BUILDING WEALTH IN CHANGING TIMES

The Solari Report

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Employment Statistics

with John Williams

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C. AUSTIN FITTS: It's my pleasure to welcome to The Solari Report, a man who certainly needs no introduction among our subscribers but is very widely known, admired, and, I would say, deeply appreciated for his work with statistics. You can't possibly understand the economy if you depend on the official statistics; they have veered progressively further and further away from reality.

John Williams has a wonderful company. I'm a subscriber, and have been for many years. It's called ShadowStats, and it is the premier website for hard information on the real facts of the economy. In anticipation of some of the things happening in the employment sector, John has agreed to join us today to brief us on the employment statistics, what's really happening with employment in North America and what that means to the economy. So, John, welcome to The Solari Report.

JOHN WILLIAMS: Well, thank you, Catherine, and thank you for having me.

C. AUSTIN FITTS: I watch, very faithfully, your chart that's up on your website at shadowstats.com, of the unemployment rate. Tell us what's been happening with employment statistics recently, and then let's track back as to how the official numbers got so far away from the real numbers.

JOHN WILLIAMS: Well, I publish an estimate of unemployment that I'll contend is very close to what is common experience; the way people used to view employment. If you were to go around the country and ask everyone whether or not he or she was employed or unemployed, you'd get a very direct answer. The average person doesn't have to think much about that. The problem is: the government has a very set definition of employment that the average person doesn't recognize, so that when you see a number such as the one we just got for February, of headline unemployment at 6.7 percent, although it was up a notch for the first time in some time, most people would think that the unemployment rate is much higher than that, and for common experience, it is.

The issue with the government's number is that you have to have actively sought work in the last four weeks at the time of the unemployment survey in order to be counted as unemployed. Let's say you've been unemployed for some time, and there're no jobs to be had, you're still unemployed, but you'd take a job if it were available. If you haven't looked for work in the last four weeks they won't count you in their headline number: either the headline unemployed or the headline labor force. The way that they calculate the unemployment rate is the ratio of the number of people who are unemployed (by whatever definition) and the corresponding labor force, which is employed plus unemployed. Those numbers can swing wildly, because what happens is people stop looking for work when they think it's just hopeless; they can't find any work or they become what the government refers to as "discouraged workers."

Now, back before 1994, if you met all the qualifications of being unemployed but you just hadn't looked for work in the last four months, you were counted as a discouraged worker. After 1994, they changed the methodology, and in order to be counted as a discouraged worker, you had to have looked for work in the last year. If you hadn't looked for work in the last year, you were no longer counted as a discouraged worker. So, there's a big group of long-term discouraged workers that were just knocked out of the government's calculations. I put that back in as best I can.

The government's headline unemployment rate is at 6.7 percent (that's their unemployment rate, “U-3”). The government publishes six levels of unemployment. Their broadest measure, which is U-6, includes those who are normally counted as unemployed, plus people who are working part time, for economic reasons because they can't get a full-time job, and the short-term discouraged workers: those who haven't looked for a job in the last year, but not more than a year. So you're at that one-year dividing point, somewhere between the four weeks and the one year.

The government's broadest measure shows unemployment, then, at 12.6 percent. If you add in the long-term discouraged workers, which I do, you're up around 23.2 percent. Now, that's a large number, and I have some people who've come back and said, "The historic numbers given for the Great Depression were a peak unemployment rate of 25 percent, back in 1933."

That's what the numbers are estimated as, back then, but you have to keep in mind several things. First, the government didn't survey unemployment back then. They constructed these numbers after 1940, when they began surveying them from a number of records, including census records and Social Security records. It's their best estimate, and it also would've been along the line of: "Are you employed or not employed?" It didn't count whether people were discouraged workers, which is, again, more along the line of the common experience and the way I would look at it.

"The government didn't survey unemployment back then. They constructed these numbers after 1940, when they began surveying them from a number of records, including census records and Social Security records."

But back in 1933, you had something close to 22 percent of the population that worked on farms, and if you had a tough time, you'd go to work with Aunt Mabel on her farm, you'd get fed, everyone got along, and you were counted as employed. Today, less than two percent of the people in the unemployment survey or the employment survey are on farms. If you wanted to look at a Great Depression comparison, you probably ought to look at the non-farm unemployment rate, which hit a peak of about 35 percent in 1933. That's more comparable to my number in the Great Depression.

What I'm seeing is as bad as we've had in the post-World War II period. It's the worst since the Great Depression, but we're not to the Great

Depression levels yet.

C. AUSTIN FITTS: Well, John, we have over 100 million people now in the United States on means-tested subsidies of some kind. So, that's food stamps, unemployment compensation, welfare, and various kinds of health care benefits.

JOHN WILLIAMS: Yes.

C. AUSTIN FITTS: So, it's absolutely conceivable to me that we could have Great Depression level of unemployment, because we have government subsidies and benefits sufficient to plug a big part of that gap.

JOHN WILLIAMS: Sure. Your assessment there is fair. You didn't have quite those programs back in 1933.

C. AUSTIN FITTS: Right. If I go sit in the parking lot of Wal-Mart in any place in southern Tennessee, and I estimate the people walking in and out based on everything I know about the different subsidy money being spent in that particular area in that county, what I can show you is, you have that level of people who are unemployed but basically making it on a wide variety of government programs, including one of the ones that's ballooning: Social Security disability. We have 25 percent of the population on food stamps.

JOHN WILLIAMS: Yes.

C. AUSTIN FITTS: So, that argues that we are at Depression-level unemployment.

JOHN WILLIAMS: From that basis, I would agree with you.

C. AUSTIN FITTS: Right.

JOHN WILLIAMS: I guess it's better than being unemployed, but the issue is, is that a satisfactory, happy level?

C. Austin Fitts: Oh, absolutely not.

John Williams: It'd be like counting the people working part time for economic reasons because they couldn't get a full-time job. You might as well put together an unemployment rate that would put in estimates from the people who would rather have a job than living as they are.

C. Austin Fitts: Right. Well, the other thing that your calculation of 20-something percent doesn't include is what I would call the underemployed. An enormous part of the discouraged workers are people who had a job for 75,000 and don't want to work for 20,000. They have found a way to survive without doing that whether it's based on a disability or they have a spouse who will support them.

John Williams: Right. Yes.

C. Austin Fitts: So the numbers on the underemployed are phenomenal, because you have people who had a living wage who are now working for a wage which is not a living wage.

John Williams: Yes.

C. Austin Fitts: I don't know if there's any way to capture that number.

John Williams: Yes, not easily.

C. Austin Fitts: Yes.

John Williams: Someone would have to do a very comprehensive and well organized and structured survey to come up with something for that, and I haven't seen anything like that.

C. Austin Fitts: Right. That's tough, because I never met a person who thought they were overpaid.

John Williams: Yes. I understand that, but there still is a level at which people would consider, "Yes, I can work for 60,000 instead of 75,000." It's better than living on food stamps.

C. Austin Fitts: Right. I can't recommend John's site enough: shadowstats.com. Your site is very good at walking us through different ways of looking at employment, and maybe you could walk us through some of the statistics that you track, including the participation rate and payroll, and describe what those are and what they can tell us about what's going on in the employment statistics.

John Williams: Well, if you look at the home page, on shadowstats.com, you'll see a plot which currently is of the government's two unemployment rates. One sort of widely followed and our estimate. You'll see a pattern there which has become increasingly divergent, where our rate has flattened out and maybe still moving up a little bit at a high level, the U-3 (the narrowest measure) has started to come down and leveled out, and then the U-6 started to come down, and it's leveled out. When people see a headline unemployment number that's down a percent from the year before, normally, that would be good news. If unemployment's down, it means that people are working. Usually, that's what it means.

What's happened here, though, is that the decline in the unemployment rate is not because there are fewer people who are unemployed in the happy sense that they've gone back to work and are now counted as employed. They're no longer counted as unemployed because they've become discouraged workers who can't find a job. When that happens, they drop out of the unemployment. They also drop out of the labor force, but the labor force is much larger than the unemployed. When that happens, the unemployment rate actually goes down, but it's not going down, again, because people are getting reemployed and going back to work; they're dropping out of what the government considers the headline unemployed force and the headline labor force.

That even happens with the U-6. What happens on a monthly basis is that there are a certain number of people who've been in the headline unemployment who've become discouraged workers, so they move into the U-6. There are also people in the U-6 who've been discouraged now for a year, and they're going to drop off the government's counting, and they go into another world. So, as a result, as the inventories of the unemployed build up, more and more get pushed into the long-term discouraged worker status, which the government doesn't track.

First, U-3 started to turn down and then leveled off some. The U-6 (the broader measure) followed a couple of years later, doing the same thing. But you look at the ShadowStats number, and what you'll see is: it's basically flat and moving a little bit higher. The reason being that the U-6 encompasses all the discouraged workers, whether they're currently counted as headline unemployed, or in the U-6 they're counted as headline short-term discouraged workers. Once they drop out of the government's reporting, they're still counted as discouraged workers in our numbering, so they're there. Some leave by attrition, but they don't leave because they're defined away by the federal government. So that's why you'll see our numbers staying high, and the rest of the numbers are diverging some to the down side.

"The U-6 encompasses all the discouraged workers, whether they're currently counted as headline unemployed, or in the U-6 they're counted as headline short-term discouraged workers."

C. AUSTIN FITTS: So, your unemployment rate is much more complementary to the participation rate.

JOHN WILLIAMS: Yes. It's a very high correlation there. In fact, if you plot our unemployment rate with an inverted scale, it looks very much like the participation rate, the number of people who are employed as a percentage of the population. That's just plummeted in this downturn and now it's pretty much leveled out. You see very similar patterns there. There's a direct relationship.

C. AUSTIN FITTS: Yes, I was looking at your website this morning. The participation rate is down to where it was in 1980 or immediately before 1980.

JOHN WILLIAMS: Yes. You have other factors that are shifting around, there, too. You have more people who, as baby boomers have moved to retirement age, have become a larger portion of the population than they were back in 1980.

C. AUSTIN FITTS: Right.

JOHN WILLIAMS: But you'll also find that today the average person who's looking to retire generally isn't retiring as he or she had originally planned and that they find they have to continue working in order to make ends meet. That goes the other way in those numbers. Looking at the participation rate is a pretty good indicator of what's happening in the long-term – the broad unemployment.

One thing I try to do is to give people an idea of what's happening with the headline numbers; what they really mean. Unfortunately, the government's numbers just are not meaningful, the way they publish them: the unemployment rate as they calculate it.

Each month, they seasonally adjust the unemployment rate, and that's because you do have seasonal patterns that move with the employment tied to the school year; the holiday shopping season, with retailers hiring people and then letting them off in January. If you want to see how the economy is going, as opposed to how the season's varying, you adjust the numbers with what they call a "seasonal adjustment factor" that the government uses some statistical models to estimate.

It used to be they would estimate the adjustments in advance, and then they'd use those adjustments throughout the year, so at least your numbers were comparable and were prepared on a similar basis. Several years back, the government moved over to what they call "concurrent seasonal adjustment." Maybe in stable economic times, it didn't make too much difference, but we've seen a lot of instability in economic reporting since the economy turned down sharply and it crashed, effectively, in 2008 into 2009.

But what happens with the concurrent seasonal adjustments is that every month the government calculates a new set of seasonal adjustment for the current month's number. In doing so, it also restates, on a seasonally adjusted basis, all the numbers going back in time, so that where January was at 6.6 percent, February came in at 6.7 percent. The 6.6 percent that was then in January was calculated uniquely with factors around January. In February, they calculated new factors that gave you the February number 6.7, but it also revised the January number from 6.6. It could've gone to 6.5; it could've gone to 6.8. You don't know, because the Bureau of Labor Statistics does not publish a consistent number.

The point I get at is that when you look at the month-to-month comparisons, they're worthless. There's no meaning to them, yet those headlines get bandied around in the press that markets move; people hype the numbers to their own benefit. These numbers, in terms of month-to-month change in the unemployment rate, are meaningless.

A similar thing happens in the payroll survey, and it's just very poor quality reporting. The government has the correct numbers; they could publish them. The way they express it is that they don't want to confuse their data users.

C. Austin Fitts: The facts are confusing, John. We don't want to be confused with the facts.

John Williams: Yes. Well, they do the same thing with the payroll numbers, only they publish two months of the payroll that are consistent, and then everything is no longer comparable. That's a series, too, that is seriously flawed and seriously troubled.

There are two headline numbers that come out with the unemployment report. One is the unemployment rate, which is from what they call the household survey. Now, they go around and survey 60,000 households each month and ask questions as to whether people are employed or unemployed. It has nothing to do with whether they're collecting unemployment insurance; just a simple question that's tied to the nature of their being employed or unemployed.

That's been manipulated over time, too, and I'll give you an example. Back during the Clinton administration, a year or so before President Clinton was coming up for reelection, they changed the survey base for the household survey. This is the one where they calculate the unemployment rate. They also piggyback other surveys on the unemployment rate. For example, in March of each year, they piggyback the poverty report on the unemployment survey. So, what they did for the month of the unemployment survey was instead of surveying 60,000 households, they knocked it down to 50,000 households. The 10,000 households they eliminated largely were within the inner cities.

Now, it doesn't take too much to figure out what the effect would be on the numbers by not surveying the inner cities. I talked to the people who were operating it at the time. "Number one, this was done with Congressional oversight and approval; and number two, they had ways of mathematically adjusting for it," was what they told me. Yes. Well, you looked at the numbers, and you had a sharp drop in unemployment in the inner cities.

The poverty report which came out before the reelection showed the first drop in poverty for a long time, largely just a function of counting fewer people in the inner cities. The things that have been done to the numbers here have been on both sides of the aisle. The people in the Clinton administration were particularly creative politically, that is. At the end of the Clinton term, they ostensibly wanted to have a special surveying of health insurance, and so what they did was reinstitute the 10,000 households that they'd dropped out. Well, all of a sudden, the unemployment rate jumps, and George Bush inherits a recession that really started back in the Clinton administration.

Those things happen with these numbers, too. You can't believe the numbers.

C. Austin Fitts: I worked in the Bush administration and then, as a contractor, worked in the Clinton administration.

John Williams: Yes.

C. Austin Fitts: In the Bush administration, you still had incredible attention given to the overt and the covert and maintaining the two separate worlds.

John Williams: Yes.

C. Austin Fitts: Clinton came in, I think part of it was from having been in a small state that had a lot of covert operations, and they'd given up on the pretense a long time ago, and it was much more rock-and-roll.

So the covert side of the house was coming out of the closet and out there. It was pretty rock-and-roll.

John Williams: Yes. Interesting.

C. Austin Fitts: One of the things I wanted to ask you about, John, is: in my experience in government, for the last 30 years, since the participation rate was this low, we've had a tremendous amount of reengineering using technology to automate and reengineer in the private side, both large business and small business.

John Williams: Yes.

C. Austin Fitts: But government has never really reengineered for automation. When I first became the FHA commissioner, at the time, I had about 7,000 employees, and I sat down and figured out I could do the same thing with 250 people if I just automated. Of course we have a

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very paper-full process, between federal, state, and local, and yet government payrolls have continued to stay high or grow over this period. We've never reengineered for government. Now, that's all fine and dandy as long as the long-term bond market is willing to finance that.

JOHN WILLIAMS: Right.

C. AUSTIN FITTS: But we're coming into a point where we may have to automate government payrolls in a way they haven't been automated in 30 years, when the private side was.

JOHN WILLIAMS: Yes.

C. AUSTIN FITTS: What has been happening with government employment? Does it fit with my picture? What happens if that changes?

JOHN WILLIAMS: Well, I think your picture's a fair one, although there are other reasons, as well, that you've had the employment problems in the private sector, largely tied to bad trade policies and bad immigration policies.

C. AUSTIN FITTS: Right.

JOHN WILLIAMS: But, yes, the government employment continues to expand, and that's not only a lack of efficiency but also growth in government programs, and that seems to be something of the nature of the beast. Just consider this: these are government numbers, using the employment rate as they publish it and the income numbers as they publish it. The Census Bureau publishes income numbers annually with its poverty report, and the one number I like to follow there, because I think it is significant, is median household income (the middle range of household income).

If you adjust it for the Consumer Price Index, which they do (although they have a gimmick CPI they'll use, as well), any way it's reported, you'll see that in the last annual reporting, that median household income was at a seven-year low. If you use the Consumer Price Index as the Bureau of Labor Statistics uses it in its income numbers, the levels of 2012 were below where they were in 1967 and 1968.

C. AUSTIN FITTS: Yes.

JOHN WILLIAMS: There's a company that retired two senior people from the Census Bureau. Sentier Research came out with a monthly reporting of the household income: median household income adjusted for inflation. What they saw was when the economy started to plunge, the income followed, but when the economy recovered, officially, starting in June of 2009, household income continued to plunge down to levels below those we saw in 1967. It hasn't recovered. In fact, there're a number of indicators that suggest we never had an economic recovery here, which is maybe something else we can get into.

C. AUSTIN FITTS: Right.

JOHN WILLIAMS: But there's a reason why this has happened, and I'll give you another income example which will lead into it, and that is: real earnings. This is for production and supervisory workers, adjusted by the government CPI-U inflation. Average weekly earnings hit a peak back in 1972, I believe it was. Never recovered. It's been stagnant.

If you use more realistic inflation numbers, it's been dropping year to year, but as reported, it's down about 14 percent from where it was in 1972, and it's never recovered. The reason for this, more than anything else, has been the willingness of the United States government to promote a tremendous trade deficit. Our trade policies, generally, have encouraged that, so what has happened is the people who at one time had relatively high-paying production jobs found that those were being lost to offshore competition. Their incomes dropped.

Back in the early 1970s, it was much more common that, in the average household, you would have one person who would work, which usually be a wife as the husband would go off and earn the income for the family. Now it's very common that both of the senior people in the household have to go off to work and then maybe more, in order to make ends meet. But what you see with the household income is that even with that, the households are not staying ahead of inflation. Again, that ties to the loss of higher-paying jobs in the United States.

Take it a step further: the reason a lot of production gets shipped offshore is because of lower wages outside the United States and circumstances where the companies that are doing the manufacturing don't have to face all the regulatory costs that companies in the United States have to do. What’s been happening here in the last couple of years is there's been an extension of that to try and boost the immigration picture to bring in low-cost labor from abroad that will cut out the domestic workers earning what otherwise was considered a fair salary. There's deliberate effort by the government to continue bashing the household income, and that may be fine for corporate profits.

C. Austin Fitts: Yes.

John Williams: If I were a company that had labor-intensive products, I'd always want to have as low a labor cost as possible. That's basic profit and loss. But there comes a point that, in doing this, you're killing the consumers that buy your products. The reason we have not had an economic recovery, despite what you hear out of the GDP reporting of the Commerce Department, is that the consumer has not had the ability to expand his or her basic consumption; purchasing of goods and services.

The consumer accounts right now for 68 percent of the GDP, the Gross Domestic Product, which is the broadest measure of the U.S. economy that's published by the government. Before they redefined the GDP series to make it less dependent on the consumer, that was up around 71 percent. But the process here is if you want the economy to grow, if you want consumption to grow, if you want people to spend more money, they have to make money. They have to be able to make an income that stays ahead of inflation. If they can't keep their income growing faster than inflation, their consumption is not going to grow faster than inflation, and that by definition is a recession.

Now, sure you can buy some short-term growth from the future, through debt expansion. That explains some of what happened coming into the financial crises in 2007 and 2008. When Alan Greenspan was Fed chairman, he saw that there was no way that the consumer could continue to spend the way that he had been, and this was because of the income problems. So he encouraged debt expansion: debt built upon debt. That fueled most of the economy of the decade leading into the financial crash in 2008.

But as a result of that financial crash, the credit collapse, the consumer no longer has the ability to expand his purchasing power the way he used to be able to, through significant debt expansion. He doesn't have the debt expansion; the income isn't growing.

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C. AUSTIN FITTS: Right.

JOHN WILLIAMS: There's just no way that the consumer has been able to (a) fuel an economic recovery that supposedly started in June of 2009; (b) there's no economic recovery underway at present; and (c) what we're actually beginning to see is that the economy is turning down again.

I'll contend that the economy peaked somewhere in the 2006-2007 range, started to plunge in 2008, collapsed into 2009, and basically has been bottom bouncing ever since. That's what the better economics theories show.

C. AUSTIN FITTS: Right.

JOHN WILLIAMS: Now it's beginning to turn down again. It might be a second dip in a double-dip recession; it certainly will be viewed as a new recession, but it's not good news, because what happened in 2008 was an extraordinary crisis. It's one that had been building up for a long time. It was something that threatened the survival of the system as we know it. But the federal government did whatever they had to in the way of creating money, lending money, guaranteeing, bailing out. Whatever had to be done, they did, to prevent a collapse of the system. I don't blame them; I think if I were in that circumstance (although we shouldn't have gotten into that circumstance), I don't know anyone who really wanted to see an economic collapse.

All the stuff they did; all the money they spent did nothing more than buy a little time. It pushed the crisis further down the road. The economy is not recovered. The banking system is a little better off than it was, but it's still unstable. There are all sorts of liquidity issues there.

We're coming into another circumstance which can trigger a crisis of the magnitude seen back in 2008, but the defensive weapons that were used back then by the federal government are not as effective now. They're not as available as they were. A lot has been utilized, and all of the problems that have been addressed, all these emergency actions that have been taken, have long-term inflationary implications. If you have the inflation without the economic growth, it just becomes more debilitating to the consumer and the consumption picture.

C. AUSTIN FITTS: Well, I think one of the ways they're offsetting the monetary inflation is by devaluing labor. So, that helps keep inflation in check. There was a couple things I wanted to ask you about. What I've seen Washington do is constantly try and feed corporate earnings for a variety of reasons, one being that's where the greatest political contributions come from.

JOHN WILLIAMS: Right.

C. AUSTIN FITTS: One of the examples I always use, because it's easy to understand, is in 37 states, if you're on food stamps and you have a problem with your data servicing or you have a customer service question, and you get on the phone, you end up talking to somebody who works for JPMorgan Chase in India doing a job that you could do here. And if you were doing it, you wouldn't need food stamps and all the other government subsidies we are getting.

JOHN WILLIAMS: Yes.

C. AUSTIN FITTS: If you look at government expenditure on a place based basis, there are phenomenally uneconomic things for the taxpayer that we're doing because we're engineering subsidies into corporations or engineering the jobs into corporations. You're outsourcing something for $50.00 an hour, through JPMorgan Chase, that somebody in that community would be happy to do for $10.00 an hour plus healthcare.

JOHN WILLIAMS: Not only happy to do, but it would be of much better quality.

C. AUSTIN FITTS: Yes.

JOHN WILLIAMS: I had to order some new telephones recently. I would place the order with someone who was domestically located, but they couldn't lock things in; that all had to be handled by the back office, which was, I believe, in India. I had to call them back 62 times to get the situation straightened out.

C. AUSTIN FITTS: Oh, my word.

JOHN WILLIAMS: Almost worth giving up having a telephone. And I don't use a cell phone; I don't like them. This was a simple land line deal, but I kid you not. Every time I talked with people in the continental United States, who could understand what I was saying, and I could understand them. If they could've closed the deal, it would've been fine.

C. AUSTIN FITTS: Right.

JOHN WILLIAMS: But all those problems that were caused offshore had to cost someone an awful lot more money than it would've been, had they had someone domestically who would've been very happy to handle it and had adequate intelligence to do so. We're not talking rocket science here.

C. AUSTIN FITTS: Right. If you study the flow of federal monies into the corporate balance sheets and income statements, what you discover is there is no optimization whatsoever of taxpayers' returns, and that, in fact, is harming household income enormously.

JOHN WILLIAMS: Yes, it is. But you're dealing with the federal government which has never been oriented towards (politically maybe) the segments of the private sector, but never has taken much of an advantage of the efficiencies that have been learned otherwise, or just common-sense approaches to things. This goes back to a restructuring of our corporate society in the last four decades or so, but it used to be that airlines were run by people who were interested in flying planes and getting people around the country, as opposed to bankers who are trying to squeeze out the last nickel and couldn't care much less about the people who are flying.

C. AUSTIN FITTS: Right.

JOHN WILLIAMS: You see that across the board, and eventually the system balances, but we're in an uncomfortable point of the cycle, now. We're getting the worst end of it.

C. AUSTIN FITTS: So, John, we have a new Fed chairman who's very interested in employment and unemployment issues and is tying the taper of quantitative easing to the unemployment numbers. Could you address what you think of what's happening there?

JOHN WILLIAMS: Well, first of all, I don't think the Fed's doing anything. In fact, the Fed has effectively said that they're not doing anything to effectively improve the economy or to contain inflation. That's the headline stuff. But there's very little the Fed can do right now, and

Bernanke certainly admitted it. He said what they're looking at, at the unemployment rates, were more targets and signals that, yes, things are happening in the economy; that means maybe we can change policy, but he held out no hope that what the Fed was doing could actually bring down the unemployment rate.

A number of reasons for that, but the Fed's whole issue here is not the economy. Yes, there's a mandate from Congress that they should try and keep the economy within certain ranges of activity and inflation within certain ranges. The problem is the Fed's primary function is not maintaining the U.S. economy. The main job of the Fed is to keep the banking system afloat and solvent. It's a corporation; it's not a government entity. It's generally owned by the banking system, and its primary mandate is to keep the banking system solvent, so that all these quantitative easings that we've been seeing have not been aimed at profiting the economy, except on the periphery. And no expectation that it would do so, other than the people in the press will play the game.

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The provisions of this tremendous amount of liquidity have been aimed at propping the banking system, keeping it afloat, keeping it solvent. If you were to go before the public today and say, "Yes, we're going to have to spend another trillion dollars here to prop up the banking system," there would be some political backlash in today's environment. But if you go forward and say, "Oh, yes, we're going to have to pump another trillion dollars into the economy to help reverse this terrible economic downturn," you don't get as much of a political opposition.

The weak economy provides political cover to the Fed for what it has to do to prop up the banking system. It's not much more than that. I'm not seeing any signs that the banking system's really improving much; the economy's getting worse. I would expect that, not too far down the road, you're going to see the Fed slow down, if not eliminate, its tapering and perhaps actually expand its quantitative easing again, but it'll all be under the cover of a weakening economy.

C. AUSTIN FITTS: Right.

JOHN WILLIAMS: That's why you're beginning to see, as the numbers turn more negative, you get a bad economic statistic, you see selling pressure against the dollar, you see some rally in the price of gold. You have some people anticipating that this means the Fed's going to have to taper again. They will, but not to save the economy; to save the banking system. The economy's just political cover.

C. AUSTIN FITTS: You're a nicer guy than me. I think most of the bonds they've been buying up, if they were priced at market, would be worth ten cents on the dollar, and they're paying a dollar for them.

JOHN WILLIAMS: Yes.

C. AUSTIN FITTS: So, in that sense I think there's been an enormous improvement in the banking system, because they've just sold 10 cents for a dollar, and they've done it 85 billion times many months' time.

JOHN WILLIAMS: Yes.

C. AUSTIN FITTS: That's an enormous infusion of capital to somebody, somewhere. I call it "the financial *coup d'état*."

JOHN WILLIAMS: Right.

C. AUSTIN FITTS: Now they don't have all those criminal liabilities sitting on their balance sheet, and so they have the basis of much greater cooperation.

JOHN WILLIAMS: Well, there's a lot of truth in that.

C. Austin Fitts: Anyway, John, we just have to get you back on *The Solari Report*. The next conversation is, of course: where do we go from here?

But let me just ask you one last question. We're coming into the election, so I think for the first time in my life I'm starting to see the kind of people who really turn out and vote and are very knowledgeable and very busy realizing how completely off course the whole thing is.

John Williams: Yes.

C. Austin Fitts: They're really angry. So, if you're a responsible professional, hardworking, pillar of your community, you're at the town hall meeting, you're talking to your congressperson and you want the government to start publishing honest statistics, what do you say you want? What do you tell them; what's the reform you want?

John Williams: Well, you've got to get better people into the government. I'll tell you up front before we start discussing politics, I'll always be up front in this, I try to give as politically neutral of an assessment. I'm not trying to put out political biases, here but to the extent I have them. I'm an old-time conservative Republican with a Libertarian bent.

C. Austin Fitts: Yes. You and me, both.

John Williams: Now, that said, right now there's very little difference between the people leading the Democrats and the people leading the Republicans. You have some people in Washington who know what's going on who are trying to turn things, but they're not in control. So if you had a tremendous turnaround, in terms of having people who are looking at reducing the size of the government, to bring the federal deficit into long-term balance, to address what are very serious long-range solvency issues of the United States government (which would do a lot to stabilize our system) there may be some economic pain with it, but if we don't take the economic pain, we're headed for the ultimate economic disaster of a collapse in our currency and the hyperinflation that makes the dollar just worthless. You need to have better people running the government.

I don't know that we're not going to have a financial panic before the election; I'd be surprised if we get to the election without something really bad happening there. Of course, that might aggravate the election process, maybe get some shift in the Congress, in the right direction. At least what I would consider to be the right direction, if we're going to have an ongoing happy circumstance, here. You're still two and a half years off from a presidential election, but if you get the right people in running the government, it doesn't make any difference how good the quality of the numbers is that they're putting out to the public. If they know what they're doing, they'll still do it right.

"You're still two and a half years off from a presidential election, but if you get the right people in running the government, it doesn't make any difference how good the quality of the numbers is that they're putting out to the public. If they know what they're doing, they'll still do it right."

C. AUSTIN FITTS: Right.

JOHN WILLIAMS: There's an issue here of: you give people bad numbers, and that puts them down in the dumps, and it exacerbates the decline in the economy. There is an element of psychology. But from the average person's standpoint, the advice I would give is: if what you're hearing doesn't make sense, go with your instincts; go with what you're seeing. Main Street, U.S.A. has a much better perspective of what's actually happening with the economy, with inflation than comes out of the official reporting.

C. AUSTIN FITTS: Now, can I just ask you one more question?

JOHN WILLIAMS: Yes.

C. AUSTIN FITTS: Okay. What I saw at the end of last year was you had many, many families, because of the drop in household income, reduced to very small amounts of discretionary income, and that discretionary income was holding up a wide variety of different retail activities. Then Obamacare is finally launched, and it literally decimates all of it, and of course we're seeing tremendous drops in retail; all sorts of retail businesses really going under. If you could say anything about what you think the impact of Obamacare has been on household, what would it be?

JOHN WILLIAMS: Well, it was never designed to stimulate economic activity.

C. AUSTIN FITTS: No.

JOHN WILLIAMS: It's having the effect that you've suggested, so I'm not going to argue with you. It's social engineering that generally I would avoid. I'm all for less as opposed to more government.

C. AUSTIN FITTS: Hear, hear.

JOHN WILLIAMS: And that is a bias that I have.

C. AUSTIN FITTS: Well, it's a bias we share on The Solari Report.

JOHN WILLIAMS: Oh. Okay.

C. AUSTIN FITTS: I can't thank you enough for ShadowStats. ShadowStats contributes so much to my sanity. Whenever the employment numbers come out, or any of the housing statistics, I never read the article. I immediately go to your website and start there.

JOHN WILLIAMS: Thank you for your kind comments.

C. AUSTIN FITTS: I'm a very happy subscriber, so for anybody who would like great statistics, I really recommend shadowstats.com. Check it out. John, you have a wonderful day, and thank you again.

John Williams: Thank you so much for having me, Catherine. You have a good day, too.