

A Super Economic Boom and Bull Market is Inevitable! **by Adrian Van Eck**

You have heard that M3 money supply grew by \$56.3 billion in the latest week. Think about that for a moment. There have been times – the Eisenhower Administration (1953-1961) and the administration of George Herbert Walker Bush, a.k.a. “Bush 41” (1989-1993) – when it was difficult to get the Federal Reserve to create \$56.3 billion during an entire year. (Under Ike, American went a whole year with zero money growth.)

Let me put it another way. In recent years, American big business has been investing one billion dollars a week in China – putting up factories, installing state-of-the-art machinery, etc. So, the Fed has just created in seven days more money than American big business CEO’s have sunk into China in the past 52 weeks. It is generally agreed on Wall Street that the \$42 billion in the past year has positioned China to be the number one growth story in the world.

So, my question is this: *What will \$52 billion of new money spawned by the Federal Reserve do for the U.S. economy especially when you add that amount to the trillion dollars created by the Fed during months it pretended to be tightening money in America?* I will now give you my answer. You are about to see the greatest growth in the U.S. economy since the post-war boom that ran from 1946 to 1956. At its last meeting, the Federal Open Market Committee (FOMC) grumbled and debated before it finally agreed to go along with Greenspan’s demand for a thirteenth quarter-point rate hike – up to 4.25 percent.

My own belief is that [the committee] was already mentally adapting to the four year term of Fed Chairman Ben Bernanke. He served on the Fed for three years with some of the current members of the Fed and I think they are in harmony with his well-known views on economic growth being good. Lately, Wall Street has been talking itself into a mood of gloom and doom as it spells out what it believes will be the future scenario of interest rates increases. This has inverted the yield curve, which, according to legend, all but dooms America to an economic slowdown and maybe a recession.

Then, Dr. Ben Bernanke will come in and demand more rate hikes later, just to prove what a tough guy he is. All this overlooks everything Bernanke has said and written since his first days in college. He wrote a college paper blaming the Fed’s stinginess with money for creating the Great Depression. The paper was so well documented and so clearly written that it became a must-read in economics classes at colleges all over America – and it is still widely read and discussed today.

Why Wall Street thinks a man who has written this important document would change his thinking at age 52 is beyond me. Fed members have indicated that rates were now high enough (at or above the inflation rate in America) and they said this meant they had removed accommodation to the American economy.

In order to accept the notion that the Fed has removed accommodation while it is creating so much money, you would have to suspend all semblance of reality. It would be absolutely essential to close your mind to the simple fact that money makes the world go round. Sometimes money is cheap and sometimes it is expensive. But money itself creates demand, meets payrolls and covers charges from shipping to interest costs. When Greenspan took over the Fed in the summer of 1987, he immediately pushed the Fed’s Open Market Committee into a series of rate hikes.

We said his policies, which did actually include limiting money growth again, would kick Americans in the teeth and bring first a market crash (which began 60 days after I put a red flag on the cover of the August 1987 issue of Money-Forecast letter) and then a recession. We got the recession a few years later (1990-1992), as Greenspan virtually stopped all money growth in its tracks.

The first Bush Administration was so sure that its victory in the Gulf War would bring re-election that it paid no attention to what was happening. That administration dismissed it as a mild recession. Not so. The housing industry was soon in tatters and thousands of banks and savings and loans were driven out of business. Greenspan, as he usually has done, responded to the emergency once he became aware of it – which turned out to be six months after it began – by flooding the system with new money. The interesting fact this time is that he has been raising rates, while making speeches about tightening money.

But actually, he has been pumping money into the economy in quantities with precedent. The reported gain of \$56.3 billion is just the latest installment. You probably noticed the news report on people filing for jobless claims taking a huge drop to the lowest level in more than five years. New jobs are being created. Some of them are in manufacturing. Smaller companies, those refusing to join the exodus to China, are joining with Japanese companies that are setting up new plants in this country to start rebuilding U.S. manufacturing.

Readers who are as old as I am remember that during World War II, war plants worked around the clock and paid-out plenty of overtime. There was nothing to spend that money on. But, after the war, people tapped into their savings bonds and started building the American suburbs. The ten-year boom that followed was paid for by the savings accounts of World War II. Today, we are told that Americans save zero money. That is a lie! Savings are high and are liquid. But the savers and debtors are two different groups. The money being saving (including giant pools of corporate profits) has now begun to find its way into a wave of new investment in America.

That wave will grow. Dr. Ben Bernanke has devoted his life and career to the notion that GROWTH IS GOOD. He will switch the Fed rate back to thinking of restoring the three percent unemployment rate that was made Federal Law in 1945 as the national target ... and was, indeed, the base rate for decades. The unemployment rate was 4.9 percent in December. In recent years, growth has been seen as bad on Wall Street. It scared brokerage firm economists because they feared the Fed would raise rates. That's why the Dow Jones Industrial Average now stands below its level of early 2000. Well, that attitude will not happen with Bernanke [at the Fed]. Remember, starting February 1st, the theme has become GROWTH IS GOOD.

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