October 15, 2014

The End of Monetary Inflation & Kicking the Debt Addiction

SHOT ACROSS THE BOW

The recent financial crisis is a shot across the bow; a warning for us to get our personal, corporate and governmental financial houses in order.

QE1: NECESSARY, QE2: SUSPECT, QE INFINITY: BEYOND OVERKILL

Although QE1 was necessary in order for financial markets to avoid spiraling into an abyss, the excessive money creation that has followed (QE2 & QE Infinity), has only enriched the net worth of the wealthiest households. This money creation is not flowing into Main Street, but rather it has benefited primarily those who own financial assets. According to a recent Pew Research report, during the 2009-2011 period, the mean net worth of households in the upper 7% of the wealth distribution rose by approximately 28%, while the mean net worth of households in the lower 93% dropped by 4%. QE2 & QE Infinity is a rich man's medicine.

During the past three decades, government solutions to each financial crisis have been to lower interest rates, increase the ease and availability of money, and increase debt levels. This is a form of can kicking the problem down the road. You can only paint over paint for so long, before all of the coats simply fall off. It is one thing to open the money spigot to stem a financial panic, but yet another to attempt to create prosperity through central banking models. Central bankers are addicted to debt creation, and are indeed no different from a drug addict who is unwilling to admit his addiction. Unfortunately, we have now arrived at a point where the creation of incremental debt is no longer producing the desired effect on our already heavily indebted nation. We need to address this "tsunami" of debt, or spiral into financial chaos.

Failed or non-existent budgets and policy are both being supported and subsidized by global central bank purchases of government debt and de facto nationalizations of yield curves. These actions are nothing more than a broad debasement of fiat currencies, a tax on savers, and a free pass to politicians who mask fiscal policy failures and continue to spend way beyond their countries' means.

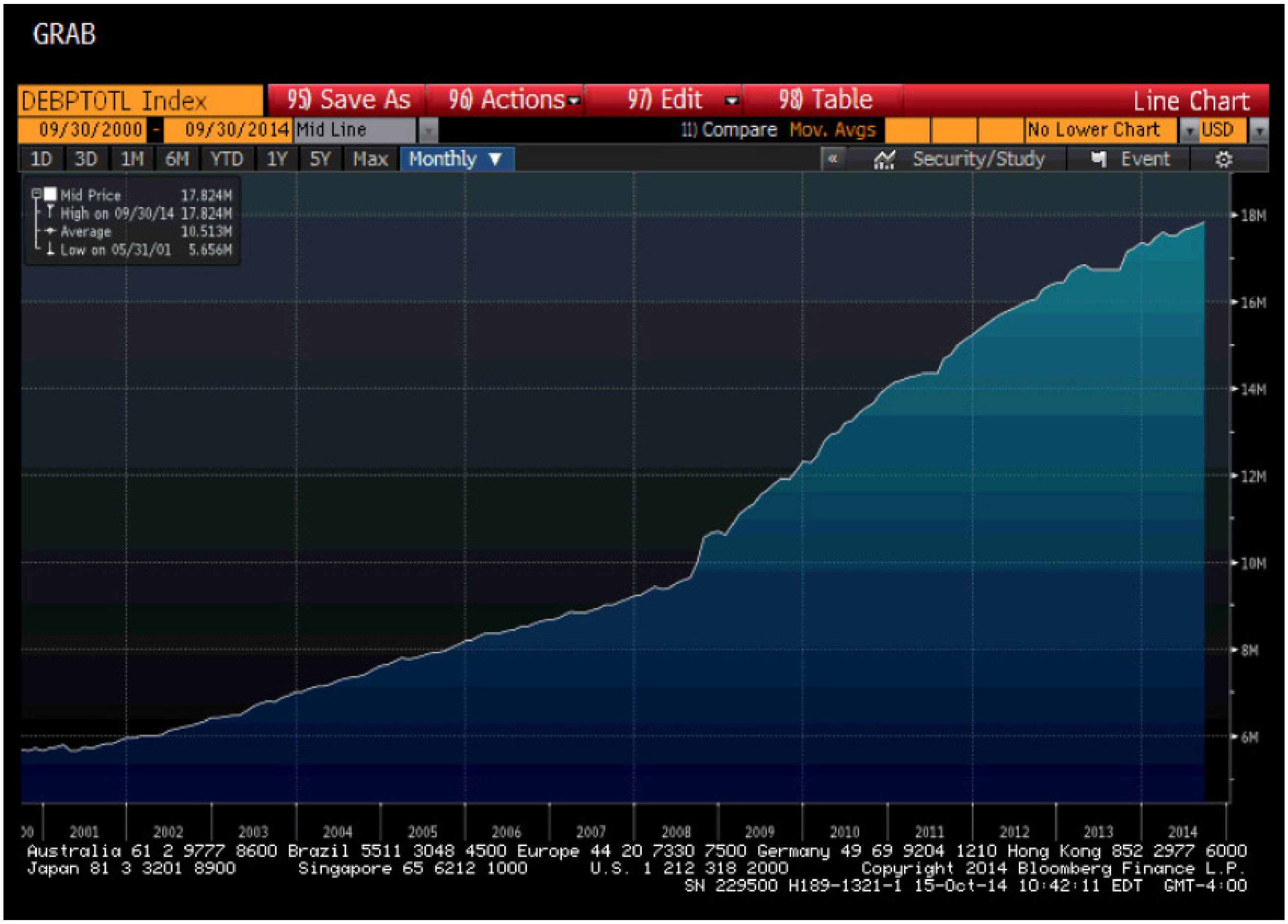
We have had six years of Zero Interest Rates, and Trillions of Dollars of Monetary Bribery. Due to these central bank policies and actions, bubbles have been created in real estate, bond & equity markets, and private equity markets. Debt supporting these policies has been piled onto global sovereign balance sheets. This debt must be repaid or extinguished at some point in time. Since almost no public authority has come to explain exactly how we will address this debt issue, as a nation the time has come for an honest conversation on the efficacy of these central banking policies, and their true costs-both long-term and short-term.

Below, you will find various charts showing the addition to debt by the US Government.

Respectfully yours,

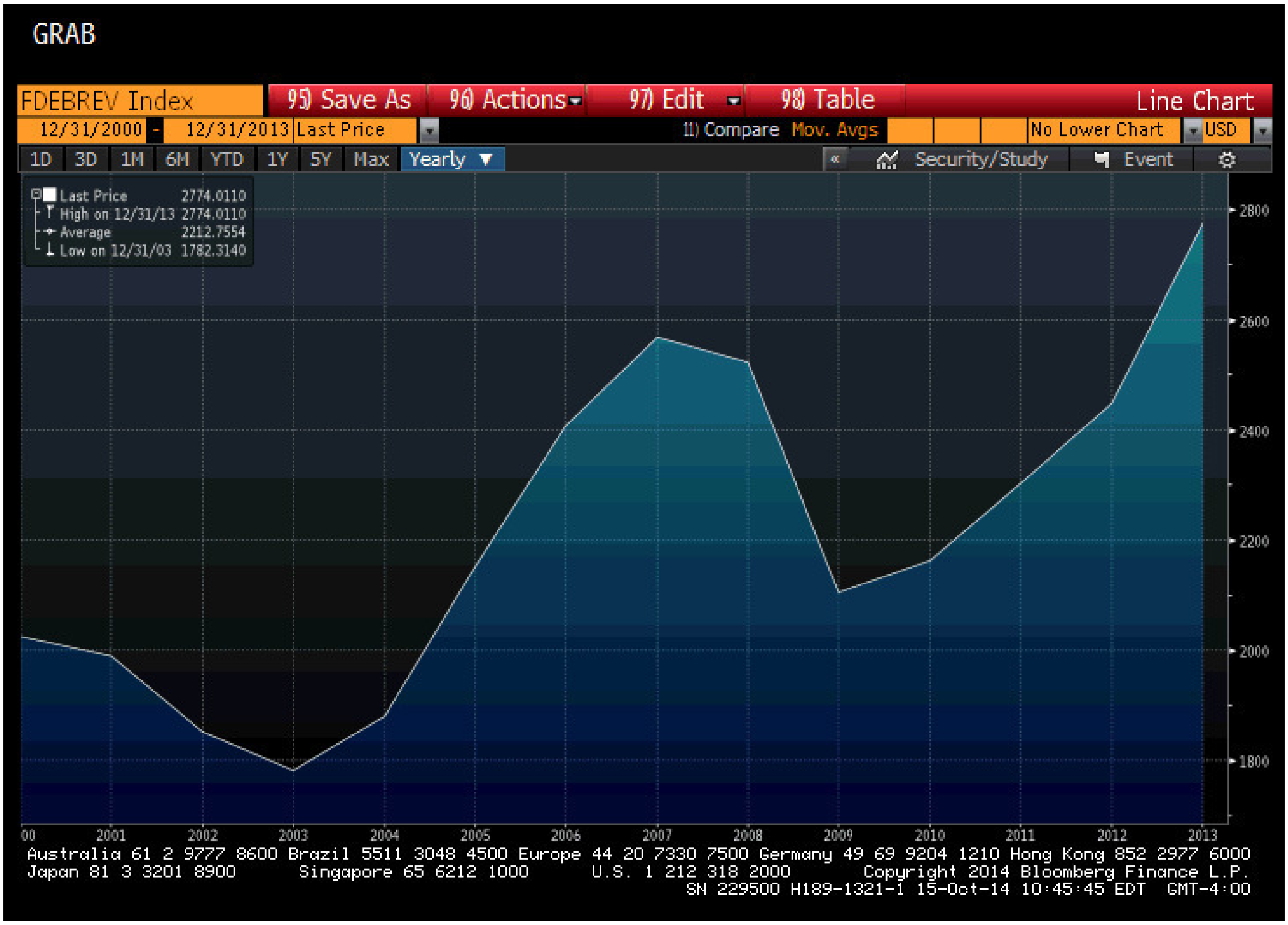
Editor@EmersonLetter.com

Exhibit 1: Total US Public Debt Outstanding



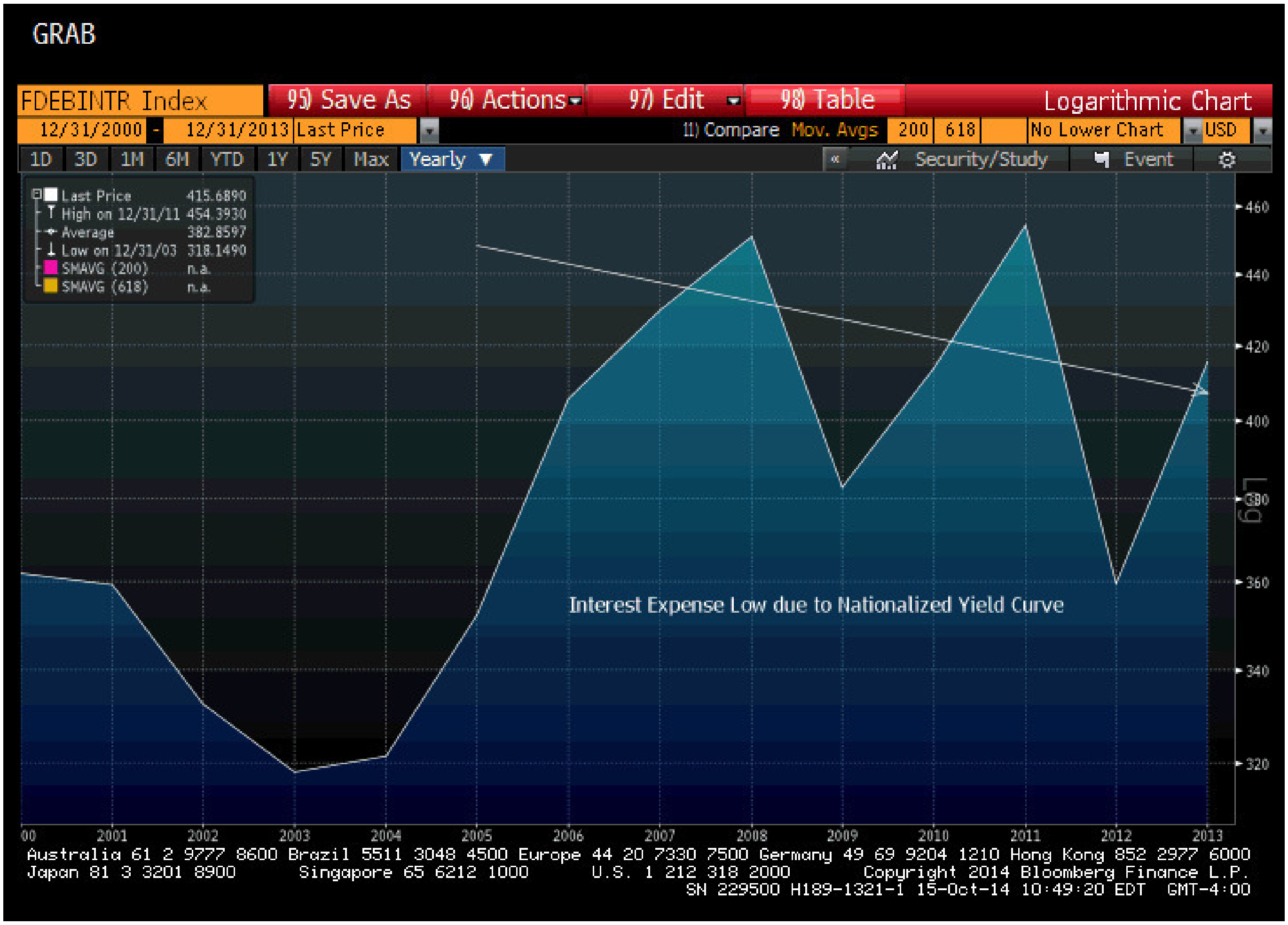
Source: Bloomberg

Exhibit 2: US Treasury Federal Revenue



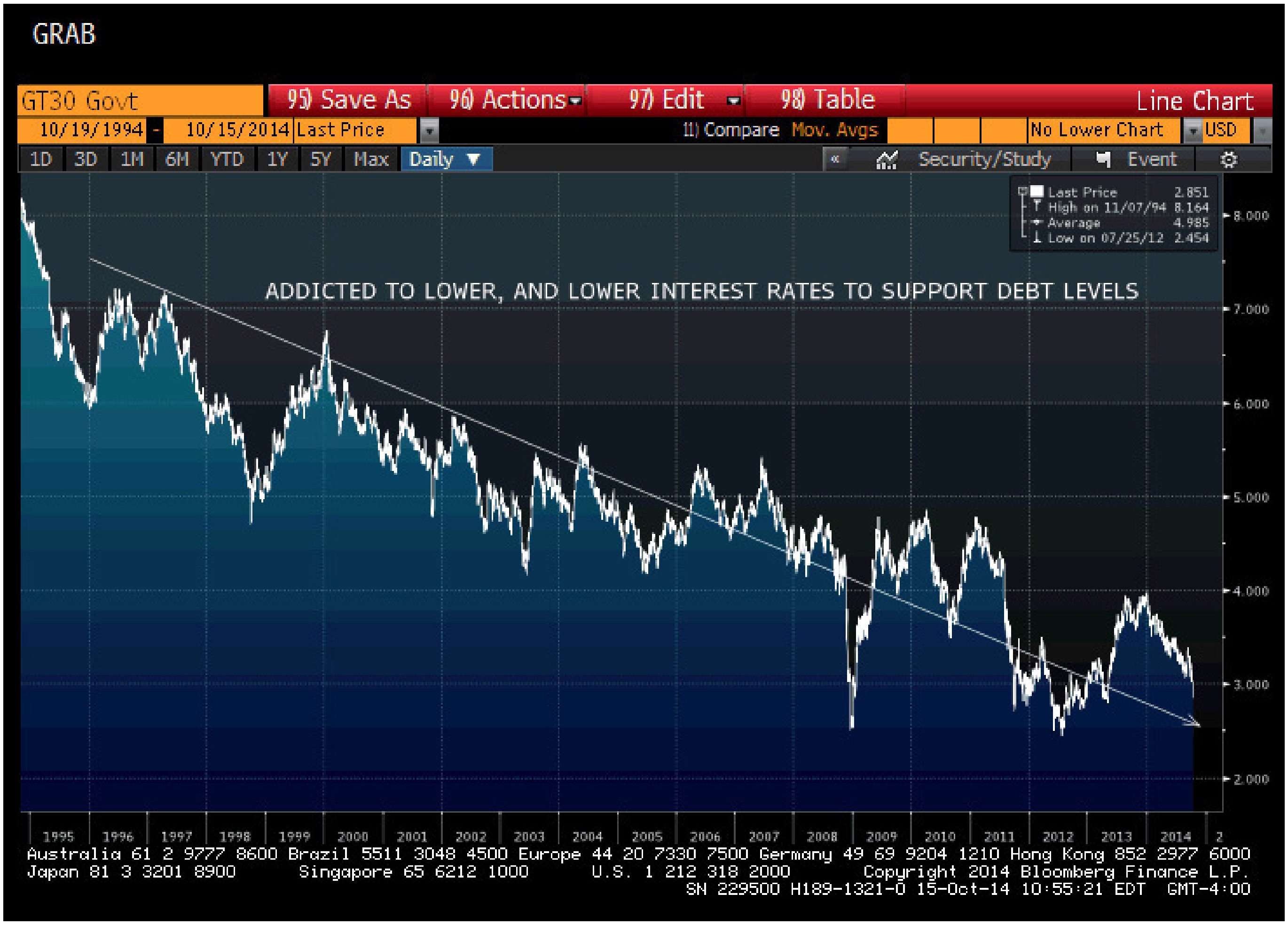
Source: Bloomberg

Exhibit 3: US Federal Budget Yearly Interest Expense



Source: Bloomberg

Exhibit 4: US Treasury 30-year Bond



Source: Bloomberg