How the Warfare State Got Its Hooks in Trump

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GUALFIN, ARGENTINA – "The U.S. Economy Is Back on Track," read a Bloomberg line over the weekend.

Apparently, inflation and consumer spending picked up last month.

We are so glad to hear it.

And last week, New York Fed President William Dudley said the U.S. central bank might begin lightening its load of bon
year.

Or maybe not.

Or maybe they will add to it. Who knows. It depends.

Priming the Pump

The Fed stopped buying bonds via its quantitative easing (QE) program in 2014.

But the Bank of Japan and the European Central Bank (ECB) have kept up their QE programs, adding to the world's mo
supply.

Last week, ECB assets rose to $4.1 trillion, making it the biggest single holder of unpayable debt in the world.

The Fed, the ECB, and the Bank of Japan are running neck and neck in this madcap race to bankruptcy. Together, thes
central banks own about $12.5 trillion in assets.

What does this mean? Why is it important? Who cares when the Fed sells its bonds?

President Trump, interviewed by *The Economist*, claimed he had invented a key metaphor. Yes, he came up with the id
"priming the pump… just a couple of days ago."

He must have been pulling the reporter's leg. The idea has been around since the 1930s; the president must have hear
before.

"Yeah," he explained. "What you have to do is you have to put something in before you can get something out."

The trouble is economies are not machines. There is no pump. And governments have nothing to prime it with anyway;
can't prime a pump (if you had one) with water you don't have, either.

But wait. Why not just borrow the money… spend it… and prime the pump that way? Isn't that the tried-and-true formula?

Yes, that's the formula. But let's look at it more closely. When the feds borrow money, they must take it away from othe
Then what do they do with it?

They spend it on the same things they always spend it on – boondoggles, giveaways, and pointless wars. These are de
to enrich the few at the expense of the many.

Net gain = zero. Or less.

But the feds keep at it. The three largest central banks have added $9 trillion of pump-priming liquidity since 2008.

This gush of money has produced the weakest "recovery" in history… and a U.S. economy that is now barely growing a

—

Pharaoh's Tomb

Let's back up a moment…

When we speak of the Fed's "assets," we're talking about (mostly) the Treasury bonds the Fed bought.

From an economic point of view, the transactions were hollow and meaningless.

A bank held a U.S. government bond. It sold the bond to the Fed for cash (in the form of reserves). Now it has cash equ
value of the bond. No change in its balance sheet.

The Fed, meanwhile, has an additional asset (the bond)… which sits in its vault as lifeless as a grain of wheat in a phar
tomb.

The central bank had no real money to buy the bond. It created the money out of thin air by increasing reserve account
balances at banks – which is where the story gets a little hard to follow.

This "money from nothing" is not the sort of "something" you need in order to get something out of it. The net effect was
bond prices and lower their yields so that borrowers won and lenders (savers) lost.

Bad Idea

This is a bad idea.

Economic progress depends on saving, not spending. Saving real money is the "something" that provides the capital fo
factories, new buildings, new services, new jobs, and new productivity.

But that's not what the feds did. Lowering real interest rates, they discouraged real saving. And the real economy slowe

Meanwhile, artificially lower borrowing rates – and $9 trillion in new central bank cash – had a dramatic effect on the fin
economy. What to do with all this money?

The banks and other large players had few choices.

What could they do with it?

Buy stocks! The stock market boomed.

So what would happen if central banks now withdrew this cash?

Imagine they now turn the liquidity valve in the other direction. Instead of buying bonds, they sell them. Instead of putting money into the system, they take it out. Instead of encouraging investors to buy stocks, they encourage them to buy bonds.

Then what happens?

What happens to world stock markets when the $9 trillion goes away?

What happens when the “something” the feds put in becomes the same “something” they take out… when they un-prime the pump… when they reverse the great stock market liquidity boom of 2009–2017?

Ai yi yi.

No wants to find out… least of all the central bankers who made this mess.

Regards,