in debt and it cannot continue ad infinitum. That is the bad news. The worse news is the Fed continues to raise rates. This is a toxic mix which has destruction painted all over it.

We would encourage everyone to visit the Levy Institute website www.levy.org for their latest article; [Debt and Lending: A Cri De Coeur](#). As they indicate, the consumer is the real problem. Please note the chart below taken from the Bank Credit Analyst.

Consumers Under Pressure

