THE FEDERAL RESERVE'S FOLLY

Per capita income and median household income, when adjusted for inflation, declined by more than 7 percent between 2007 and 2011, according to the Census Bureau's American Community Survey.

The official unemployment rate (7.7 percent in February) remains high, despite the fact that people who have stopped looking for work aren't counted in it. In 2007, 63 percent of American adults had jobs. In 2012, just 58.7 percent did.

Yet the stock market is flirting with all time highs. Do you find this odd?

Part of the reason for the disconnect between Main Street and Wall Street is because the stock market more closely reflects corporate profits than it does the health of the economy. Many international corporations are earning more overseas than they are at home.

And corporate profits are up in part because so few are hiring. Hoarding cash can be good for the stock price -- but is bad for the economy.

But it's mostly because Wall Street has been the foremost beneficiary of the vast expansion of the money supply engineered by the Federal Reserve Board. The Fed has increased its balance sheet by more than 600 percent since March of 2000, David Stockman noted in an article last Sunday (3/30) in the New York Times magazine. It's on pace to add $1 trillion this year.

The Fed runs the printing presses day and night to try to stimulate the economy. It hasn't worked. Since March of 2000, the gross domestic product has grown by the meager average of 1.7 percent a year; real business investment by less than a percent a year; jobs by just a tenth of a percent a year, noted Mr. Stockman, who was budget director during the Reagan administration.

The "liquidity" it was creating would cause banks to lend and corporations to spend, the Fed hoped. But concerns about debt and federal economic policies -- chiefly Obamacare -- have kept the extra dollars on Wall Street, boosting stock prices, but little else. Citigroup's share price has risen 85 percent since last June, "despite scant evidence that the company has turned itself around," notes Peter Schiff of Euro Pacific Capital.

This has kept the chieftains of Wall Street investment banks in mansions and limos, while the net worth of 90 percent of Americans has fallen 25 percent.

Government policy has favored the big banks at the expense of ordinary Americans.

TARP -- the initially $700 billion bailout of big banks -- was "purely another Wall Street concoction," Mr. Stockman said. "The Main Street banking system was never in serious jeopardy,

ATMs were not going dark and the money market industry was not imploding."

Had there been no bailout, "the crisis would have burned out on its own and meted out to speculators the losses they so richly deserved," he said.

RealClear Markets editor John Tamny agrees. "If Japan and Germany could quickly rebound from the total destruction that was World War II, the notion that we couldn't survive the failure of Citigroup (bailed out five times in the last 22 years) is too silly for words," he said.

The Obama administration has made no effort to curb the reckless practices of the big investment banks, little to punish those who engaged in outright fraud. Instead, Democrats passed a banking "reform" which protects the big banks at the expense of community banks, which were guiltless in the subprime mortgage crisis.

Less than 5 percent of President Barack Obama's $800 billion stimulus went to the needy, Mr. Stockman noted. Crony capitalists and special interest groups have been the principal beneficiaries of his massive spending spree since.

The results of the government's ever increasing efforts to micromanage the economy have been enormous public and private debt, sluggish growth, high unemployment and falling real middle class incomes. The worst is yet to come.

The economy crashed in 2008 because reckless lending -- chiefly by "government-sponsored entities" Fannie Mae and Freddie Mac -- caused home prices to rise to surrealistic levels that couldn't possibly be sustained. When the housing "bubble" burst, $7 trillion in paper wealth disappeared overnight. The "egregious flood of phony money from the Federal Reserve" has created a much larger bubble on Wall Street, Mr. Stockman said.

"The American machinery of monetary and fiscal stimulus has reached its limits," he said. "The United States is broke - fiscally, morally, intellectually. When the latest bubble pops, there will be nothing to stop the collapse."