**Fundamentally Flawed**

How the US, EU, UK, and Japan are Delaying the Inevitable Bankruptcy

By Chris Hamilton, February 2015

**Foreword**

This book uses publicly available data from the Bureau of Labor Service, Census, Federal Reserve, US Energy Information Agency, Congressional Budget Office, etc. to show a much different reality than what is portrayed by the government, the Federal Reserve, Wall Street economists, and the consensus viewpoint. From identical inputs, I will show stunningly different outputs than the consensus. Throughout this book, I offer graphs and correlations to help put the numbers into perspective. I do not claim to know all the answers nor claim this is an all-encompassing overview of the US or global economy. I only know what the data shows about what led to the financial crisis of 2008 and its aftermath. I also try to put the crisis into a broader context of economic and political developments from WWII ‘til present day. I also make some educated guesses about what may be taking place behind the scenes. Still, not all the pieces of data fit into a neat or tidy narrative...and that is the challenge of viewing reality and the global economy...it is shades of gray that require interpretation. I undoubtedly will be wrong with some of my conclusions but I hope this effort spurs better questions and answers. I believe that the general public wants to understand what is happening in our economic world and why. I hope those that challenge themselves to read this will gain context on the difficulties we face, have better ability to gauge the effectiveness and durability of the programs undertaken to deal with the crisis, and also have far more questions that require answers; not just of me but also of the federal government, Wall Street economists, the Federal Reserve, and ultimately of ourselves.
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BOOK OUTLINE

- WWII claims some 50 million lives in the conflict and simultaneously produces a low birth rate during the war...this is followed by the WWII-Participant Nations’ baby boom over the subsequent decade, and then post-baby boom slowing birth rates across these nations.

- As WWII draws to a close, the victorious nations arrange a new monetary system for the post-war period; the Bretton Woods agreement. The dollar was anointed the world reserve currency and the dollar was to be backed by gold to avoid the US abusing the privilege as reserve currency.
• The US ran a balanced budget for over a decade (from the War’s end until the late ‘50’s) and US had huge economic growth, wage increases, and stable inflation. However by mid ‘60’s, government debt began growing and “Great Society” programs were initiated in ’65.

• Beginning with the ’69 budget, Johnson’s “Great Society” programs were unfunded in the change to a Unified Budget process. The intent of the change was to co-mingle the Social Security and Medicare surplus’, meant to pay for future benefits, with the general federal budget receipts and outlays...all to pay for the Vietnam war without raising taxes...this was the kickoff of today’s massive unfunded liabilities and subsequent dollar proliferation.

• By 1971 Nixon closed the gold window, no longer allowing the conversion of excess creditor nation dollars to gold. This was in response to the US gold reserves having fallen nearly 60% in less than a decade (20+ k tons to 8,133.5 tons by 1971). The US gold standard (and basis of the Bretton Woods agreement) was abandoned. However, Nixon nearly simultaneously arranged the Petro dollar agreement that all Saudi and, subsequently, all OPEC oil (regardless the buying nation) must be paid for in US dollars and that all importing nations would need significant reserves of US dollars to facilitate this purchasing. The US pledged military and regime support for those OPEC “allies” that honored the petro dollar agreement. This arrangement allowed a conduit to export the massive dollar creation (US debt) globally without the potential hyperinflation in the US that would typically result from diluting a currency or the loss of the dollars purchasing power internationally.

• ‘80’s and ‘90’s were all about credit, “financialization”, and leverage masking slowing US wage growth...and then the tech bubble, the housing bubble, and now the government debt bubble. US manufacturing employment collapses despite the US maintaining its place as a major manufacturer and then the “FIRE” (finance, insurance, real estate) economy tanks in ’08-’09. Since, service sector job creation (primarily part-time and w/out benefits) lower quality
jobs replace lost higher quality full time jobs. And it’s all premised on false and unsustainable consumer and government debt.

- The following four indented points on banking and derivatives are important but in no way fully formed or inclusive. These are outside my expertise and beyond my scope...so I will mention them here but will not focus on these in my work as others have far better detailed these topics.

1. A series of federal banking deregulations from 1980 forward give banks like S&L’s (Savings and Loans) many of the same capabilities of commercial banks but without the same regulations. The late ‘80’s S&L crisis had resulted from among other things, a loophole in the Glass-Steagall act, which allowed “insolvent zombie” S&L’s to offer higher depositor yields paid for by S&L’s investing in riskier, higher yielding loans. The ultimate Resolution Trust Corporation shut down over 700 banks at a cost of $160 billion by 1995.

2. But by 1999, Congress repealed Glass-Steagall, the 1933 act meant to separate banks (with FDIC insurance) from riskier brokerage houses (without FDIC insurance). This change allowed commercial banks to operate brokerage houses, putting depositor monies at risk as banks were not satisfied with typical “banking earnings”. The “too big to fail” reality and the “heads big banks win, tails taxpayers lose” business model was fully formed.

3. The Big 5 US banks (BofA, Citi, JP Morgan, Goldman, Wells) utilizing VaR (value at risk) models to tie up the least amount of capital / deposits for reserves, allow the greatest possible leverage to maximize their riskier wins, and hedge themselves with derivatives like those offered by AIG so they were “well capitalized” in any negative event. As of Q3 2014, there is $239 trillion in notional derivatives and 80% of that is focused in interest
rate sensitive products. 95% of this derivative activities in the US is done by the big 5 banks.

4. Many of these derivatives were insurance like products...but so long as they weren’t called “insurance”, they were sold without the oversight of insurance regulators or the collateral regulations for potential losses. Often two institutions pledged with one another that if the other lost a million or a billion or whatever, the cross institution would bail them out. And vice versa. But without a central clearing house or regulator to confirm the cross parties did indeed have the resources to pay the claims...well liars poker was in full flight. Leverage to the nth degree allowed unbelievable profits but unbelievable risks. The $185 billion bailouts to AIG, $45 billion (each) to Bank of America and Citi-Group and $25 billion to JP Morgan seemed to imply they were not well capitalized or well hedged. I believe great risk still looms here with false reassurances that everyone is hedged...but my best guess is the hedges are no better now than in ’08.

- In 2007, the US 25-54 year-old total population and employment among that working age core segment peaked and has been falling since; taking organic demand with it...and this was generally occurring over most WWII-Participant nations. From 2007 through 2014, the US population grows by 17 million, but the growth of the 55+ population segment is responsible for 15 of the 17 million. Only 3 million net new jobs are created in the US economy...and US full time employment declines by 1 million. All the net job gains are low quality, low paying, no benefit, part-time positions. On a different metric, all the job gains are in the 55+ population segment while the 25-54 yr/old segment employment declines by 4 million. Plus, to top it off, median household incomes fall.
Nearly all future US (and advanced economy) population growth is premised on immigration and immigrants’ higher birth rates. In the US, almost all immigration revolves around Hispanics coming in search of work; raising the US portion of Hispanics from 15% today to 30% by 2050…but the premise of low skill, low education Hispanics coming to the US is a mismatch now that the US is not creating adequate jobs for its native population, let alone immigrants. And the new jobs that are created are primarily coming in high skill, high education sectors of the economy.

In 2009, on a GAAP (generally accepted accounting principles) basis, the US went bankrupt and economic activity begins declining; led by falling mortgage debt and falling energy consumption while debt, QE, and interest rate suppression have been the governmental response to declining quantity and quality of consumer demand…all in an attempt to disguise this bankruptcy.

The term “deflation” is brought into the financial lexicon as the new “boogeyman” to be feared. However, this is to disguise what is truly falling advanced-economy populations of working age citizens, falling advanced-economy real wages, and their waning demand for more credit and debt. These factors, in conjunction with the greatest innovative advancements in human history (replacing costly labor in every manner imaginable with higher productivity), meant the quantity and quality of jobs available would and will continue to shrink. This word “deflation” is meant to obscure that falling prices are, at times, inevitable and only via central bank intrusions can the natural course of deflation be synthetically turned to inflation (rewarding a minority group of asset holders at the non-asset holder majority’s expense).

Despite US federal debt ramping, in the July 2011 Debt Ceiling fiasco the US congress declines to enact any serious “austerity” and instead maintains massive trade and budget deficits and debt accumulation…indefinitely. The US is determined to abuse its status as global reserve currency
and refuses to live within its means, refuses to raise taxes (particularly on corporations) or cut spending.

- China’s reaction was immediate...in July 2011 China begins selling off Treasury’s & almost surely began buying gold in massive quantities alongside Russia and other developing nations...and gold / silver prices collapse on a huge increase in demand for physical gold while “paper” gold or digital gold / silver are liquidated and shorted to move the price down?!? And despite China’s selling of Treasury’s, yields collapse and prices rise on demand from entirely unforeseen buyers.

- Markets are premised on the notion that they are meant to reward good behavior and punish bad behavior (corporate or governmental). Given the bad advanced economies and advanced governance (particularly poor US governance), the Federal Reserve and advanced economy central banks determined that “markets” should essentially be overridden by the Feds QE, ECB’s LTRO, BOJ’s arrows and likely many other known and unknown programs...and US Treasuries were bought by the Federal Reserve, Japan (the same Japan that suffered the 4th largest quake in recorded history in March 2011, shut down all its nuclear plants and ran huge budget and trade deficits to purchase all their imported energy and keep the nation functioning post-quake / tsunami), Belgium, Cayman Islands, Luxembourg, and Ireland. None of these nations generally have the organic dollar reserves or trade surplus to make these purchases but, mysteriously, these buyers emerge on cue wanting ever-more US debt at ever-lower yields (while relative bond returns vs. equities or real estate are pathetic)...and the likely collusion of US / UK price suppression of gold / silver prices seem to indicate some sort of agreement may have been made between the US and China to maintain China’s manufacturing economy, maintain the inflow of cheap goods into the US, collapse US (and advanced economy) interest rates, and allow China to accumulate something of value with their ongoing record dollar reserve accumulation...avoiding a monetary panic while this plays out.
US oil production peaked in 1970 (with the advent of the petro dollar) and falls for nearly 4 decades...but US / Canadian oil production begins ramping in 2009/10 and creates nearly all net new oil supply to the global market since 2005. The US / Canada is the only region in the world to significantly increase production on the five times price increase (and present fall) of oil over the previous decade (in truth...Russia is the only other producer to take advantage with a modest production increase). The lack of oil production increases outside the US/Canada while the price of oil skyrocketed perhaps pointed to peaking production and/or a concerted effort by producers to be paid more for their asset in a rapidly diluting petro dollar...and perhaps the US/Canadian surge in rigs and production was a government supported effort to force prices down and avoid the global oil producers de-facto taxation of US consumers via high oil prices?

Certainly the low productivity of US / Canadian wells divided by total US/Canadian production (and significantly lower than every other region) calls into question the economic durability of US production gains.

From ’11 ‘til present, China runs record trade surpluses with the US but does not follow its previous decade-long pattern of recycling nearly 50% of its US dollar trade surplus into Treasuries...instead, with record quantities of dollars incoming, China continues selling Treasuries and almost surely accumulating gold.

The Federal Reserve announces the “taper” in Dec ‘13. Since the economic crisis, the Fed had been the primary buyer of the vast majority of all mid and long term US Treasury debt but this was to be decreased and then ceased over the course of the taper. Over this process, interest rates collapse to new lows as mysterious buying in Belgium, the Cayman Islands, Luxembourg, Japan and other odd locations suddenly buy unheard of quantities of US Treasury debt yielding record low rates. And simultaneously stock markets hit daily record highs despite record low cash positions among investors. Stocks and bonds both find record (though contradictory)
demand. Given the underfunding of pensions and boomers retiree plans and likewise the massive debts to be serviced…it’s fair to say record low bond yields and record high equities are likely national security issues and any unannounced actions taken to bolster these could be justified within the government.

- Likewise, OPEC nations continued running huge dollar surpluses but not recycling much into Treasuries (about a $30 billion total increase since ’11, from $245 to $275 billion)...while interestingly OPEC has been decreasing net oil exports since ’05. As the US created massive new debt, OPEC nations were paid significantly higher quantity in dollar terms for their oil despite the falling quality of those dollars purchasing power...until US and Canadian production increases beginning in ’09 eventually undercut their pricing...this diluted dollar combined with collapsed oil prices is likely putting the Petro Dollar agreement in real peril...and the dollar’s place as the global reserve currency in question.

- And now the Dollar is “strengthening” on perceived Federal Reserve tightening (formal QE terminated). After an increase in the US monetary base of 375% or $3.3 trillion from ‘08 until peaking in Sept ’14 @ $4.15 trillion...the subsequent fall in the monetary base of $200 billion (5% decline) has sent the dollar soaring since September of ’14...and oil prices collapsing. Clearly this is placing the US and Canadian shale and tar sands producers in true peril of a trillion dollar later day subprime-like collapse (and bailout?)...and the oil price collapse double whammy is the likely impending undoing a large portion of the US job gains since ’09, which came in the energy sector.

- China and others are presently accumulating gold at breakneck speed and arranging non-dollar trading arrangements...as if the dollar would not be the reserve currency. I believe the US and advanced economy nations’ central banks and their agents are accumulating all the US, EU, UK, and Japanese government debt possible. This is collapsing the interest rates and making the
debt serviceable (the trend among advanced nation government bonds yields to zero interest rates is clear). Commodities are collapsing in price (some on record demand) and “dollar strength”. And advanced economies’ 25-64 year old populations will be shrinking for a decade while their 65+ year-old needy populations will spike over the same period...and global population growth in Africa or other poor developing nations does not replace the falling demand among the advanced nations. The pre-supposed population driver to advanced nations of immigration is quite dubious and an obvious mismatch of low skill workers into high-skill economies, creating insufficient jobs even for their native populations, let alone immigrants. The only perceived answer the US, EU, UK, and Japan have to mask collapsing organic demand from falling working age populations is more and faster debt creation...but will that debt be accepted and for how long? What will be the impact on the dollar given the necessity of further debt creation but potentially absent a functioning petro dollar arrangement (and declining need for dollar reserves globally) to accept the excess dollars? Gold’s role in this near future environment isn’t entirely clear but its importance is obvious.

- However, global total debt to GDP (government, consumer, financial, corporate) continues to ramp...up from 246% in 2000, 269% in 2007, to 286% at years end 2014. Globally, debt continues growing faster than the economic activity it spurs. But, it should be noted that debt growth in advanced economies is coming almost exclusively via government debt...while developing nation’s debt is rising but primarily via consumer, corporate, and financial debt. China alone has quadrupled its total debt from 2007 to present ($7 trillion to $28 trillion primarily via corporate, financial, and household debt and over 50% of all this is funding real estate loans...that’s how you do a bubble!). Net-net, deleveraging simply isn’t happening as the $57 trillion rise (40% increase from $142 trillion to $199 trillion) in total global debt since ’07 or 230% since ’00 ($87 trillion to $199 trillion) should make eminently clear.
• My best guess (certainly unprovable) is that the US gold window (following the thousands of year-old system of gold transfer to balance trade surpluses / deficits among nations) was perhaps never truly closed by Nixon or subsequent to the ’08-’09 economic crisis perhaps was quietly re-opened. This may have been necessary to entice foreign Treasury buyers to buy record Treasury issuance with a sweetener (gold) as Treasury’s yields soured and US debt became rampant. But after the combination of G7 allowance in March 2011 for Japanese currency manipulation (to China’s detriment) and the July 2011 debt ceiling debacle, perhaps the US government closed this arrangement as China and other net dollar surplus nations were replaced by Fed and advanced economy central bank “shadow QE” and/or the US ran out of gold and foreigner creditors were no longer were interested in worthless pieces of US paper. Foreign trade surplus nations no longer recycled dollars as they had for the previous decade and strangely new nations began incredible (unbelievable) accumulations, seemingly acting as false fronts to maintain bond bids for ever more debt at ever lower interest rates. These buyers seemed unconcerned about returns or underperformance among their peers?!? No way to know, but July 2011 looks like it was the end of one monetary regime and perhaps the start of another or perhaps we are in limbo waiting for the new systems formal rollout and revelation.

• To tie it all up…Once upon a time, business would recognize unmet demand and by taking credit (debt) would fill that need and from this effort intended to pay back the debt (principal & the interest) and still make a profit. The government’s role was primarily that of a referee (of course there were bribing scandals large and small along the way…but generally government set rules and allowed business to operate within those rules). However, about 1970 the government believed its role was no longer just a referee but also a player in the game. The Government and Fed determined they knew appropriate demand and decided to provide cheap money and deficit spending (debt) to create demand that would not have otherwise been there…but the
government no longer intended to repay the principal (ever) and debt servicing would be managed via the Fed’s 4+ decades of declining interest rate policies. And the debt ballooned and interest costs did not. Government debt and false interest rates created real demand that created real supply...It’s so important to realize the Fed’s abuse of low (and now zero) interest rate policy induced massive US credit (debt), pulling forward demand, perhaps 5% to 10% annually over the last 5 decades. This credit was spent like money and created real demand met by real supply increases the world over. And the Fed’s consistently lower rates induced corporations to play the same game...taking on massive debt with no intention of repaying the principal, only rolling existing debt to consistently lower servicing costs. And eventually homeowners were brought into the game with refinancing and HELOC’s to enjoy the good life. However, now advanced economy consumers are unwilling or unable to take on more debt. Absent the desired demand, the overcapacity of everything is now laid bare...and the only means to temporarily mask this is by further collapsing rates and more deficit spending?!? What we are viewing is collapsing demand highlighting the massive oversupply of nearly every sort of manufacturing, shipping, mining, oil production, retail, etc. etc. above and beyond what organic demand (ie, wages, savings) can pay for. Of course financial assets from real estate to equities to bonds are no different, in massive overcapacity and overvaluation. Without even lower rates (NIRP?) and far greater debt (particularly given the shrinking core populations), there will not be adequate demand for all the overbuilt industries of the world, let alone much of anything new. That is a classic set up for one hell of a depression...all because the Fed thought it knew better and could avoid the cleansing effect of recessions maintaining demand by interest rate trickery...so now a depression, magnitudes greater than the recessions we should have had, is the only means to cull all the overcapacity and debt. This will ultimately return consumers, business, and government alike to solid traditional footing of honest balance
sheets and simple supply and demand curves...but the pain will be acute and widespread. And the greatest fear of all is the Fed will try to fully monetize this solvency crisis...as this is the only play in their playbook...and that is the greatest risk of all to the dollar’s continued existence. Individually, you must choose from the few options available and safeguard your money and assets best as possible; but in truth there isn’t likely a low risk option to hide from this maelstrom. The solutions are not individual investment options but collective political choices that will decide if America’s best days are behind or ahead of us.

Chapter 1 – “Advanced Economies” vs. Developing Economies

To put things in perspective, let’s start with global debt vs. global GDP (gross domestic product). As shown in the below chart, debt continues growing faster than economic underlying growth.

And a quick look at the four sources of the global debt; Household, Government, Corporate, and Financial.
Obviously, global debt in total dollar terms and debt to GDP as a % continues to ramp. *Globally, debt continues growing faster than the economic activity it spurs.* But, debts growth in advanced economies is coming almost exclusively via government debt...while developing nation’s debt *is* rising but primarily via consumer, corporate, and financial debt. China alone has quadrupled its total debt from 2007 to present ($7 trillion to $28 trillion primarily via corporate, financial, and household debt and over 50% of all this is funding real estate loans...that’s how you do a bubble!). Net-net, deleveraging simply isn’t happening as the $57 trillion rise in total global debt since ’07 should make eminently clear.

**Advanced Economies**

America, Japan, France, Italy, UK, and Spain (and many more advanced nations) share characteristics and problems that brought on the 2008/2009 bust and reasons times are likely to get far more difficult over the coming decade. This isn’t simply an American issue, this is a global post WWII baby boom and subsequent baby bust phenomenon layered with bad assumptions and bad governance. And now as those nations most impacted by WWII are getting older, they tend to make more promises and tax themselves less for these promises...better known as deep deficits and debt.
Japan’s 230% debt to GDP and 25%+ of its population 65+ years old is truly worst in class and shows the absolute worst governance and preparedness for the entirely predictable negative demographic situation they now find themselves. Shocker, Germany with the second largest % of 65+ year olds of any major economy has only one quarter Japan’s debt to GDP and seems far better prepared for the entirely predictable demographic situation they now find themselves.

Staying in Europe, shocker again, Italy is the European equivalent of the economic walking dead (Japan). Japan and Italy have approximately 21.5% of all global public debt, horrible demographics, no economic growth to speak of…and no answers. In fact; Japan, Italy, France, UK, and Spain collectively have the equivalent total public debt to the US...collectively holding 32% of global debt. Or said differently, with the US added in there alongside Japan, UK, France, Italy, and Spain...these nations hold 64% of all global public debt although comprising only about 10% of earth’s population.

And all six “advanced economies” are too old and too indebted to ever grow their way out from under this debt. The only answer is a bankruptcy where present and future available national income is paired up with the most critical present and future national needs…but let’s not get ahead of ourselves.
A point of order regarding the debt...this is money owed by the governments to its people and creditors. But every debt owed by the government is someone else’s asset...either as social security checks or Medicare or pensions or a plethora of programs or Treasury bond repayments. Certainly nations can (and often have) cancel their debts and declare them null and void. But, the economic impact of, for instance, social security recipients not getting their checks means a significant economic slowdown leading to declining tax revenue making further spending cuts necessary. Every action has a reaction and cutting present debt is the same as cutting future economic activity. I do advocate for this bankruptcy but I don’t claim it will be nice or easy...it will suck! But it’s necessary none the less.

On the other side of the coin are the BRIICT (Brazil, Russia, India, Indonesia, China, & Turkey) nations. They generally have low levels of government debt, a lower percentage of the world’s total debt, and about 45% of all citizens on earth.

Advanced vs. BRIICT 65+ year old populations
The chart below shows the % of these advanced nation’s 65+ years old populations. Generally speaking, at 65 years old folks move into retirement, cease accumulating assets, begin drawing from social programs and pensions, begin liquidating 401k’s / IRA’s, and paying relatively little into the system...your results may vary. And as the percentage of 65+ year olds rises, the %’s in the younger population segments correspondingly declines.

And as a reminder, 2007 was the year the 25-54 year old US total population peaked...both in total population and employment. And in lieu of population, wage, or job growth to maintain demand for assets, the Federal Reserve and Federal government created massive debt to disguise the falling organic demand via QE / ZIRP.
Below you can see the impact of the US 25-54 year old population peaking and beginning its fall. Oil consumption, mortgage debt both fall in unison with the falling 25-54 year old population.
But the big adjustment is just beginning. The chart below of the US population breakdown over the next decade shows 2015 is likely be the peak for the 25-64 year old segment of the population…and the decline of US and advanced economy 25-64 year old populations will likely go on for a decade before stabilizing. More sellers and fewer buyers...central banks and governments will need to significantly pick up the pace of monetization to disguise this waning demand and growing supply.

And again, this is global advanced economy wide. See US, EU, Japan peaking 25-54yr/old populations below.
And a much better view of the leading nations of the EU below (UK is the only nation that has not peaked in either the 25-54 or 15-64 year/old segments). What could be more “DEFLATIONARY” than falling populations of working age citizens???

And the decline from each nations peak 25-54 and larger 15-64 yr/old populations. Japan has been falling since the ‘90’s while the US and Spain are the newest to begin declining (below).

In contrast, the BRIICT are relatively younger nations (below) with most their populations in consumption and accumulation mode and relatively few in the 65+ year old retirement liquidation zone.
A very big detail that is little understood is that almost all (if not all) of the US population growth for the next decade (and next 5 decades) is intended to be via ongoing immigration and the significantly higher birthrates of these immigrants and their offspring (high birth rates is the Census way of saying these immigrants will come from Mexico, Latin America, and the Caribbean…and the percentage of Hispanic US population to soar from the present 15% to double that @ 30% by 2050). However, when the US (and other advanced nations) are no longer creating anywhere near enough jobs for even its own citizens, particularly for those with low skill and lower levels of education…the draw of economic advancement will draw and employ fewer than expected…and those that do come rather than finding plentiful work will likely fill lines drawing from the social safety net...creating even greater societal strains and tensions of native born vs. immigrants (US for sure but particularly across the EU where much greater cultural and religious differences will be magnified). But slowing immigration on top of tumbling birth rates means even greater deceleration of advanced populations and even greater economic slowdown.

Below, global debt to GDP vs. the % of each nations’ population that is 65+ years old. There is a very strong relationship between aging nations and the amount of debt they incur.
And below, the progression of the largest economies aging from 1960 vs. 2013. The already relatively older advanced nations are set to hit peak % of their populations 65+ years old over the next decade.
Advanced vs. BRIICT Oil Consumption

The below chart highlights the falling consumption of oil by all six advanced nations despite larger populations, more cars, etc. Some portion of the decline may be attributed to substituting nuclear (France, Japan) or eco-friendly (Germany)...however, oil has few substitutes so generally a falling consumption of oil is a good indicator of slowing activity within an economy. The chart shows both how far consumption has fallen (as a % from peak) and when that peak consumption occurred. That France is using less oil now than at least 35 years ago is astounding...but Japan and the UK peaked in ’96. Italy peaked in ’99 after flat lining since at least 1980 and total Italian consumption has plunged by 32% since. The US peaked in ’05 and Spain in ’07 but Spain’s 25% reduction in consumption is so short a time is stunning (although I’ll admit I spent a week in N. Spain cycling last fall and had noticeably less traffic to deal with).

And below a line chart showing the advanced economy oil consumption peaks and subsequent declining consumption.
And below, BRIICT oil consumption is on the rise despite record prices over the last decade. All but Russia have never consumed more oil than they do now. Russia peaked in the Soviet Union period, bottomed in ’98 and is moving to higher annual consumption since.

**Advanced vs. BRIICT Debt to GDP & Interest Rate Impacts**

Below, the six “advanced economy” nations all have the same answer to deal with slowing economies, aging populations, and excessive debt...more debt. Below, spiking debt to GDP.
And the BRIICT nations are generally decreasing their government debt loads over the same period.

Advanced Nations with Ramping Debt to GDP

These Nations have no Answer but more Debt now to be paid by Fewer People in the Near Future...Insanity.

BRIICT - Debt to GDP flat to declining

Russia's default in '98 leaves them with unusually low government debt for an advanced economy.

And below you can see how that debt in America is made serviceable...over 3 decades of interest rate suppression, boosting asset prices, and encouraging ever more debt.
And below all six advanced economy nations are following the same path to zero or even negative “yielding” 10 year debt. Below is the collapsing 10yr sovereign debt of all six...lucky for them this has happened as their debt loads have spiked to record highs.

And BRIICT interest rates remain flat or even rising...which probably isn’t a big deal from a debt service perspective since they have relatively little debt.
Rising Debts and Shrinking Interest Payments...Global Advanced Economy Phenomenon

- Interestingly, the highly indebted, low growth EU, UK, US, and Japanese economies have ramped Debt-to-GDP levels about 50% since ’00 and have been rewarded with huge reductions in their interest costs on that debt!?! Surprisingly, non-Euro currency European nations and the BRICS have reduced their debt-to-GDP levels by about 20% and been penalized by relatively smaller reductions in the cost of their debt and rising debt costs!?!
Europe is nearly unanimously in a “depression” state but those within the EU (& UK) on average added 50% to their debt / GDP ratios from ’00 to present while those outside the Euro decreased their ratios by 2%!?! Seems those who joined the Euro currency were incented to take out ever more debt at ever lower rates.

**Chapter 2…US Dollar; Bretton Woods to “Petro Dollar”**

Following WWII, a new monetary system for international commerce and finance was implemented. This agreement known as Bretton Woods gave the expected Allied victors the spoils and represented the World as of 1945.

**CHIEF FEATURES OF THE BRETTON WOODS SYSTEM:**

- An obligation for each country to adopt a monetary policy that maintained the exchange rate by tying its currency to the U.S. dollar
- The ability of the IMF (created by the Bretton Woods agreement along with many other current day acronyms) to bridge temporary imbalances of payments (IMF would loan money to nations in trouble with strings attached to ideally resolve these imbalances and keep the system functioning).
- Address the lack of cooperation among other countries and to prevent competitive currency devaluations (in an attempt to avoid countries printing money to cheapen their exports and gain advantages in trading).
- To ensure the US did not abuse it’s privilege as the world’s de-facto currency, the US dollar would be freely convertible into gold *(if* the US printed an excess quantity of $’s, nations accumulating too many dollars from US trade/budget deficits could convert and retire these dollars into gold). Gold represented a relatively fixed quantity and storage of value.
WHAT ACTUALLY TOOK PLACE:

- 1946-1959 US federal debt was flat ($269 B to $285 B)...Debt/GDP fell from 113% to 54%... the US essentially ran a balanced budget adding approximately $1 B annually to national debt over 13 years, (about a third of a % annually...all while conducting the Marshall plan, the Korean War, and huge US infrastructure projects).

- 1960-1975 US federal debt doubled ($285 B to $533 B) while GDP grew 3.3x’s ($525 B to $1.7 T)...in ’75 the US hit a Debt/GDP post Great Depression low of 31%.  But great forces were already set in motion that would lead us to today’s trouble...including the initiation of the Great Society in ‘65 and LBJ’s four years later theft of these surplus’ meant to cover future tax shortfalls for these programs...all to hide the true cost of the Vietnam war...all under the “Unified Budget”.  Unfunded liabilities had begun and the horse was out of the barn.

RAMIFICATIONS

- The US had roughly 19,000 tons of gold as of the end of WWII and peaked in excess of 20,000 tons by 1958...but by 1971, the redemptions by nations concerned over US deficit spending and printing had reduced the US gold holdings to just over 8,200 tons and a run on the remaining gold looked likely.

- 1971 President Nixon closed the US dollars convertibility into gold...but to avoid the dollars demise, Nixon struck an agreement with Saudi Arabia (and soon after all of OPEC) that all future purchases of oil will need be conducted in US dollars (regardless the buyer or destination).  In exchange, the US promised weapons and protection to these close “allies” of the US. Unfortunately, this policy rewarded some very un-democratic and very despotic leaders in the middle-East and elsewhere whom reaped the rewards with a tiny minority of their cohorts.
These policies typically left the oil producing populaces poor and seething with anger at the US for supporting kings and dictators who ruled in complete contradiction to US founding principles and the interests of the citizens of those nations.

- Ultimately, this petro-dollar agreement allowed the US to run very large trade and budget deficits and export the excess dollars worldwide (through our trade/budget deficits) that would have otherwise created significant inflation within the United States.
- This Petro-dollar agreement compelled by force of necessity a gigantic supply of dollars to be accumulated by foreign nations worldwide.
  - In fact, the estimate is that there are more than 4x’s the supply of all money in the US ($2.8T, M1) held abroad ($12T+). This includes nearly $6 T in foreign held US Treasury’s, $4 T to $6 T in formal Reserves, and the Federal Reserve estimated that 55% to 70% (and potentially in excess of 100% of domestic M1) was held abroad and increasing as of 2012* (80% of all US currency is $100 bills, but foreigners also hold lesser amounts in $50’s and $20’s). These formal and informal dollar and US Treasury reserves held by foreign nations allow trade in oil and other de-facto dollar denominated commodities (legal and/or illicit).

**THEN AND NOW**

But global power has shifted a bit since 1945 and the US has balked on its Bretton Woods pledges, the Middle-East teams with “radicals” and “revolutionaries”, and now the BRICS (Brazil, Russia, India, China, S. Africa) seem on the precipice of a new global currency regime.
Today, the BRICS account for about 25 per cent of global GDP, 35 per cent of total international reserves (with China at over $4 trillion), 25 per cent of total land area and around 42 per cent of the world’s population…and BRICS affiliated nations increase these numbers significantly more.

However, despite their economic weight, the BRICS’ representation, voting power, participation in management and staff in the Bretton Woods institutions (International Monetary Fund, World Bank, World Trade Organization, and International Finance Corporation) and others like the Bank of International Settlement, displays a major deficit of ‘voice’ and influence.

As of July ‘14, the BRICS nations formally agreed on a BRICS bank funded w/ $100B to rival the influence and power of the IMF. This money is to be lent to nations in competition with the IMF $’s (typically with US directed strings attached). China, Brazil, Russia, and so many more are moving away from clearing their trade in dollars and instead utilizing the Yuan, the Real, the Ruble, etc. Please note that Russia and Saudi Arabia are now the largest exporters of oil – and at least Russia is moving rapidly to settle in anything but the dollar…and the troubles in Saudi Arabia, Iran, Iraq, Libya, Syria, Ukraine, etc. are all symptomatic of this potential shift.

China is organizing itself and its trade partners in at least 24 separate agreements to transact in the Yuan rather than the dollar. As of 2009, less than 1% of China’s global trade was settled in Yuan but by mid-2013, 17% of Chinese trade was being cleared in Yuan…almost entirely at the expense of the dollar. And the trend and structure to allow far more has only accelerated throughout the BRICS.

It should be very clear where this trend is going and the implications to the United States – the Congressional Budget Office and like prognosticators have acknowledged the US will soon need to
run larger budget deficits in excess of $1 T (again) due to large debt loads, growing social programs, and large unfunded liabilities. Of course the situation will only get worse because:

a. We consistently spend more than we take in as tax revenue but due to Cash-Based accounting the true nature of the deficit spending is concealed.

b. We continue adding new participants to existing entitlement programs increasing present and future unfunded liabilities...while the tax payers per social program recipient is collapsing.

c. We add new entitlement programs (i.e. the Prescription Drug Act in 2003 and the Affordable Care Act in 2010) therefore increasing our future liabilities.

d. We incur interest expense each year on our Federal Obligation; real interest on our Treasury debt.

All this will necessitate the world accept and utilize these greater quantities of dollars. HOWEVER, the existing dollar system is not in the favor of most of the new powers of the world...and they are rapidly moving to reduce their dependence on the dollar...just as the US will need foreigners to embrace it more than ever. Rock meet hard place.

If $12+ trillion (plus the continuing growth in available dollars) is no longer needed as reserves for international settlement – where does that money go? Well, a relatively small reduction (say 5%-10% over a period, say 2014) would free up $600 B to $1.2 T to move where dollars are still readily accepted...the US of A. Typically, these dollars would be levered up (say conservatively 5x’s)...and voila, $3 T to $6 T of purchasing power is introduced to America in 2014. Things like stocks, bonds, and Real Estate would be very positively pushed higher and higher (rents, insurance, etc. would also be unwelcomingly pushed higher as wages remain flat due to structural unemployment issues...in other words, asset owners are rewarded, wage earners are punished). As the Fed’s Z1 Household
Survey displays, asset prices skyrocketed without wage gains, with a reduction in total US household liability, and a flat total US workforce. The data shows from Q1 2009 the Z1 household net worth bottomed at $55 trillion but by Q3 2014 had rebounded by 50% (+$26.3 trillion) to $81.3 trillion total...all while household liabilities (mortgages, all loans, etc.) fell (-$300 B), wages remained flat, and the full time US workforce declined by 1 million. So, where did all the money come from?

Let’s say in 2015 the pace of BRICS, etc. non-dollar trade continues expanding and international settlement in non-dollars grows by 20%...and 20% of dollars are no longer needed as reserves to buy oil, wheat, etc. etc. This is about $2.4 T formerly held reserves cleared to go looking for a home...the US of A. $2.4 T levered again very conservatively @ 5x’s (or 20% cash down) is $12 T in “hot” money looking for assets. With just a fraction of all the inflation the US exported over the 43 year period of ’71-present...this creates what amounts to a potential hyperinflationary dollar overdose for America. Foreign holders of US money chasing assets in America where dollars are readily accepted. And of course, once these things start, they create a momentum of their own and a likely counter by the administration to freeze out these dollars and the likely panic this ensues both domestically and internationally.

**The Petro Dollar**

As of July ‘14, the BRICS nations formally agreed on a BRICS bank funded w/ $100 billion to rival the influence and power of the IMF. This money is to be lent to nations in need, as an alternative to the IMF (typically with US directed strings attached). China, Brazil, Russia, and so many more are moving away from clearing their trade in dollars and instead utilizing the Yuan, the Real, the Ruble, etc. Please note that Russia and Saudi Arabia are now the largest exporters of oil – and at least Russia is moving rapidly to settle in anything but the dollar...and the troubles in Saudi Arabia, Iran,
Iraq, Libya, Syria, Ukraine, etc. are all symptomatic of this conflict for which currency(s) will be used to settle trade.

China, now officially the world’s largest economy, is organizing itself and its trade partners in at least 24 separate agreements to transact in the Yuan rather than the dollar. As of 2009, less than 1% of China’s global trade was settled in Yuan but by mid-2013, 17% of Chinese trade was being cleared in Yuan…almost entirely at the expense of the dollar. And the trend and structure to allow for far more has only accelerated throughout the BRICS. As the below chart highlights, dollar reserves as a % of foreign creditors holdings are declining…and if Iran, Russia, and potentially others determine to clear trade, and particularly trade for oil, in non-dollar currencies…the need for global dollar reserves could accelerate its already declining role rapidly.
And just one chart to put today’s strong dollar in perspective vs. previous periods of appreciation… and previous periods of strength led to weakening US exports and weak dollar policies to counteract this. Will this time be any different?

Chapter 3 – American Economic Scoreboard

The chart below is a snapshot of relative sizes of all assets, the economic and tax base, and all liabilities within America.
The below chart shows while the % of American’s 65 and older is now up to 14% and rapidly rising, apparently the future when the 65+ population is significantly larger and the working age population smaller will be a better time to repay these spiraling debts and obligations?!? Here is a breakdown of each column:

1. % of 65+ year old US population
2. (Treasury) Debt to GDP – size of outstanding public debt (bills, notes, bonds) vs. all annual economic activity.
3. (Treasury) Debt to Tax Revenue - In order to pay off our Treasury debt starting today, it would take six years of all federal tax revenue paying nothing but Treasury holders to clean the sheet...
4. Total Debt to GDP - In order to pay off all Treasury debt and fund all future unfunded obligations (filling the anticipated gap between future tax revenues and future payouts) would require the government to collect all US economic activity for 6 years (or in essence a 100% tax on every movement within the economy for 6 years).
5. Total Debt to Tax Revenue – All debt and unfunded obligations vs annual federal tax revenue...yup, it would take 35 years at current federal tax revenue collection pace, spent on nothing but paying off debt and funding all of America’s promises while undertaking no spending (no SS, Medicare, no military, no welfare...nothing for 35 years).
Of course, debt isn’t necessarily bad…it’s only bad when it’s undertaken without the intent of repaying and the suppression of interest rates becomes a national security risk to mask bankruptcy! But America has no interest or intention of paying off or even paying down its debts...apparently ever. America chose this course in back to back actions in the 1969 transition to a Unified Budget and then the 1971 dismissal of the Bretton Woods Accord and closure of dollar convertibility to gold. America would forever more only make interest payments on an ever larger debt load and its currency would continue to be utilized thanks to the Petro-Dollar agreement with Saudi Arabia and OPEC. So, ever more debt and no concern the currency would be rejected. The only thing necessary was an enabler to suppress interest rates. And voila...enter the ultimate enabler...the Federal Reserve and central banks around the world. That interest costs would be perpetually lower to allow ever more debt was a done deal. And below is the ramping US debt minus the ramping interest costs that many anticipated alongside the debt...
The Federal Reserve’s enabling destroyed the American government’s primary role of compromising between spending and taxation. Instead, America’s representatives quickly caught on they could spend more and tax less running gargantuan deficits seemingly without implication. And a snapshot of federal government receipts (taxes) and outlays (spending) below.
And the rapidly rising spending (below) absent the rise in tax receipts to pay for that spending.

The chart below shows that student loan debt is skyrocketing in the 15-24 set, household formation is slowing and being delayed ‘til much later resulting in shrinking family size and first time home buyers declining.

- 15-24 year old population segment isn’t growing, college graduates are highly indebted from school and job quality and wage growth prospects to repay debt are poor.
- 2/3rds college students borrow money for school and the average debt is now $35k...37 million have student debt and the amount now well exceeds credit card debt.
3.1 WHY AMERICA IS BANKRUPT

There are many ways to look at the United States government’s balance sheet. I prefer a simple comparison of all government debt & obligations (ultimately the obligation of its citizens) vs. all citizens’ assets. Liabilities include Treasury debt held by the public or more broadly total Treasury debt outstanding. There’s unfunded liabilities like Medicare and Social Security. There are government and veterans pensions. And then on other side of the ledger are the assets (minus their outstanding debt) of all citizens including the real estate, all equities, all bonds, all the deposits, and everything they own…all at today’s valuations.

But let’s cut straight to the bottom line and add it all up using the governments’ own numbers…as of Jan 1 2013, it was $89.5 trillion in liabilities and $69.5 trillion in assets. There. It’s not a secret anymore…and although these are all government numbers, for some strange reason the government never adds them all together or explains them. And making pretty conservative estimates, as of Dec 31, 2014 America’s balance sheet is $100.1 trillion in federal government liabilities and $81.3 trillion in US held assets.
The $100 trillion in liabilities include:

- $21.3 trillion Treasury, Pensions, “other” debt
  - $13 trillion public Treasury debt as of Dec 31, 2014 (interest rate sensitive bonds sold to finance government deficit spending)
    - Fyi - $5.12 trillion of “intra-governmental” Treasury debt are not included as these Social Security surplus’ are spent and now held as Treasury IOU’s...they are considered an asset of the particular programs (SS, etc.)...they more realistically should be added to the above but what’s an extra $5 trillion among friends?
  - $6.8 trillion civilian and military pensions, est. for Dec 31 2014 (was $6.54 trillion, Sept 30, 2013)
  - $1.5 trillion in “other” liabilities
• $79 trillion unfunded liabilities estimated as of Jan 1, 2015. This was $69 trillion as of Jan 1, 2013. This represents, in net present value terms, what should be held in savings now to make up the present and future anticipated tax shortfalls vs. present and future payouts. This need can be satisfied only through increased borrowing, higher taxes, reduced program spending, or some combination thereof.
  - $4.1 trillion SMI (Supplemental Medical Insurance)
  - $44.9 trillion Medicare or HI (Hospital Insurance) Part B / D
  - $29.9 trillion Social Security or OASDI (Old Age Survivors Disability Insurance)
    ▪ Fyi - $5+ trillion of additional unfunded state liabilities not included.

Source: 2013 OASDI and Medicare Trustees’ Reports. (pg. 183)

It bears repeating…these unfunded liabilities can be satisfied only through increased borrowing, higher taxes, reduced program spending, or some combination. And very noteworthy is that while total debt increased $73 trillion from ‘00 to ’14, the Federal Government tax revenue only increased by $800 billion from $2 trillion to about $2.8 trillion...an absurdly low income to service such an immense and rapidly growing debt.

$81.3 trillion in US Household “net worth”

According to the Federal Reserve Z.1 balance sheet, the US (as of Q3 2014) has a net worth of $81.3 trillion – significantly up from the ‘09 low of $55.5 trillion...a $26 trillion increase in five years. All while wages have been flat to declining and total household income increased only $1.4 trillion. A cursory glance at the Federal Reserve’s $4 trillion in balance sheet growth in the same time period shows how the lack of growth in “household” liabilities (still down over a half a trillion from its record peak in ’08) has been co-opted by the Federal government and Federal Reserve’s willingness to take on new debt.
I believe it is clear when incomes no longer supported credit and debt growth in ’08, consumers tapped out and in stepped the Federal Reserve to bridge the slowdown. But what the Fed may or may not have realized is once they stepped in, there was no stepping out.

While many try to dismiss these unfunded liabilities assuming we will continue to only service the debt (rather than ever repay principal as well); assuming we will turn down the SS benefits via means testing, delaying benefits, reducing benefits; assuming we will bend the curve regarding Medicaid, Medicare, and Welfare benefits; assuming we will avoid further far flung wars and military obligations and stop feeding the military industrial complex; assuming no future economic slowdowns or recessions or worse; assuming a cheap and plentiful energy source is found to transition away from oil. Assuming economic growth, population growth, and immigration growth. But all these debts and liabilities are someone else’s future income they are now reliant upon; someone’s future addition to GDP. If these debts or obligations are curtailed or cancelled to reduce the debt or future liability, the future GDP slows in kind and tax revenues lag and budget deficits grow. Of course I advocate these debts and liabilities cannot be maintained, but austerity (real austerity) is painful and would set the stage for a likely depression where the nation (world) proceeds with a bankruptcy determining what and how much of the promises made can be honored until wants, needs, and means are all brought back in alignment.

3.2 How We Got Here - Growth of Debt vs. GDP

45 years of ever increasing debt loads, social safety net growth, corporate welfare. 45 years of Rep’s and Dem’s in the White House and Congress bought by special interests and politicians buying citizens votes with laws enacted absent the revenue to pay for them. We have a Treasury and Federal Reserve willing to “innovate” and wordsmith to avoid the national recognition of the true difficulties and implications of our present situation. 45 years of intentionally avoiding an honest accounting of our national obligations. Mislabling and misdirecting to pretend these obligations can and will be honored.
45 years of cornice like debt and promise accumulation simply awaiting the avalanche of claimant redemptions and debt repayments.

First, an historical snapshot of the last time US Treasury debt was larger than our economy (debt/GDP in excess of 100% in 1946) and subsequent progress of debt vs. GDP. During the 14 year period post WWII, the US engaged in “austerity” while GDP doubled in size curing America’s post war budgetary problems...but anyone suggesting there is a parallel from post WWII’s combination of austerity and economic growth to today’s situation is simply ludicrous. Obviously austerity and budgetary constraints fall away over the decades and are replaced by credit and debt...but GDP and wage growth do not continue to maintain pace with the debt...

Post-WWII:

- ‘46-'59 (14yrs)
  - Debt grew 1.06x’s ($269 B to $285 B)
  - GDP grew 2.2x’s ($228 B to $525 B); Income (Wages/Salary) grew 2.3x’s ($115 B to $264 B)

- ‘60-'75 (15yrs)
  - Debt grew 2x’s ($285 B to $533 B)
  - GDP grew 3.3x’s ($525 B to $1.7 T); Income grew 3.1x’s ($271 B to $846 B)
    - ‘65 Great Society initiated, ‘69 unfunded liabilities begin under a “Unified Budget”

Post-Vietnam War:

- ‘76-'04 (28yrs)
Debt grew 15x’s ($533 B → $7.4 T); Unfunded liability 15x’s ($3 T to $45 T)

GDP grew 7.3x’s ($1.7 T → $12.4 T); Income grew 6.4x’s ($871 B to $5.5 T)

‘05 - ‘14 (9yrs)

Debt grew 2.4x’s ($7.4 T → $18 T); Unfunded liability 2.2x’s ($45 T to $100 T)

GDP grew 1.4x’s or 140% ($12.4 T → $18 T); Income grew 1.35x’s ($5.6 T to $7.5 T)

- Z1 Household net worth grew 1.25x’s from $65 T to $82 T...

I won’t even get into the overstatement of economic activity within the GDP numbers...just noting there is an overstatement of activity.

3.3 Total Debt / Obligations vs. Growth

Let’s go back to our ‘76-‘14 numbers and recalculate based on total Federal Government debt and unfunded liabilities:

‘76-‘14

- debt (total government obligations) grew 33x’s 188x’s ($533 B → $17.5 T $100 T*)

- GDP grew 10.5x’s ($1.7 T to 18 T)

- Household net worth grew 15x’s ($5.4 to $82 T), median household income grew 3x’s (est. $17k to $51k), Real median household income grew 1.1x’s ($45k to $51k)

Why We Can’t Pay the Debt or Even Reduce the Load!

Take 2013 Federal Government tax revenue and spending as an illustration:
• **$16.8 Trillion US economy** (gross domestic product)
  
  o **$2.8 Trillion Federal tax revenue** (taxes in)
  
  o **$3.5 Trillion Federal budget** (spending out)
    
    - **-$680 Billion budget deficit** (bridged by sale of Treasury debt spent now and counted as a portion of GDP)
    
    - **= $550 Billion economic growth?!?**
  
  • PLEASE NOTE - The ‘13 GDP “growth” is less than the new federal debt incurred (although the new debt spent is counted as new GDP) and the interest on the debt will need be serviced indefinitely?!?

And a slightly different snapshot in the next chart of the ’07-’13 period...debt and unfunded liabilities growth dwarf wages, tax revenue, and GDP growth. There is no growth in GDP but growth in federal debt.

• **Federal Debt load:** Full time wages and total federal debt kept a close relationship until post 2000, when debt moved far in advance of average wage/salary advances (below)...

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**Graph:**

- **Tax Revenue +$200B, Wages / Salary + $700B, Debt +7.9T, NPV Unfunded Liabilities +$31T**

<table>
<thead>
<tr>
<th>Year</th>
<th>Wages, Salary (billions)</th>
<th>Debt (billions)</th>
<th>GDP</th>
<th>Fed Tax Revenue</th>
<th>Total (Unfunded)</th>
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<td>$9T</td>
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</tbody>
</table>

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**Legend:**

- Blue: Wages, Salary (billions)
- Orange: Debt (billions)
- Gray: GDP
- Green: Fed Tax Revenue
- Red: Total (Unfunded)
And full time wages vs. total federal obligations (Treasury debt plus all pensions plus all net present value (NPV) unfunded liabilities)...below. And the reason we feel no pain is due to the red line; the collapsed interest rates on all debt, federal and private. And this is why interest rates cannot rise and no “normalization” may take place with this debt load.
The below graph shows the relationships between the columns representing the slowing growth of the total US population, major slowdown in jobs creation, and declining full time jobs creation. This is pitted against the lines showing all US salary / wage growth, federal debt, and household net worth. What is clear is the increase in HHNW since 2007 is tied to credit and debt rather than sustainable growing wages.

Same as above chart but with a shorter timeframe showing the deteriorating economic trends being masked by debt and leverage.
Chart-a-polooza continues below…Deteriorating jobs creation, ramping 55+ year olds working primarily part time jobs to make ends meet, collapsing 25-54 year old employment and full time job creation. And all this results in a ramping equity market…and an utter disconnect with the real economy.
And finally, growth in government jobs has been slowing for 5 decades and is now negative; all job growth this decade is due to private sector job growth. Please note that big hole in job creation from ’00-’10...all job growth since ‘10 is merely keeping pace with the larger US population but not making any headway in resolving the massive job dearth of ’00-’10. However, the US is now overdue for another recession (on average every 6.5 years since WWII), and this would likely wipe out most job gains for a second decade in a row.
3.4 US real estate and stock markets

Sustainable asset prices are generally based upon the growing income (wages and salary) and size of a nation’s working population in conjunction with corporations earnings and profits. However, over the past two decades the US has twice seen bubbles develop detaching asset prices from the underlying income of the population and size of the working population. The charts below point out these two prior bubbles and then points out today’s real estate and equity values.

The residential real estate chart below shows a general balance between wages / salary and mortgage debt until about ’00. From then on homeowners substitute leverage (mortgage debt) for slowing wage growth and ramping home values. Via the growing reliance on mortgage debt plus ever lower interest rates on the ever larger debt loads, home values are pushed far beyond homeowners incomes. In ’09, the Federal Reserve determines to push this further via QE interest rate suppression to encourage even more debt at even lower interest rates…but to this point, mortgage debt continues declining as consumers are wary of more debt regardless the present record low rates and first time home buyers are at record lows as a percentage of the market. The peaking 25-54 year old US population and workforce in ’07/’08 and declines since is strongly correlated to this fall. The current rebound in RE
valuation is more to do with foreigners and investors looking for a “safe” substitute to the bond markets that used to offer inflation adjusted positive yields. However, at present valuations, investors are generally having difficulty making the purchases pencil plus foreigners are being hurt by the strong dollar and unlikely to maintain their recent pace.

And one last look at residential real estate but adding in the 25-54 year old US population below. The 25-54 year old population peaked in ’07 and has declined since, in tandem with declining outstanding mortgage debt.
But the real estate bubbles seem tame compared to the current equity values. The below equity chart uses the Wilshire 5000 as the broadest US index tracking all publicly traded US equities, all US employee wages/salaries, all 25-54 year old US employees, and the value of all residential US real estate. The size of today’s mismatched equity values versus the US population’s slowly growing income and the declining jobs market is stunning! Clearly this equity bubble has no match as values are driven by flat earnings but record profits, collapsing corporate tax rates, and financialization...a mixture of record leverage, stock buybacks, free money via interest rate suppression, central bank and sovereign wealth fund purchasing, and an absence of other options for investors to obtain a return.
Recessions...and by the way, the US has had 11 recessions in 70 years since 1945, occurring on average every 6.5 years...this would mean the cyclical business cycle is pretty well done and rapidly counting down to the next recession...while the Fed hasn't even begun a "normalization" of its balance sheet or raised rates.

3.5 Taxes

From '00 to present corporate profits increased $1.32 trillion (+275%) while Federal tax revenue increased $165 billion (+75%). Or said otherwise, as you can see in the below chart, corporations are keeping a far greater share of their income despite zero net job growth and below trend capital expenditures over the last 14 years.
A quick glance at the chart below shows the % of federal tax receipts as a % of corporate after tax income began collapsing under GW Bush and went to new lows under Obama. Corporations making record profits, paying so little in taxes, and creating no net jobs since 2000 in the process.

And below the collapsing corporate tax rate (as a % of corporate profits) vs. consistent personal tax collections (as a % of all employee income). Note the 2000 corporate tax rate of 46%...and how it’s
fallen off a cliff since! Also recognize the US employee Salary / Wage data is only there as an indicator of the % of taxes taken from the working public...but the savings rate is negative so (net) none of this money actually hits bank accounts as do corporate after tax profits.

And the chart below shows the blast off of corporate profits since 2000 and the massive boost to those profits from abnormally low tax collection (pretty good guess these abnormally low tax collections coupled with float shrink are helping push equities ever higher...).
And below you can see, on an annual basis, how much money flowed to corporations and away from federal taxes coupled with a spending spree resulting in far larger federal deficits.
And under GW Bush and Obama, the collapsing of the corporate tax rates from long term averages, has added approximately $3 trillion to corporations and saddled taxpayers with the same $3 trillion in additional national debt. GW Bush certainly started this game but a very popular Obama and Democratic Congress had every opportunity to change this...and actually only extended and broadened the Bush initiatives.

<table>
<thead>
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<th>Trillions $'s</th>
<th>Bush</th>
<th>Obama</th>
<th>Total</th>
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<td></td>
<td>$&lt;1.9 T&gt;*</td>
<td>$&lt;3 T&gt;</td>
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</table>

*Obama’s #’s based on present 6 yrs in office...if this pace continues, Obama will forego $2.7 T in Corporate Tax Revenue in his 2 terms

Below is a clear view of the progression of this heist of wealth to a small minority and debt to the vast majority.
And corporate taxes rising is about as likely as the Fed raising interest rates!!! These are one way trips.

So what do corporations do with all that money?

2014 saw massive repurchases of companies own shares (the most since 2008)...corporations are using over 30% of their record cash flow to buy back their own shares (largest ’14 buybacks below). Still, even more went beyond using their own earnings as many also took advantage of cheap money loans thanks to low interest rates to repurchase even more shares. Due to this, the net outstanding shares are shrinking and earnings ratios based on profits vs. outstanding shares are misleading.
3.6 Wages

Who has benefitted from nearly all the gains in Wages / Salary since ’07? Yup, in the charts below, the top 5% of wage earners reaped nearly all the wage gains and the bottom 60% of wage earners saw effectively zero to 2% wage gains over 6 years. So, not only did those with assets benefit, those with at the highest income levels also reaped the gains...who indeed has the Federal Reserve been helping?
$ Total Wage Growth '07-'12
QE - Cui Bono???

% Wage Growth '07-'12

Household income Quintiles

<table>
<thead>
<tr>
<th>Quintile</th>
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<td>Second</td>
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<td>Middle 20%</td>
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</tr>
<tr>
<td>Fourth</td>
<td>4%</td>
</tr>
<tr>
<td>Top 20%</td>
<td>8%</td>
</tr>
<tr>
<td>Top 5%</td>
<td>11%</td>
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</tbody>
</table>
Chapter 4 - DEMOGRAPHICS SHOW WHY WE CANNOT OUTGROW OUR DEBT...

IMMIGRATION WON'T BE THE SAVIOR

And now in the coming decade, the US 25-64 year old total population will decline by 5.5%???

Immigration is failing to fill the hole of falling birthrates. 2015 is when the massive baby boom (specifically the group born ’45-’55) collectively turns 60-70 years old. Half will be 65 or older and 80% at least eligible for reduced early SS benefits at age 62. 2014 or 2015 will be the peak total 25-64 total population for America...this is the portion of the population representing working America, the portion in accumulation mode and consumption mode...this sector will fall for a decade before leveling and likely beginning to stabilize. The chart below shows the slowly rising 0-25 year old population, the rapidly rising 65+ population, and the falling heart of America’s economy, 25-64 year olds.
And below is a view of the boomers departing the prime years of their careers and moving entirely into the 55+ set. The 25-54 year old population and total employed 25-54 year old population peaking is not coincidental with the economic meltdown of ’08-’09. This was the result of Boomers aging and switching from accumulation to distribution of assets…but Boomers also continued working to make ends meet…and the generation behind is simply incapable (qualitatively ($’s) or quantitatively (total #’s)) in a position to support the boomers. The great recession and subsequent non-recovery is a battle with an unbeatable foe...the boomers transition to distribution, their exit from the work force, their drawdown of their assets, and their collection of underfunded pensions and unfunded social services.

But the boomer generation is working longer (primarily in part time positions) and nearly all job growth since ’07 has been 55+ and 65+ boomers attempting to augment savings and prolong work related benefits. The 55+ set is far more experienced and far less concerned with maximum wages...and this is coming almost entirely at the expense of the 25-54 year old set.
This is so very important (and this chart below is so busy) because it shows the collapsing job creation (quantity...not to mention quality of jobs decreasing) despite still rising population...and the explosion of federal debt to mask the true problems we face absent the rising tax collection to pay for social services, corporate welfare, wars, and so much more.

The chart below shows US working age population of 25-54 yr/old employee’s peak in ’07 and the surging 65+ year old population...with no surge in the 0-25 year/old population (i.e., those meant to eventually pay the tax bills and buy the boomers assets). Going forward, the 0-25 years old population is likely to remain flat’ish while numbers of boomers moving into 65+ retirement zone will ramp by 10 million’ish (exacerbating all their switch from accumulation to distribution, their claim on social services, and assets to be sold). If you are starting to get the idea the Fed’s actions are to plug a demographic hole with monetary policy...good for you as you are 1 in a million in America who get it.
The below chart is the US population by age segment and employees within each age segment. The ramping 55+ year old population is clear to see. Also noteworthy are the flat population of all groups 0 to 55 years old. And all net employment growth in the 55+ year old segment. And the idea that immigration will be the savior is fanciful. The US, UK, EU, and Japan cannot create adequate jobs for their native born and wages are flat. Introducing large new populations of immigrants would only exacerbate the unemployment and depress wages further...not to mention inflame racial, religious, social service, and many other issues.
The chart below highlights total US population growth and job growth vs tax receipts and outstanding Treasury debt. Federal tax receipts have grown very slowly while debt has surged.

The impact of the ‘07 peak in 25-54 year old population and employment was very rough on the US economy. The declines in this sections population and employment since have coincided with declining total oil usage, declining total miles driven, declining outstanding mortgages, and many more ominous indicators (see below chart).
2015 is a watershed year for the baby boomers. This is the year the much discussed baby boom generation (I’m focusing on the decade born ’45-’55) is hitting an average age of 65 years old. The baby boom was the largest 10 year period of child rearing resulting in population growth the US had never seen and still larger than any 10 year period since. The impact of such a large group now leaving the work force, hitting retirement, and drawing from Social Security, Medicare, and simultaneously beginning what will be a two decade long period of liquidation of assets is pretty well known. But the question of who will be there to buy those assets and pay for those social services is much less discussed or understood.

Behind the baby boom generation in the US and globally across advanced economies are declining “native” 25-54 and 15-64 year old populations. The birth rates among these advanced economies has collapsed over the 50 years since the baby boom. However, some nations (UK, America, France,
Germany, etc.) have encouraged and assimilated immigrants (w/ varying success) to maintain overall growing populations. Clearly others nations (Japan, Korea, others), for a multitude of reasons, have not encouraged immigration and have are now facing overall falling population (Japan) or rapid aging (Korea).

According to the Pew Research center and US Census, almost all US population growth over the next 50 years will be due to immigration, up to 2 million annually, and immigrant’s descendants’ higher birth rates. So, to make this really simple, the population of Americans currently in our borders is expected to flat-line or decline and the only savior for housing and consumerism, in general, is continual immigration. And the assumption was that these immigrants and their offspring were anticipated to have high birthrates. This generally rules out Asian or European immigrants which have even lower birth rates than the US...So, these were anticipated to be primarily the poor of the central and South America plus the Caribbean...primarily Catholic nations with relatively high birth rates. The portion of Hispanic US population is expected to double from the current 15% to 30% by 2050. These are generally lower educated and lower skilled entrants to the US. To attract these folks, a strong differential of available and profitable employment must exist in advanced economies over their home nations.

But a funny thing happened along the way...due to rising costs of labor in advanced nations, cheaper labor elsewhere, and massive innovations (computerization, automation, communication, logistics, etc.) and a major economic slowdown...suddenly the US couldn’t create enough jobs for those who were here, let alone the assumed 2 million new immigrants annually. And this job slowdown wasn’t a one off but instead a structural change meaning businesses would very likely need fewer employees indefinitely. Not simply because of falling demand (that could be corrected) but corporations and businesses tightening belts and consumers facing too much debt, unemployment, and flat wages.
Businesses rethought how they would reduce costs across the board and their #1 cost driver (labor) to maximize profits (this is a good thing…but implications abound). But a very circular chicken and egg problem has dogged America and advanced economies since. Without the growth and jobs creation, there would be no great economic draw for immigrants to come to the US. Without the immigrants, there wouldn’t be a growing consumer base, a growing tax base, or a growing nation at all.

The dual collapse of manufacturing employment in America alongside the boom and bust of new housing construction has meant job growth, particularly for unskilled labor, has been falling…and the pay for these positions stagnant due to plentiful workers and insufficient work. The primary growth areas now for these laborers is in service industries (restaurants, landscaping, retail, etc. etc.) with low pay and minimal or no benefits. Unfortunately, due to minimal job creation across the economy, native high school dropouts to recent college grads to would be retirees (absent adequate nest eggs) are competing with these immigrants for these positions.

So, without the draw of likely employment, the primary draw for immigrants would be general safety and social safety nets not available in home countries…but all without the income to be net benefits within their adopted new nations. In the US the primary barriers are language but in Europe the incoming immigrants are also significantly different socially and religiously. Greater advanced economy native population tensions and pushback on immigration is nearly inevitable.

The Fed & CB’s must have known the “native” populations would be declining and all growth depended on attracting immigrants…and immigrants are attracted by plentiful and (relative to their home nations) higher paying jobs…and this means an economy growing rapidly. When the ’01 recession took hold, falling manufacturing employment was replaced by residential and commercial building booms driven
by artificially low interest rates. These jobs were ideal for hard working, low skilled immigrants. The only problem was far too much was built and under dubious financing and absent rising wages to pay for it all. So when the housing and the FIRE (finance, Insurance, real estate) economy went bust in ’08-’09...so did jobs in general and particularly the low skill jobs...and without the immigrants there went the population growth and there went the economic growth that was needed to pay for all the assets, all the services, and ultimately all the debt.

But the Fed isn't willing to acknowledge that ever lower interest rates and massive debt hasn’t created the economic growth needed to create the jobs and attract the immigrants...it has only driven the stock market to the greatest bubble extremes and created massive oversupply of nearly every imaginable type...and made the asset owners very wealthy (generally the top 20% of our nation but particularly the top 5% or even 1%).

Native “advanced economy” populations among the 60 year old and younger post baby boom population segments will continue flat or more likely declining for another decade. Despite the working age population declines, jobs will not likely be adequate for this native population let alone anywhere near the number of immigrants that were anticipated. The assumption that Fed policies of zero interest rates and quantitative easing would reinvigorate the economy, jobs, and population growth via immigration...well, all very wrong. And the debt and interest rate prescriptions are clearly the wrong medicine. Perhaps a discussion of reality rather than the theoretical would be appropriate about now?!?

Chapter 5 - US TREASURY MARKET
There are four distinct classifications of Treasury buyers. Intra-government (Social Security and other surplus tax revenues held in Treasury’s). Domestic public meaning all pensions, insurers, banks, and all domestic retail Treasury buyers. Lastly, the Federal Reserve and “Foreigners”.

In the below 2 charts you can see that the Fed and Foreigners have bought the bulk of all issuance since ’09 and about 85% of all issuance since July ’11. Domestic public and Intra-government purchases were primarily short term bills and generally far below their long term averages. Federal Reserve exclusively bought mid and longer duration debt while Foreigners purchases were varied across the curve.

As noted below, big increases in foreign ownership and significant jumps for the Federal Reserve since ’08. Intra-government buying slows as social security surpluses, etc. become progressively smaller. The domestic public seems to lose interest as yields continue falling but lucky for the US, neither the Fed nor foreigners are under any such similar pressure to achieve alpha returns.
Below is the Treasury accumulation by period among the four classes of buyers. Public (domestic buying) and Intra-governmental purchases (primarily the diminishing surplus dollars from Social Security) are uninterested at these record low yields.

*In '12-'13 Federal Reserve gained additional, one time, $667 billion in purchasing power in Operation Twist (not included in data).
But given the Federal Reserve has ended its third round of quantitative easing (and assuming there isn’t a fourth round upcoming?)...and deficit spending will still be the order of the day (the just ended 2014 US Treasury deficit was $790 Billion and likely to only get worse from here), this leaves the Public, Intra-governmental, and Foreigners to maintain the bid for new and rollover Treasury’s. But as can be seen below, the Federal Reserve’s completion of QE should be followed by a long term process of “normalization” of the Fed’s balance sheet from its current $4.5 trillion to perhaps an eventual $1.5 Trillion. This process of outright selling or more likely rolling off $2.5 trillion in bonds and MBS over a 5 to 10 year period as the “assets” mature will further increase the supply of Treasury debt over upcoming years by $250 billion to $500 billion annually. Of course, spending money along the way is pretty fun. It’s only when the bills show up that reality sets in and perhaps buyer’s remorse takes over. Well, QE is like that.

QE – The Federal Reserve program of buying Treasury bonds and mortgage backed securities. The explanation went that by creating synthetic demand (the Fed creating money from nothing to buy Treasury IOU’s) would allow government to spend money it doesn’t have for a real supply of debt artificially suppressing interest rates and allowing for government spending well beyond what a “market” would allow. And the explanation said that soon the economy would be well and organic demand would rotate back in to buy all the existing debt as it rolls off the Feds balance sheet as well as maintain the bid for the ongoing newly created debt...and that this will happen at rates that don’t bankrupt or handcuff the federal government.

A quick math problem...prior to the great financial crisis (GFC), the Fed held about $750 billion in mostly short term bills ($500 b), a portion in notes ($200 b), and a small portion of long term bonds ($50 b). QE began in ’08 w/ MBS and then notes and bonds through QE1 and QE2. And
then came the Operation Twist whereby the Fed sold all the bills and shorter notes ($600+ b) and used all that revenue to buy all the longer term notes and bonds. And then QE3 got the Fed up and over $4.5 trillion on its balance sheet before the buying stopped.

OK – so now the Fed has $4.5 trillion of mid and longer duration notes and bonds. The Fed says it’s going to “normalize” this balance sheet back to something like double where it began the GFC 6 years ago...or $1.5 trillion. This means the Fed has to get rid something like of $2.1 trillion in Treasuries and $800 billion in MBS over a period of say 6 years (the same length of time over which the Fed purchased these). This would “normalize” the Fed’s balance and leave the Fed with flexibility in the next GFC (assuming it doesn’t come along too soon). However, I assume (like the CBO) that the Federal government will continue running deficits of approximately $800 billion annually...and this will be coupled with the Fed’s net off-loading of $300 billion in Treasury’s annually...or $1.1 trillion annually in Treasury debt to be purchased.

Based on the above scenario, the 4 classes of Treasury buyers (Domestic, Foreigners, Intra-governmental, and the Federal Reserve) will be scrambling. The Fed says it is done with QE and...
will be shrinking its balance sheet. Intra-governmental buying has been slowing (as Social Security surplus’ cease and potentially become deficits) and intra-government purchases will most likely remain flat. This means all net buying will fall on the Domestic buyers and Foreigners as supply spikes. The chart below depicts what this would look like...however there are only two likely scenarios under which the domestic public will step in...

1- Interest rates spike making the yields a relatively attractive investment for domestic institutional buyers such as insurers, pensions, banks, retail, etc...but a return the 50 year average of 7% blended yields on $18 trillion in debt would mean 1/3rd of all federal tax revenue ($1.25 trillion) would simply be paying interest on our debt...and much of it flowing to foreign buyers without any velocity or multiplier within the US economy.

2- The stock market and real estate collapse making any yield, even a 1% 10yr Treasury, a good investment. Under this prospect a strong bid from the domestic public might be reasonable but the economic impacts of this scenario are simply too ugly to entertain.

![US Treasury Purchases by Classification by Period](image)

However, if the stock market remains at anywhere near its current heights, bonds at record low yields, it is entirely ludicrous to believe domestic buyers would increase their buying by 1000% over the next three to six years.
So, the last resort (absent the Fed restarting QE) is the foreign bid doubling or tripling over the next 3 to 6 years. And this means our nation’s fate is comically in the hands of our recent largest creditors...Luxembourg, Ireland, Belgium, Japan, and the Cayman Islands...and pretty safe bet these nations nor their inhabitants are any more interested in US treasury’s than the domestic buyers within America. So, all that is left in this silly tale is central bank buying hidden in off shore locations to keep the facade of a market alive.

Again, below the Domestic Public is left to shoulder the vast majority of the debt plus the bulk of roll off from the Federal Reserve balance sheet (below). This means there will be 122% to be purchased over the next four years...100% plus the additional 22% supply from the Federal Reserve.

But this no win scenario of the domestic public forced to buy all Treasury debt at low rates (and go bankrupt due to the nearly zero yields), buying it at high rates (bankrupting the federal government in interest payments) or not buying at all forcing the Fed and “Foreigners” to continue buying it all at progressively lower rates...well it seems ludicrous and yet those are the choices before us. If you chose
the last option, you are not alone. That is actually the only politically viable option. And so, how is this being done???

Here you go...

**Chapter 6 - DEBT CEILING FIASCO – JULY 2011**

Why July of ’11? July was the debt ceiling debate and ultimate fiasco where the US decided to “keep on keeping on”. Democrats and Republicans determined to tax less and spend more…and both sides were pleased by this anti-compromise. On July 29th both sides caved and we have never seriously debated this topic since. But what happened in D.C. was clearly noted in Beijing. The largest foreign Treasury owners since turn of the century are highlighted in the below chart. Note China’s ramp until July of ’11 and the marked change since. Also note the incredible rise in Treasury ownership purchased and held in Belgium, Luxembourg, and Ireland since July of ’11!!! One look at the chart below shows China hit its all-time peak of US Treasury holdings in July of ’11…and despite running record trade surplus’ with the US since, China has been a net seller of US Treasury debt to the tune of $60 billion. But lucky for America; Japan (while running record trade and budget deficits) has purchased $337 billion and Belgium/ Luxembourg/and Ireland (yes, seriously) have combined purchased $500 billion in US Treasury’s. China’s hard stop on net buying and subsequent selling was mirrored by continued a reinvigorated Japanese bid and an equally hard start of purchasing in particularly Belgium but also Luxembourg and Ireland (below).
A quick look at the Treasury market since July ’11 (the debt ceiling debacle) ‘til now in the below chart.

And finally the below chart highlights the total change in Treasury ownership since July ’11 including the Federal Reserve but not including another $667 B of mid and long term Treasury purchases in Operation Twist.
However, the chart below shows who along with China has not been purchasing US Treasury's since June of '11.

*Federal Reserve also purchased additional $667 B in mid/long term Treasury's via Operation Twist.
It’s one thing to make a claim one believes the Federal Reserve and/or its agents or designees at its direction are buying some portion of the Treasury debt overseas alongside its acknowledged QE programs in the US. It’s another to show means (Federal Reserve has unlimited ability to swap currency at its discretion, the motive (low and lower rates on record amounts of debt and the need to continue creating debt), and the opportunity (revisit the TIC report that it states it doesn’t know who buys this stuff or where the money ultimately comes from...To wit, “The data are collected primarily from US based custodians. Since U.S. securities held in overseas custody accounts may not be attributed to the actual owners, the data may not provide a precise accounting of individual country ownership of Treasury securities (see TIC FAQ #7 at: http://www.treasury.gov/resource-center/data-chart-center/tic/Pages/ticfaq1.aspx).

Chapter 7 - THEN THERE WAS THE TAPER

Dec 18th, 2013 Federal Reserve chairman Ben Bernanke announced a “taper” from the Fed’s $85 billion monthly program of buying Mortgage Backed Securities and Treasury notes and bonds, (a program whose intent was to overpay for bonds and push yields lower than free-market rates and maintain a ready buyer for MBS)...absent the Fed’s buying, it was assumed interest rates on the then $17.5 trillion US Treasury market would reset higher. Rates rising was a “sure thing” among economists, bond
traders, and generally any logical thinking person. A quick glance at the Fed’s purchases of $2.2 trillion in Treasury debt since June of 2011 made it clear the Fed was the “market”.

But rates did not rise when the largest buyer slowed and eventually stopped its buying and rates instead fell in the US and likewise globally despite the reductions in the Fed’s monthly purchasing that began to wane in January and ceased by year end 2014.

Here, in the below chart, you see the interest rate movement of the US, Germany, and Japan over this period. Yields collapsed...German 10 year yields fell 85%, Japanese 10 year yields fell 66%, and US 10 year yields down 45%. Since the Feds taper announcement, rates have gone so low as to make much of the bond market un-investible...pushing real money to other markets in search of yield.

As you can see below; Belgium, OPEC, Japan, Luxembourg, and the Cayman Islands filled the Federal Reserve’s Treasury buying breach. Interestingly, none of these nations had the foreign exchange reserves with which to make these purchases?!? Seems fair to say these nations were used as fronts for some other entity doing the purchasing.
In this period, “foreign” purchases of US Treasury debt increased by $342 billion despite the Fed’s signaling rates were likely to rise, and bond prices likely to fall. In a free market, this would have been a signal to sell for the $6+ trillion in Treasury debt held by foreigners to sell in order to avoid losses. But this didn’t happen...but it did begin selling in earnest by China and Russia.

China and Russia were both net sellers in this period and the remainder of the BRICS made minimal purchases. These five nations have approx. 50% of the world’s foreign reserve currency holdings, primarily dollars, with which to buy Treasury’s and seemed disinterested in recycling new $’s into Treasury debt...and yet rates fell.

As a reminder...China, Brazil, Russia, and so many more are moving away from clearing their trade in dollars and instead utilizing the Yuan, the Real, the Ruble, etc. Please note that Russia and Saudi Arabia are now the largest exporters of oil – and at least Russia is moving rapidly to settle in anything but the dollar...and the troubles in Saudi Arabia, Iran, Iraq, Libya, Syria,
Ukraine, etc. are all symptomatic of this conflict for which currency(s) will be used to settle trade.

China is organizing itself and its trade partners in at least 24 separate agreements to transact in the Yuan rather than the dollar. As of 2009, less than 1% of China’s global trade was settled in Yuan but by mid-2013, 17% of Chinese trade was being cleared in Yuan...almost entirely at the expense of the dollar. And the trend and structure to allow far more has only accelerated throughout the BRICS.

The chart below is a reminder of which nations have foreign exchange reserves, Treasury’s held within each, and the percentage of these reserves held in Treasuries within each nation. Obviously, China holds in excess of 1/3 of all foreign exchange reserves and dollars. China’s hiatus from Treasury buying resulting in collapsing organic yields is simply unbelievable. Notable also are the nations highlighted in yellow holding 100%+ of all dollar reserves in Treasury’s. Japan, Brazil, Canada & UK hold unusually large positions but Belgium, Luxembourg, Cayman Islands (Caribbean Banking centers), and Ireland hold
positions ranging from 4,000% to nearly 13,000% in advance of dollar reserves held there...and these are all new buying locations since 2011.

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*Includes For- Ex, Gold, SDR’s, IMF Ex, Gold, SDR’s, IMF Ex, Gold, SDR’s, IMF Ex, Gold, SDR’s, IMF Ex, Gold, SDR’s, IMF Ex, Gold, SDR’s, IMF Ex, Gold, SDR’s, IMF

**Less than $10 billion**

***All OPEC exporters***

****Caribbean Banking Centers include Bahamas, Bermuda, Cayman Islands, Netherlands Antilles, and Panama

**And now in a Post Federal Reserve QE Era**

The Fed’s balance sheet was driven to record highs to push interest rates to record lows and maintain a market for long end Treasury’s and Mortgage Backed Securities. The Fed’s balance sheet peaked
January 15th of 2015, and is now contracting as the US Monetary base has already fallen over $250 billion (below)...and the price of oil has been falling with the falling monetary base (representing a strengthening dollar).

And plainly visible below is the Fed’s role to fill the debt void left by shrinking mortgage debt creation.

However, without more Fed QE and no upturn in mortgage debt origination (despite record low interest rates and falling down payment guidelines, back to 3% down payments)...the dollar will “strengthen” as
inadequate dollars are created to service all the global dollar debt...

Below, the rising mortgage debt and rising oil price are well correlated until the oil price spikes in ’07–’08 and mortgage debt accumulation ceases with the culmination of the growing working age population in ’08...but from ’08 through ’14, the Fed stepped in to fill the void from the declining 25-54 yr/old population.

Now, without more Fed QE or U.S. mortgage debt, there isn’t an adequate debt engine for continuing the necessary ramp in dollar creation to feed the global asset beast. And the price of oil (and
commodities in general) are signifying a global depression is imminent unless the credit machine can be reignited. As the chart above shows, the gap between actual mortgage debt vs. trend debt since ’08 is missing nearly $9 trillion...the Fed bridged about half that with its $4.5 trillion in QE and Operation Twist. However, as of now, the monetary base is falling and the Fed’s balance sheet has likewise peaked and is slowly receding, leaving the over-indebted globe to deal with a global depression absent monetary heroine?!?

However, anyone who has watched the US government and Federal Reserve since ’08 (ok, since the Fed’s creation) should know the Fed will use its magic money machine to create cheaper money and more money to (temporarily) delay the pain of a global bankruptcy and the readjustments necessary to establish a national and global re-balancing. Prepare for more of the same we’ve seen since ‘08...but the real question will be, what is the result of more QE in a changing monetary regime? And who will be the winners and losers of this policy?

Chapter 8 - 10,000 Tons of Gold Bought? – The math says China could have easily done it!

Since August ’11 to August of ’14, China has decreased its holdings of US Treasury debt by $9 Billion (according to the most recent TIC data)...while continuing to run record trade surpluses with the US. This means China will have (by year end 2014) taken in excess of a trillion shiny, new, digital dollars since August of 2011 and simultaneously sold or rolled off $65 Billion in US Treasury holdings...so China will have had to find a home for nearly $1.1 trillion new dollars.

From ’00 to ’11, China had (on average) recycled 50% of its trade surplus dollar reserves into Treasury’s. However, as noted above, China has been a net seller since August ’11...why is this date important? It was the month after the debt ceiling fiasco...and the date when China’s purported gold purchase binge
began. It’s was also August ’11 that gold hit its peak price and has fallen since. I don’t think these happenings are a coincidence.

Since we know China didn’t buy Treasury’s over this period, perhaps we should speculate what those new dollars would do if focused on gold purchases?!? If China rotated the 50% of surplus dollars it had been utilizing to buy Treasury’s and instead bought Gold…at an average of say $1500 an ounce since Aug ’11...that would buy China 10,000 tons of gold by year end 2014. Hmmm...Implications abound.

Of course I can’t prove that China did purchase any amount of gold. The Chinese authorities haven’t made any updates since 2009 when they last made public a 600 ton increase (to their then official holdings of 454 tons) to the current official Chinese gold reserve of 1054.1 tons. What I can say is Russia, which likewise has a large dollar trade surplus and likewise to China has been reducing its Treasury exposure since August of 2011...has been busily and openly adding to its gold reserves, now up
to 1153.3 tons. Then again, I (nor the US government?) can't prove the US truly has 8133.5 tons. Or the Germans 3384.2 tons or Italians 2451.8 tons. Still waiting on those open and transparent audits.

All I can say is the above math regarding China’s dollar hoard would nicely support what is visible in the chart below and also support those that claim Chinese gold buying and gold reserves are far larger than advertised.

![MONTHLY CHINESE GOLD NET IMPORTS FROM HONG KONG](image)

As a follow up; I was asked if the large Treasury holdings increase in Belgium could represent Chinese buying? Here’s my two cents:

No way to know for sure - but China's usual outlets for secondary Treasury purchases were historically through Hong Kong or the UK and potentially also via Canada...however, it was the UK that from June to July of 2011 dumped $208 B in Treasury’s and by October of '11 had dumped $240 B of the UK's original $347 B (70% reduction in holdings). Canada likewise dumped $49 B (52%) from June to July of ‘11. The UK now has recouped some to $175 B but still only half of what it owned in June of '11...Canada likewise has recovered some to $64 B. HK has been steady and slightly growing the whole while. China's official holdings peaked in July of '11 @ $1315 B and suddenly also declined to $1150 B by year end 2011.

It's a pretty safe bet this was China or its agents selling what amounted to $435 B or 35% of China's official Treasury holdings...and it was Belgium who held $34 B in June of ’11 that
suddenly began its moonshot to its current holding of $360 B...an addition of $330 B. However, many also want to attribute some portion of Belgium’s rise to Russia whose Treasury holdings peaked in October 2010 @ $176 B and have fallen to their current holding of $118 B ($58 B reduction...or a 33% reduction).

Was there a connection between the $435 B sold between China / Canada / UK and the $324 B subsequently purchased in Belgium? Seems a fair bet. But even more importantly, that would only represent a repositioning of China’s Treasury holdings and would still indicate China has been nothing but a net seller since ’11 (the other option is China actually did sell and has an additional $400+ billion on top of the $1 trillion in trade surplus all in need of PM’s, stocks, and/or real estate). The premise that all those dollars in trade surplus from ’11 till now need go somewhere still seems valid.

**China and the Dollar**

Fast forward to China in 2000 running a large trade surplus with the US. China had taken over the manufacturing leadership from Japan and began accumulating a stockpile of US dollars. From 2000 till 2011 China recycles on average 50% of this dollar trade surplus into US Treasury’s. Initially these Treasury’s offered an inflation adjusted positive yield but over the ensuing decade this yield collapses to the inflation adjusted negative yield currently offered. And since the advent of QE, the Fed has created $2+ trillion dollars to buy US Treasury’s essentially printing new dollars to roll over old debt and allow ever more debt at lower interest rates and essentially at no greater cost to the US (see chart)... unless one considers the potential the US is paying for its deficits via higher energy costs and co-opting the world to likewise pay for America’s debt?
Or factoring in growth in population (Households) and spreading interest costs and oil costs evenly among them to determine how the US is paying for increased debt...see chart below.
And then the July 31st, 2011 debt ceiling debate determined that the US would not reduce its budget deficit nor trade deficit and would instead continue monetization (QE, etc.) indefinitely. China held nearly $1.3 trillion in Treasury’s and another couple trillion dollars for which it would be paid trivial interest and which the US made clear it had no qualms with printing new dollars to pay back these debts.

It is with this background that the sudden shift in China’s Treasury purchases was noted in 2011. China continued selling consumer goods to America at record pace but halted their rapid accumulation of Treasury’s and became a net seller. China and other BRICS nations rapidly increased the pace of building a non-dollar denominated structure for trade.

And China, noting the weakness of their position, holding massive currency of a nation that had just announced to the world its intention to maintain budget and trade deficits via printing new currency, seems to have rapidly and without abandon initiated a program of exchanging something easily diluted (the dollar) for something relatively fixed and stable (gold and likely other hard assets).

And Now?

The importance of China (and Russia) having re-balanced is it affords them an insurance policy against a dollar conflagration. If (when) the US runs into its next headwind, the only real answer the US has shown it is willing to entertain is more QE or a like program of monetization. But to be effective, it will need be larger than the previous editions. This dilution of the dollar (and all major currencies will be forced similarly continuing dilution to maintain “competitiveness”) absent US trading partners recycling dollars into Treasury’s (and thus the US diluting into a de-dollarizing world which will need fewer dollars just as the US pushes the “print” button)...this should mean too many dollars and fewer exporters trading utilizing them.

Well, some very bad implications arise. Primarily the estimated $10 - $20+ trillion US dollars sent abroad from the advent of the Petro-Dollar in ’71 till present coming back to the one place they are legal
tender; the US of A. And even a fraction of this amount of money coming back with modest leverage will not go unnoticed...first as a trickle (pushing prices of assets higher) and then as a rush (pushing asset prices into overdrive) likely absent an accompanying economic boost. This would likely be some sort of asset hyperinflation alongside continued wage deflation (due to structural unemployment and a multitude of factors containing US wages). As an aside, I’m more than a bit curious if this repatriation of dollars combined with corporate share buybacks made possible by ZIRP and a continued strong Belgium / Cayman Island Treasury bid will continue to push the “markets” higher even absent any additional QE. And China’s gold holdings would act as an insurance policy paying off in the case of a dollar dilution. Of course China’s economy would be harmed by shrinking exports to the US and Europe but that was the “re-balancing” they’ve been talking about all along. Now, whether this will work just as China is likely falling into the third great real estate collapse of the last 3 decades (Japan in ’89, US in ’07, China likely now in ’14)...well China may be protecting itself from itself as much as from the US because if they follow the Japanese and US model to print their way out of a real estate collapse...gold may simply be “priceless” in sovereign currencies.

Chapter 9 - OIL

The below chart shows significant declines in oil consumption (yoy) coming from all across the OECD with only the US up (marginally) and S. Korea moderately up.
So, let’s back it up and see how things have been progressing on the oil consumption side of the equation vs. the population increases. S. Korea is literally off the chart in its consumption increases (ok, I pulled it off this chart to highlight the core nations).

- The next chart shows the current top 25 oil consumers and their present oil consumption as a % of their peak and also showing the year of their peak consumption. The combination of the length and depth of the nations in red reduction in oil consumption is likely a strong indicator of
negative organic growth (depression). Those in yellow likely are suffering some type of recession while those nations in green likely have varying amounts of organic growth.

- Top 25 Global Oil Consumers -
% of Peak Consumption, Year of Peak...Red = Depression, Yellow = "Malaise", Green = Growth.

- A quick look at the BRICS (Brazil, Russia, India, China, S. Africa) oil consumption vs. the US, Europe’s, and Japan’s oil consumption highlights the different directions these nations are headed economically.

Below is another view of oil consumption changes vs. population changes from 1980 ‘til 2013.
PRODUCTION

- The next chart shows that global production (ex-USA and Canada) has entirely stalled since 2005 and the US and Canada are nearly responsible for all global production gains since 2005.

- As above but focused in on ’05 til present, global production (ex-US and Canada) has flat-lined since ’05 despite far higher prices. Typically, higher prices incent producers to bring more
product to market until a balance is found...however, the only producers seemingly incented are the N. Americans.

But what about Saudi Arabia and OPEC? Wouldn’t they be incented to bring more oil to market at the significantly higher prices? In a word, NO!!! The next chart clearly shows OPEC peaked its exports in 2005 and has been steadily exporting marginally less.
And a quick check of ‘14 shows total OPEC production is down slightly from ‘13...no consumption data available yet but if trend continues, total exported OPEC oil will fall even further.

And the next chart shows Saudi Arabia’s exports are down...again, from 2005. As with OPEC, overall production is up slightly but the Middle East is consuming far more oil leaving less net oil available for export.
- Saudi Arabia -
Production Up, Consumption Up, Net Exports **FLAT** since '05

- Who’s flooding the world with oil? Sure looks like the US and Canada are responsible for the increase in production while OPEC is sliding.

- And below, a snapshot of global production gains...thanks to US Shale and Canadian tar sands increased production.
How did the US and Canada Increase Production?

US / Canadian Production Gains

The US has an average of 4.5x’s more drilling rigs than the entirety of the Middle East...and the US rigs produce a third of the total oil of those in the Middle East. This should make a couple things clear...1) the US is much less efficient in producing oil (btw, the US has the lowest productivity of any global region on a per rig basis), 2) the durability of US / Canadian production gains is based upon ever higher rig counts simultaneously producing less oil per rig (low productivity, low efficiency, globally uncompetitive?...this is not the US I know!). Or more simply put, the EROI (Energy Return on Investment) is collapsing the world over, but particularly in the US. Energy production of 1000 barrels of oil per every one barrel used to produce that energy weren’t uncommon. Presently, the US has the lowest EROI of any region and is down to sub 5 barrels returned for every one barrel input to produce that energy.
Production growth in America has been from “Tight Oil” shale while Canada is a combination of tight oil and tar sands.
What is “Tight Oil”? Tight oil is generally production using hydraulic fracturing, generally in shale formations, often using the same horizontal well technology used in the production of shale gas. These new sources of oil are generally low quality, high cost, and generally short in duration.

The new tight oil crude is much lighter than traditional crude. According to the Wall Street Journal, the expected split of US crude is as follows:

![Figure 8. Wall Street Journal image illustrating the expected mix of US crude oil.](image)

There are many issues with the new “oil” production:

- The new oil production is so “light” that a portion of it is not what we use to power our cars and trucks. The very light “condensate” portion (similar to natural gas liquids) is especially a problem.
- Oil refineries are not necessarily set up to handle crude with so much volatile materials mixed in. Such crude tends to explode, if not handled properly.

- These very light fuels are not very flexible, the way heavier fuels are. With the use of “cracking” facilities, it is possible to make heavy oil into medium oil (for gasoline and diesel). But using very light oil products to make heavier ones is a very expensive operation, requiring “gas-to-liquid” plants.

- Because of the rising production of very light products, the price of condensate has fallen in the last three years. If more tight oil production takes place, available prices for condensate are likely to drop even further. Because of this, it may make sense to export the “condensate” portion of tight oil to other parts of the world where prices are likely to be higher. Otherwise, it will be hard to keep the combined sales price of tight oil (crude oil + condensate) high enough to encourage more tight oil production.

2009 through 2013 saw a rapid increase in US production, almost entirely from low quality, high cost new tight oil sources while conventional high quality, and low cost production maintained its long, gradual decline.

How sustainable and profitable is this new “tight oil”?

From SRSRoccoReport.com...
In 2010, the hole left behind by fracking was only $18 billion. During each of the last three years (‘11-‘13), the gap was over $100 billion/yr. This is the chart of an industry with apparently steep and permanent negative free cash-flows: This is the huge problem with Fracking shale oil and gas. Due to the extremely high annual decline rates of the typical shale oil or gas well, companies must continue to spend a great deal of capital expenditures to replace what was lost. It’s known as the DRILLING TREADMILL.... once you start, you can’t get off.

In one year the top 127 oil and gas companies spent $110 billion more on capital expenditures than they received from operations. So, they acquired $106 billion in additional debt (a large percentage through the Junk Bond Market) and sold assets to make up the difference.

Not only are many of these oil and gas companies hiding the fact that their balance sheets are hemorrhaging debt, they also have a cozy situation with the Federal Government. Basically, the Fed’s allowed them to defer more than half of their tax bill...
and it’s a lot of money. In a nutshell, the top 20 oil and gas companies still owe $16.5 billion to Uncle Sam in tax revenue. Curious how all this will work out now that oil prices have collapsed? Perhaps this offers some explanation or insight into the reasons US / Canadian production rose while no other region did likewise?

Chapter 10 - Gold

- US Gold Reserves = 8,133.5 metric tons or about 260 million/troy ounces. Demonocracy.info shows what that gold “hoard” looks like below (just for your reference…always visit www.Democracy.info for real world perspectives)…
However, gold is not an investment nor has any yield. It is akin to cash except it tends to maintain its purchasing power over time vs. currencies that tend to degrade. Gold is generally a measuring stick by which to gauge other assets. As can be seen below, the ounces of US held gold per debt (both measured in Treasury debt or total federal debt plus net present value of unfunded liabilities) have skyrocketed.

But interestingly, the ounces of US held gold per tax revenue have not increased anywhere near the pace of the debts created (below).
Note in the below chart the falling US gold reserves, ballooning debt (both Treasury and total Federal Debt + net present value of unfunded liabilities), and slowing full time employment growth...

The reason gold matters is it a fixed amount of something (a bit arbitrary but far less arbitrary than the creation of “money” by nations around the world). Gold mining adds about 1% new global supply every
year which in contrast to new currency creation (credit and currency) is astoundingly low. Gold is the easiest measuring stick to gauge relative values and is the constant in an equation where everything else is a variable. So, in 1950 US debt was $257 billion vs. 21,000 metric tons of gold, or 1 ton of gold vs. $8.2 million in Treasury debt. By 1971, the US held 8,133.5 metric tons of gold against a national debt of $398 billion...or the US had 1 ton per $49 million in federal debt...and now the US has $18 trillion in Treasury debt, or 1 ton per $2.2 billion in debt.

What’s so interesting about that US gold holding is the strong break with the past precedent of nations settling national trade surplus / deficits utilizing gold to rebalance? This was true for America for most of its history until 1971 when President Nixon closed the gold window and unilaterally ended the Bretton Woods standard. Because prior to that America’s history with gold was quite active...

- Gold saw a government seizure of all privately held gold in ’31 and a devaluation against it.
- The US forced much of the WWII allies to pay in gold for their munitions, food, etc.
- The US drove the Bretton Woods agreement in ’44 which pegged all currencies to the dollar and the dollar was pegged to gold.
- Then in ’71 after the US saw its gold holdings fall by 61% in less than a decade, Nixon unilaterally broke the Bretton Woods agreement and closed the gold window and dollar convertability into gold...
- Nixon immediately replaced the gold backed Bretton Woods agreement with the Petro Dollar agreement pledging the US would offer support and security to Saudi leaders and then all OPEC leaders so long as they only accepted payment for their oil in US dollar denominations.

But then for 43 years and the US hasn’t made a peep regarding gold. Not sold or purchased a single bar?!? 8133.5 tons...just a flat line. What’s so very strange with this explanation is that following Nixon’s ’71 action, the FFR (Federal Funds Rate) and interest rates on US debt rose for a decade quadrupling US interest payments on US Federal debt (at this time, the vast majority of US Treasury...
debt was owned by Domestic public and private sources so nearly all interest payments stayed within the US economy). But in ’81 Federal Funds Rates and 10yr interest rates peaked and then began their now 4+ decade long 99.5% and 87.5%, respective, falls.

In 2001 federal debt creation began to significantly accelerate but the FFR and subsequent cost on this debt continued sinking...just as foreign ownership of US debt began rising (alongside massive US trade deficits). In 2008, as the Federal Funds Rate is taken to zero alongside massive budget deficits and rising US total debt. Foreigners were the primary buyer of the US debt despite the falling US trade deficit and collapsing yields on the US Treasury bills, notes, and bonds. Foreigners doubled their Treasury holdings from $3 trillion to in excess of $6 trillion while having fewer dollars (x-China) to recycle and while the US debt offered little to no real or inflation adjusted returns?!?

- Ok, time to put your tin foil hat’s on...

The chart below offers a line called US theoretical US gold reserves...It simply is a theory (pure speculation) building on thousands of years of tradition that trade balances between nations are resolved in gold transfers. My guess is that although the US officially closed the gold window in ’71 and initially replaced it with the Petro dollar agreement, that over time the imbalances and need to rebalance became too great so the old system continued, masked behind the new system. A quid pro quo evolved that foreigners would recycle US trade surplus’ approaching a trillion dollars annually into US Treasury’s at the front door but out the back door could perhaps get the real payments in gold transfers. From ’00 ’til ’11, China annually recycled almost 50% of its dollar trade surplus into US Treasury’s.

My guess (and guesses are all you have when everything is non-sense) is that as of July of ’11 either the US ran out of gold or determined to no longer continue this front door Treasury / back door gold arrangement with America’s creditor nations. Thus, locations with no dollar surplus are now “acting as
buyers” of US debt to push US rates down although this is almost certainly a shadow QE, perhaps in excess of the formal $2.5 trillion in QE used to monetize US Treasury debt.

This quid pro quo, back door system could have been in place perhaps from 1971 or perhaps kick started in 2008 as a short term bridge…but the bridge turned out to be a bridge to nowhere. And then July of 2011 was the US’s last “debt ceiling debate”. The outcome of the debate was the US would not attempt to bridge the gap between its spending and taxation. This meant the US would continue buying foreign nations goods and resources with money created from QE…thus diluting the Treasury’s and dollar holdings around the world.

July of ‘11 also marked the date when China directly (and via its surrogate purchases through secondary locations) gagged…and since then, despite running a record trade surplus (record dollar inflows) China has been a net seller of US Treasury debt. And Russia. And in general the BRICS have stopped accumulating as well. And China almost undoubtedly has moved from Treasury accumulation to massive gold accumulation via the secondary market to recycle that 50% of US dollars that had previously been recycled into US Treasury’s. But the price of gold has collapsed on record demand!?!
And US Treasury buyers since July ’11 have been false front buyers of Belgium, Luxembourg, Ireland, Cayman Islands, and the Federal Reserve openly through QE. Plus Japan, although it now runs a trade deficit, is buying foreign debt w/ massive amounts of printed Yen in an effort to weaken the Yen.

In short, there is really no longer any organic purchases of US Treasury debt either for its own sake or the Treasury front door / gold back door variety…but there is massive organic purchasing of gold alongside huge synthetic price suppression of gold.

Once upon a time trade and budget deficits were resolved in gold and silver. Create too much money to buy others goods and your currency became worthless…America found this out over a period of 26 years from the implementation of the Bretton Woods accord in ’45 to the closure of the gold standard in ’71. But that period’s budget and trade deficits were absolutely pedestrian compared to the ’00’s…

The run on US gold by nations repatriating the excess dollars America was creating during the Vietnam War was the old gold systems last gasp. The Bretton Woods accord made it clear if America printed too many dollars, those could be redeemed for gold. Had America not closed the gold window, America would have been forced to either adjust spending in line with revenues or face a heavy loss in the dollar’s value and an inability to continue importing “cheap” goods from abroad. But Nixon was smarter than that…he made a deal with the devil that would override the thousands years old gold system. The Petro-dollar implications would make America co-dependent with OPEC dictatorships, un-democratic kingdoms, and often murderous, brutal regimes entirely lacking the support of those nation’s populaces.

The idea the people of Saudi Arabia or multiple other OPEC nations would come to hate the benefactor of their oppressors shouldn’t come as a shock. But they didn’t hate us for our democracy…conversely, it was our entire abandonment of democratic (and Christian) principles to sell out the vast majority of these nations so America could have cheap oil and maintain America’s lifestyle, avoiding hard choices of budgetary constraints at home. America would not have to strike a balance between taxation and spending. The Petro dollar allowed America to rig the system allowing America and her citizens to
borrow and spend to their hearts content and not be concerned about rising taxation or higher interest rates. But what was the lynchpin holding this system together? Gold...and I’m guessing America’s gold is gone and if this is true, the questions arise, what is “money” and what is the dollars true value?

CHAPTER 11 – Resolutions and Solutions

None of what I’ve laid out above is terminal or the end of the world. It is simply an attempt at an honest accounting of what is truly taking place nationally and globally. What is also true is the US still has plentiful resources (land, energy, food, medicine, infrastructure, innovative heritage, and national cohesion...among many other resources) to carry on but they must be valued appropriately. America must simply acknowledge what is already plain...it is bankrupt. It must proceed through an orderly bankruptcy to honestly determine what revenues can organically and sustainably be made available (taxes) and to what ends will they be utilized (spending...i.e., education, medical care, military spending, etc. etc.). The nation must prioritize the long term over the short, the young over the old, the future over the present...and do what so many generations before have done...sacrifice some today for a brighter future. Those in the civil war, WWI and WWII certainly did far more than I’m suggesting...so clearly it is well within our abilities. We simply need honesty, leadership, and a population willing to do the hard things.

Those hard things include some combination of higher taxation and lower spending. Reductions of social security benefits for present and future beneficiaries, reductions for Medicare / Medicaid, massive military spending reductions. Revisiting the tax structure that benefits the rich and poor at the expense of the middle.

America could also look at policies that encourage production and manufacturing in America to recoup some of the lost manufacturing employment. But America will also need to acknowledge the future is a world where fewer workers will be needed and that a smaller workforce will, thanks to innovative solutions, continue to figure out how to do more work with less people. An honest debate of this
“turning point” where ever more consumers are necessary but ever fewer employees will be hired seems appropriate. How does an economy function when a growing percentage lack the savings or income to be consumers? Greater minds than mine need to wrap themselves around this conundrum. American’s are used to rapid change and will adjust to their new reality so long as the sacrifices are equally painful for all involved and so long as the vision of a better future is believable and achievable. I know I don’t have all the answers but I’m so confident that if America understands what it faces...it can come up with great ideas to overcome our latest challenges and create a desirable future.