

EVERYTHING INCLUDING THE KITCHEN SINK

WEB BUZZ 2009.08.31

The internet is a wonderful thing! For those of you who have not experienced its usefulness concerning things both great and small, we urge you to come join the rest of us. In terms of attempting to deliver good and sound money management to our clients, the internet has no peer. In recent days while researching past Federal Reserve actions, we have come across the website www.theburningplatform.com, which in turn came from another website that is a part of our regular research activities www.financialsense.com.

The author of The Burning Platform website is a chap named James Quinn, senior director of strategic planning at the Wharton School of Business, University of Pennsylvania. He has done a critique of the Federal Reserve and its influence on the real economy and financial markets. We were attracted to it as he concurred with us that we have had only two good Fed chairs since its creation in 1913, those being William McChesney Martin and Paul Volker. He didn't name them, but left them out of what he calls his "Hall of Shame."

Please note the following table, which details the amount of stimulus thrown at the recessions beginning with the Great Depression of 1929-1933 and 1937/8. What is noticeable about this table is the extreme amount of stimulus this recession vis-à-vis those previous. Kitchen sink, anyone? Is this good or bad? Does it mean this recession is possibly the worst yet seen? Or is this just a case of "not letting a crisis go to waste" as voiced by Rahm Emanuel? What we do know is that we are adding additional debt on an economy already deeply in debt. No lasting good can come from this.

Peak	Trough	Length (months)	Decline in real GDP	Stimulus as a % of GDP		
				Monetary	Fiscal	Combined
August-29	March-33	43	27.0%	3.4%	4.9%	8.3%
May-37	June-38	13	3.4%	0.0%	2.2%	2.2%
November-48	November-49	11	1.7%	-2.2%	5.5%	3.3%
July-53	May-54	10	2.7%	0.0%	-1.4%	-1.4%
August-57	April-58	8	3.2%	0.0%	3.2%	3.2%
April-60	February-61	10	1.0%	0.7%	1.0%	1.7%
December-69	November-70	11	0.2%	0.3%	2.4%	2.7%
November-73	March-75	16	3.1%	0.9%	3.1%	4.0%
January-80	July-80	6	2.2%	0.4%	1.1%	1.5%
July-81	November-82	16	2.6%	0.3%	3.5%	3.8%
July-90	March-91	8	1.3%	1.0%	1.8%	2.8%
March-01	November-01	8	0.2%	1.3%	5.9%	7.2%
<i>December-07</i>		<i>15</i>	<i>1.8%</i>	<i>18.0%</i>	<i>11.9%</i>	<i>29.9%</i>

* Est.

Source: Grant's Interest Rate Observer

Adapted from theburningplatform.com

We ask you, how did we ever find such a clear economic thinker in one of our universities? Oh, that's right, the University of Pennsylvania is a private school.