

THE ROOT OF OUR PROBLEM

WEB BUZZ 2011.12.19

The following chart, in our opinion, is the most revealing about the state of the U.S. economy that we have seen. It is the absolute reason for the trouble we are in. Note the relationship between financial profits (black line) and total debt (red line).



Adapted from theburningplatform.com

Everything started in the early 1980s. The question is why? Several things: (1) Ronald Reagan, a Republican, brought hope, change, and financial deregulation and (2) Paul Volker, a Democrat, brought runaway inflation to a halt. All of this was extremely positive. If this was so good, then what happened that is so bad? What has brought our economy to its knees? Alan Greenspan said it was because what he believed to be the model of our economy was wrong. Others said it was the deregulation of the economy (free market). The truth of the matter is that Wall Street bought Washington and in the process they have become the chosen people. The rest of us have become the serfs.

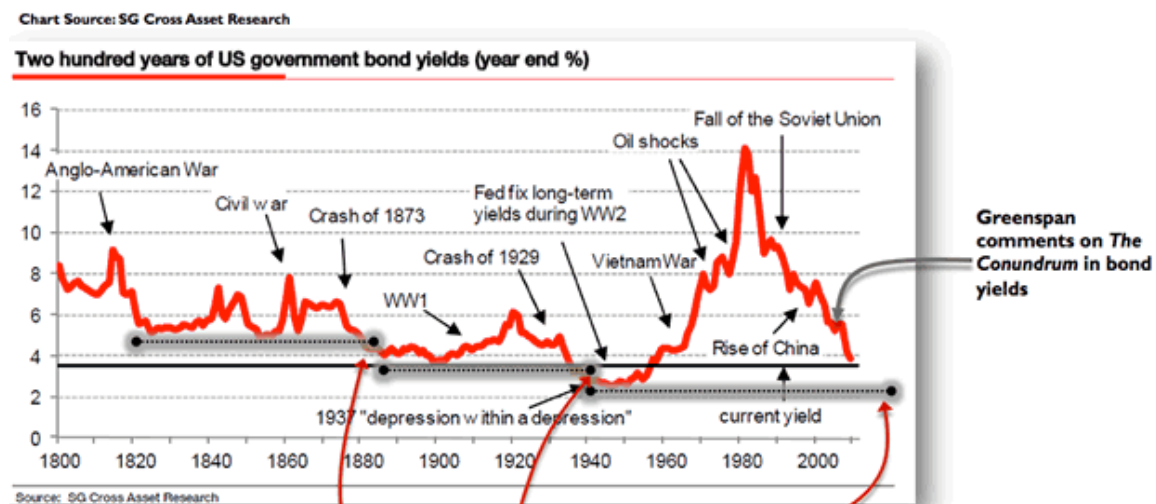
What developed was financial innovation and leverage which was created by academia and Wall Street, though *aided* and *abetted* by Washington through

revolving doors, tax policy, etc. Wall Street banks became financial market players and not allocators of funds to the real economy. It became all about leveraged speculation and high speed computers and not about growing the economic pie. It was no longer earning money the old fashioned way, but rolling the dice and finding a greater fool to buy your speculative position.

There are many who say the free enterprise system has failed. No, it hasn't. What has failed is the frailty of human nature - the desire to get something for nothing by rigging the system through the Axis of Evil (Wall Street and Washington, D.C.). We are destined to be in difficult times and unfortunately we are barely in "The Fourth Turning."

A Look at our Final Move

This chart fits right into our thoughts concerning the outlook for government bond yields.



Each long term cycle broke the previous cycle low

Adapted from safehaven.com