Why Public Information Can't Be Trusted Anymore

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In mid-2011 the Obama administration and Congress were locked in battle.

The US was bumping up against its debt ceiling. The political arm-wrestle was over how to reduce the debt burden: spending cuts…raising taxes…or a combination of both.

Ratings agency Standard %26 Poor's decided enough was enough. An adult had to enter the room and bring some sense to the debate. Debt and deficits had to be managed responsibly.

'*Credit rating agency Standard %26 Poor's on Friday downgraded the credit rating of the United States, stripping the world's largest economy of its prized AAA status.*'

CNN Money, 6 August 2011

The reasons Standard %26 Poor's gave for the ratings downgrade were (emphasis mine):

> '*The downgrade reflects our opinion that the fiscal consolidation plan that Congress and the Administration recently agreed to falls short of what, in our view, would be necessary to stabilize the government's medium-term dynamics…**we believe that the prolonged controversy over raising the statutory debt ceiling and the related fiscal policy debate indicate that further near-term progress containing the growth in public spending, especially on entitlements, or on reaching an agreement on raising revenues is less likely than we previously assumed and will remain a contentious and fitful process**…*
>
> '*The political brinksmanship of recent months highlights what we see as America's governance and policymaking becoming less stable, less effective and less predictable than we previously believed.*'

In a nutshell, the extent of Standard %26 Poor's assessment was: *You lot couldn't organise a chook raffle and we don't believe you have a snowflake in hell's chance of ever getting this financial mess sorted out*.

Good call.

But Standard %26 Poor's broke the golden rule of politics: To get along, you have to go along.

Less than two weeks later, CNN Money ran this story on 18 August 2011:

'*Ratings agency Standard %26 Poor's is being investigated by the U.S. Justice Department for allegedly overrating mortgage-backed securities, whose meltdown led to the 2008 financial crisis, according to two sources with knowledge of the investigation.*'

Funny that the other ratings agencies — who maintained the AAA rating, and that were also involved in the mortgage-backed securities ratings scam — weren't going to be investigated.

What do you think? Pure coincidence?

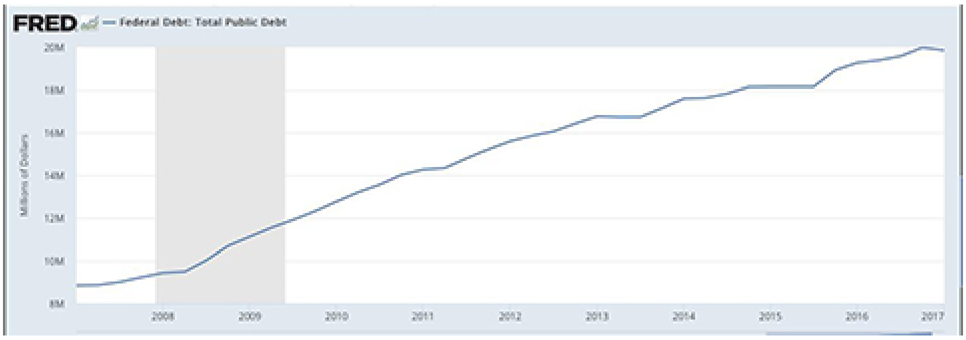
And yet, here we are, six years later. What's changed?

Well, for starters, Standard %26 Poor's has not changed the AA+ rating up or down.

Obviously, this must mean the government took heed of Standard %26 Poor's concerns and has addressed the debt and spending issues.

Courtesy of the Federal Reserve Economic Data (FRED), we can see total US public debt in 2011 was around US$14 trillion.

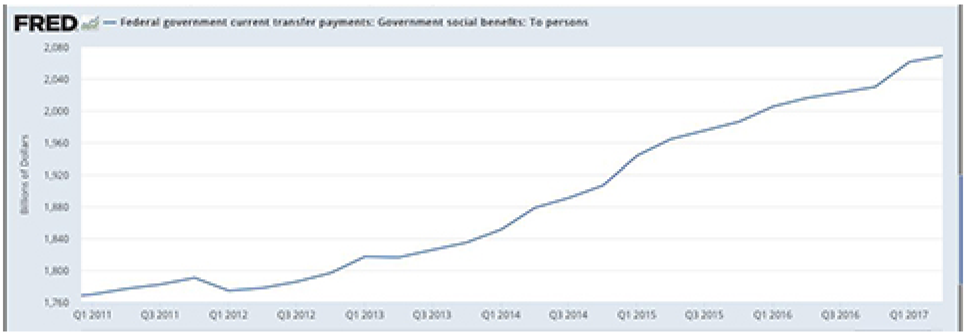
The latest reading has the debt level nudging US$20 trillion…an increase of US$6 trillion in six years.



Source: Federal Reserve Economic Data (FRED)
[Click to enlarge]

What about entitlement spending? Surely that's been brought under control?

The graph below shows the total paid in transfer payments. From Investopedia: '*A transfer payment, in the United States, is a one-way payment to a person for which no money, good, or service is given or exchanged. Transfer payments are made to individuals by the federal government through various social benefit programs. These types of payments are executed by the United States to individuals through programs such as Social Security.*'



Source: Federal Reserve Economic Data (FRED)
[Click to enlarge]

In 2011, the total paid in transfer payments was in the vicinity of US$1.8 trillion. The current payment is closing in on US$2.1 trillion…a US$300 billion increase over the past six years. Perhaps it's just me, but it sure looks like things have gone from bad to worse over the past six years.

The Trump administration and Congress couldn't agree on what to have for dinner, so forget about serious attempt to address the ballooning debt and deficit problems.

According to CNN Money, the debt ceiling issue is looming again:

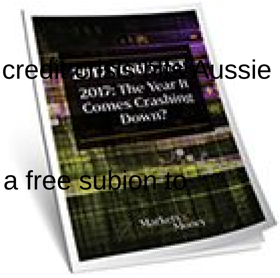
'*The CBO* [Congressional Budget Office] *now estimates that Treasury might risk defaulting on some payments in the first half of October* [2017].'

Yet, with an almost identical situation — with the exception that the debt is much higher, and entitlement spending much greater — there's not a peep out of the ratings agencies.

Wonder why they've remained so silent?

Could it have anything to do with the salvo fired across Standard %26 Poor's bow in August 2011?

Global Financial Crisis 2017: Three Crisis Scenarios, and How They Could Impact on Australia



Markets and Money editor Vern Gowdie reveals the three crisis scenarios that could play out as the next cred Aussie shores…and the steps you could take to potentially navigate profitably through the troubling times a.

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Information is Compromised

The point is this: The information being produced for public consumption is seriously compromised.

The 'go along to get along' culture means you do not rock boat.

CPI figures. Unemployment numbers. US corporate earnings. The reserve position of banks. Investment industry reports.

The agenda follows the same pattern…keep the masses sedated. Keep them calm. Keep confidence levels up. Reassure them that all is OK. The situation is under control…Janet Yellen is at pains to tell us the system is stronger than it was in 2008.

Yeah right…

Who believes anything that comes out of the mouth of the Fed chair?

There's not enough space in this article to list the stupidity uttered by current and previous Fed chairpersons. So here's one that sums up how clueless the Fed is, from Ben Bernanke, dated 28 March 2007: '…*the impact on the broader economy and financial markets of the problems in the subprime market seems likely to be contained.*'

As the two graphs above show, the debt and deficit epidemic, created by successive governments, is out of control. This disease is not quarantined to the US. It's affecting every major economy.

The cure for the disease is simple — cut back on spending promises and increase taxation.

We have to live well within our means to produce sufficient surplus to pay down debt levels.

Failure to do so, will — yes, *will* — result in another debt crisis…far worse than 2008/09.

As the graphs above show, we're well down the road to failure.

Given the level of misinformation — based on self-interest and personal agendas — it comes down to individuals to make choices based on common sense.

If something cannot continue, it won't. We saw that principle play out in 2008.

How can we be a further US$60 trillion deeper in debt and expect a different outcome?

The only thing different about next time is that it'll be a much harder landing.

While we're on the topic of self-interest, remember this reason for the surge in US shares, cited in *The Guardian*?

> ‘Wall Street stocks rise after Trump’s corporate tax cut promises…
>
> ‘*President Donald Trump has helped drive up stock markets on Wall Street and in London to new highs, after he promised corporate tax cuts and a spending splurge on infrastructure projects to boost the economy.*’

Since that proclamation, the US share market has risen 5%.

Where are the tax cuts? Nowhere to be seen.

Where’s the infrastructure spending? We haven’t seen much at this stage.

Trump couldn’t even convince those in his own party to get rid of Obamacare. What are the chances of getting approval for tax cuts and increased spending? Buckley’s and none.

So, what’s supporting the US share market?

Other than confidence, very little. Once confidence goes…watch out below.

The system has set us up for a massive failure.

There’s never been a more dangerous time in living memory to be on the wrong side of markets.

When this market finally buckles to the reality of the situation, the losses will be devastating.

Failure to recognise the gravity of the situation will come at a great cost. Unless you act now to protect your portfolio from the fallout of the looming crash.

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