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Economic Pessimists Vent at Freedom Fest

by Paul Dykewicz (more by this author)
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LAS VEGAS—Ever-increasing debt loads taken on by governments around the world worry the economic and market forecasters who spoke Thursday at the opening day of FreedomFest here.

The conference typically offers a variety of views about the economy, the markets and other topics but the tone this year seemed decidedly negative, based on the comments of a number of speakers during the opening sessions. A record number of roughly 2,300 registrants are attending the FreedomFest conference this year and hearing speakers who are addressing some of the most vexing problems that exist today.

This year's event is taking place as serious negotiations occur among lawmakers in Washington about how to address the soaring U.S. government deficit that is expected to reach the federal debt-ceiling limit on Aug. 2

In that context, questions arose in one session about whether debt relief packages should be offered to fiscally overextended governments such as Greece.

"Greece has not come to grips with its spending," said Richard Rahn, a senior fellow with the Cato Institute. He compared Greece to a canary in the coal mine that is signaling that debt-ridden countries are becoming a pervasive problem.

"The situation in Greece is only going to continue to get much worse," said Rahn, who cautioned against bailing out the financially strapped country.

"You can set a precedent for Portugal, Spain, Italy, Ireland and the rest," Rahn said. "If you bail Greece out, you don't have a good excuse for not bailing out the others."

The current debt-ceiling debate among U.S. lawmakers shows that the United States is getting to the point where its debt load as a percentage of its Gross Domestic Product (GDP) will become “unsustainable,” Rahn said.

If interest rates rise to normal levels rather than today’s very low levels, the consequences of carrying heavy debt for the U.S. government could be “catastrophic,” Rahn warned.

The U.S. economy actually is worse off than people realize, with the current methods of tracking unemployment and other economic measures understating the extent of the problems, said David McAlvany, CEO of the McAlvany Financial Group, a precious metals brokerage and money management firm in Durango, Colo.

For example, the U.S. government unemployment rate of 9.2% could be as high as 22% or 23% if a better measure of calculating all of the out-of-work people who wanted jobs existed, McAlvany said. A basic problem in the United States is that it takes on too much debt and lacks the income to cover it, he added.

The unsettled U.S. debt-ceiling situation led Standard & Poor’s on Thursday to follow Moody’s Investors Services’ in opting to review U.S. government debt for possible downgrade.

“I think that all the talk about default is really an admission that the United States is running a gigantic Ponzi scheme,” said Peter Schiff, CEO and chief global strategist of Euro Pacific Capital, a full-service broker/dealer in Westport, Conn., which specializes in foreign markets and securities.

The U.S. government’s ability to borrow money to boost its debt is not the same as paying its bills, Schiff said.

Inflationary pressures have been building up for years but they first have been affecting U.S. trading partners that are buying American dollars, Schiff said. When China and other countries stop buying U.S. dollars, America will face inflationary problems, he added.

“When interest rates go up in the United States, there is no way the U.S. government can pay the interest, let alone the principal, on its debt,” Schiff said.

The tone was not much more encouraging later in the day during an All Star Prediction Panel.

A decidedly bearish view of the economy and the markets came from Ty Andros, president of Chicago-based TraderView, a boutique firm that focuses on alternative investments.

“This financial system, and our currency, is completely in default,” Andros said. The U.S. currency and financial system are near “collapse,” he added.

You have investments that yield 3-4% a year, while your purchasing power shrinks faster than that, Andros continued.

Andros asked rhetorically if any audience members consume more than they produce and put the rest on their credit cards.

“That’s what the American government is doing,” Andros said. “There is no income growth in the developed world.”

To reinforce his bearish view, Andros predicted that the collapse of the stock market will “begin” within the next year.

Also taking a pessimism view was Burt Dohmen, president of Dohmen Capital Research, an economic and investment research firm.

“If the U.S. government calculated inflation the same way that it did in 1980, inflation would be about 10%,” Dohmen said.

The market is trading at levels similar to 2007, before a big drop occurred, Dohmen said. Death, taxes and the depreciation of purchasing power of all currencies are inevitable, he added.

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“Gold is the asset that will rise,” Dohmen said.

“I believe it will get so bad during the next two years that the pews in the churches across America will start to fill,” said Hank Brock, president of Brock and Associates Inc., a financial planning and small business consulting firm in Salt Lake City, Utah.

The sole bull on the prediction panel was Don Luskin, chief investment officer of Trend Macrolytics LLC, an investment strategy firm that performs macroeconomic analysis and forecasting.

“The Roman Empire finally fell but there were some really good times before it happened,” Luskin said.

Luskin criticized the three bears who participated in the panel discussion for taking a dim view of the economy and the markets. He also voiced skepticism about their claims of accurately forecasting market swoons.

“A broken clock is right at least twice a day,” Luskin said. “Nobody in this business gets it right all the time.”

Luskin optimistically predicated that U.S. stocks will reach their all-time highs in the next year.

To put the prognostications in perspective, panel moderator Mark Skousen, chairman of FreedomFest and editor of the *Forecasts & Strategies* investment letter, quoted J. Paul Getty, who once said that the only people who always pick the tops and bottoms of the markets correctly are liars.

Paul Dykewicz is the editorial director of the Financial Publications Group at Eagle Publishing Inc., www.eaglepub.com, of Washington, D.C. Eagle publishes two free, e-letters, five weekly trading services and four monthly investment newsletters, *Forecasts & Strategies*, *Successful Investing*, *High Monthly Income* and *The Alpha Investor Letter*.
