

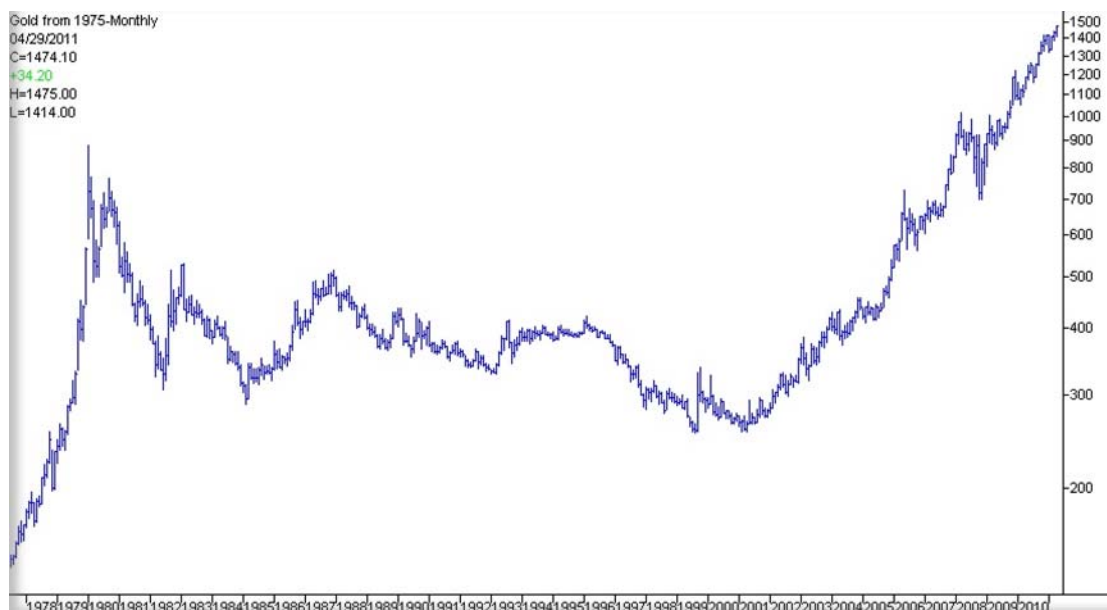
ROADS TO PROSPERITY

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Today, the US government is open for business, having narrowly averted a budget driven shut-down at the stroke of midnight Friday, the Dow is above 12,400, reported US unemployment is trending down, the Fed is closer to ending Quantitative Easing on schedule in June, and the government reports inflation is low and the economic recovery is taking hold. But also today, gold hit a new all-time high and silver is trading at a 31-year high. Can a strong US economy and high gold and silver prices go hand-in hand? Why to people continue to buy gold and silver?



Historically, investors and speculators alike tend to shun precious metals in good times, favoring instead almost any other asset class (e.g. equities, debt instruments and real estate). So are we really headed for good times in the near future? Comparison of today's situation to the Reagan years sheds some light on this important question.

Like Reagan, Obama came into office during recession. Gold had quintupled during Jimmy Carter's recession; gold has hit a new all-time high under Obama. Gold prices fell 40% (from \$750/oz to \$450/oz) under Reagan's 8-year presidency.

In the current recovery, real GDP has averaged 3%. Employment as defined by nonfarm payrolls and reported by the BLS has edged down from 10.2% in early 2010 to 8.8% in March. During Reagan's recovery real GDP averaged 7.7 percent annually while nonfarm payrolls rose by 5.3 million. Reagan reduced inflation from 12.2% when he took his first oath of office as president to 4.4% in his last year of office. Today, inflation is negligible at 2.1%, according to the Fed.

Why are there such major differences in US economic performance under Obama and Reagan? Reagan saw free market, private-sector enterprise as the road to prosperity. Obama has chosen massive expansion of the federal government as the way forward.

Obama's first act was an \$835 billion government-spending package. One of Reagan's first decisions was to cut \$50 billion ((\$100 billion in today's dollars) from domestic spending. Obama focused priorities on nationalized health-care, energy cap-and-tax-and-trade, and pro-union card check. Reagan focused on free market measures; he ended wage and price controls, deregulated all energy prices and fired the striking federal union air-traffic controllers.

Reaganomics spurred growth through limited government, a strong dollar and lower taxes. Reagan slashed marginal tax rates from 70 percent to 28 percent. Reagan's lower tax rate policy (attributed to the Arthur Laffer) actually raised tax revenues from \$300 billion to \$450 billion.

The current administration seeks to raise tax revenue, particularly for the nation's highest earners. In his fiscal 2012 budget, released in February, the president would allow the Bush tax cuts to expire for income above \$200,000 for individuals and \$250,000 for couples at the end of next year.

Reagan increased the defense budget to defeat the Soviets and end the Cold War. Reagan did not win the Nobel Peace Prize. Obama is waging shooting wars in Iraq, Afghanistan and Libya; he accepted the Nobel Peace Prize for 2009.

Under Reagan, overall federal spending dropped from 23 percent of GDP to 21 percent. Obama has grown the size of government to 25 percent of GDP.

Reagan ran a budget deficit of about 3 percent of GDP, the same percentage left by Carter. Obama's 2011 budget deficit is \$1.6 Trillion or 11% of GDP.

Reagan believed in sound money and a reliable currency. It was Reagan's pro-growth tax cuts and counter-inflationary monetary policy that ultimately reversed the 15-year decline in the US Dollar. Since 2009, the Fed and central banks have flooded the world with more and more paper money. More dollars, Euros, Yuan and Yen have steadily pushed up commodity prices at the expense of currency values. The US Dollar, for instance, has fallen 17% since February 2009, when the \$838 Billion American Recovery and Reinvestment Act of 2009 was passed.

Overall, Reagan's free-market, pro-growth policies created 21 million new jobs as real GDP averaged 3.5 percent annually for seven of his eight years in office. The unemployment rate dropped by over 50%. The stock market doubled, and household net worth expanded by \$8 trillion.

The Obama administration believes that increasing the size and scope of government is the path to prosperity. In 2009, rather than allow large banks, insurance companies, mortgage companies and Detroit automakers to fail due to market pressures, Obama nationalized them

using taxpayer dollars to bail them out. That same year, the administration projected its new stimulus package would “create 3 to 4 million jobs.” But most of the funds went to state governments that used the windfall funds to close their own budget gaps. Few permanent jobs were created. The private sector jobless rate actually increased.

So which is the path to prosperity? Gold and silver prices give the answer. The price of gold has nothing to do with political ideology or government reports on the status of the economy. The gold market sifts through the myriad of economic data, investor sentiment and global events to measure reality with crystal clarity. Gold is trading at all-time highs, in direct contradiction to reports of sustained growth in the world’s largest economy. It just might be that massive deficit spending and easy money policies have little or no stimulative effect on the economy and that government spending does not create jobs in the private sector. Because the government must tax or borrow in order to spend, it takes money from individuals and businesses that otherwise would go to consumption, savings or investment to produce more wealth.

Likewise, the gold market shows government reports of low inflation and growing employment to be false. We have seen on these pages before that actual US inflation is closer to 10% than the reported 2.1%, and the actual US unemployment rate today is 16%, a rate not seen since the 1930’s. As many have correctly observed, flooding the markets with new printed money debases the currency and raises prices for all.

The precious metals market is also telling us that its move up has a long ways to go.

Investors from around the world benefit from timely market analysis on gold and silver and portfolio recommendations contained in *The Gold Speculator* investment newsletter, which is based on the principles of free markets, private property, sound money and Austrian School economics.

The question for you to consider is how are you going to protect yourself from the vagaries of the continued deficit spending and growing inflation? We publish *The Gold Speculator* to help people make better decisions about their money. Our Model Conservative Portfolio gained 66.7% in 2010, and 55% for 1Q2011. Subscribe at our web site www.thegoldspeculatorllc.com with credit card or PayPal (\$300/yr) or by sending your check for \$290 (\$10 cash discount) The Gold Speculator, 614 Nashua St. #142 Milford, NH 03055