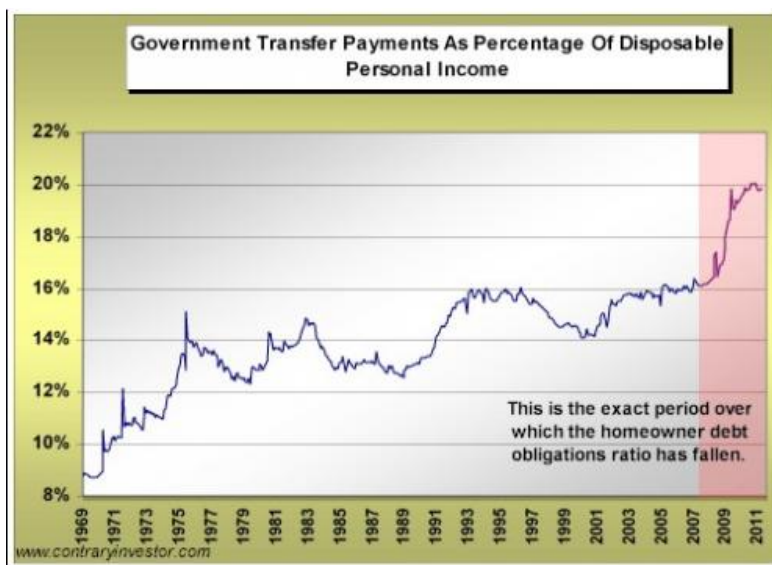


THE GANG OF SIX STRIKES OUT WEB BUZZ 2011.07.25

It appears as if the debt limit problem has not been resolved by the Gang of Six. Will there be an agreement of some kind? We would guess yes with the odds of 90/10. Although we would like to have seen more cuts in spending, at least some headway is being made. The extent of cuts that actually will be made is also a concern. In times past, tax increases became real and cuts faded away into the woodwork.

All of this means, in our mind, that the Federal Reserve will stay with low rates for years and years to come. They are the only game in town left to juice the economy. The fiscal spending side seems to have been shut down due to the aforementioned Gang of Six deficit reduction plan. Our economy is weak and will get weaker as fiscal drag will occur. The unemployment rate seems sure to advance or, if not, stay relatively flat. If that is the case, then aggregate demand will continue to be weak. Also keep in mind that the much extended unemployment benefits are running off. Note the chart below, which depicts how much the government is subsidizing income. It is running at around 20%, but may well decline as fiscal stimulus declines.



Adapted from contraryinvestor.com

The point remains that we are in a long, perhaps ten-year, period of below average growth, which is this century's equivalent to the Dirty 30s. We see no way out of this until such a time as the total debt burden of the economy is drastically reduced.