

The Riddle That Central Bankers Can't Figure Out

Retrieved Thursday 5th of October 2017 08:51:59 PM
< class="l">

TEMPLECOMBE, ENGLAND – We took the train from Paris to London... and then from London to the village of Templecombe in Somerset.

We came to visit a friend.

“This was the home of Lord Uxbridge,” our host pointed to an estate as we drove by.

Recommended Link



[3 Marijuana Stocks to Buy Right Now](#)

Canada is set to vote on a [new nationwide law](#) that will set off the biggest event in the history of marijuana. The Canadian market will explode from \$400 million to \$8 billion. And new marijuana millionaires will be minted. If you missed out on the marijuana boom, when penny pot stocks delivered peak gains of 7,820%... 6,233%... and 3,986%... often in months... this is your second and final chance. Don't miss out again. [Discover the 3 companies that will dominate the marijuana market](#)

Severed Leg

The cavalry commander was with Wellington at Waterloo and now is regarded as a model of English sangfroid.

After leading several charges against French infantry, Lord Uxbridge's leg was shattered by cannon shot.

He reportedly turned to Wellington, who was nearby, and said, “By God, sir, I've lost my leg.”

“By God, sir, yes you have,” replied the Iron Duke.

The severed leg was a tourist attraction in Belgium, where it was buried.

“I tell my neighbors that I like President Trump,” continued our host.

“You'd think it was the Battle of Waterloo all over. They go ballistic. They can't believe it.

“I just say that to shake them up. I don't really know if I like Trump or not. He's very American. Hard for us to understand.”

“But I'm so fed up with the government here. They're all socialists, even the Conservatives. All they want is my money. As if it were theirs. And they don't even say thank you.”

Strange Initiative

Our friend has a large farm. But in order to leave it to his children intact, he needs cash to pay the taxes.

And cash can be hard for farmers to come by. He may have to sell part of the estate to pay the death duties.

Taxes have been our subject for the last few days. There is a proposal on the table from Team Trump (most likely, already dead) to cut taxes in the U.S.

It is a strange initiative, pitched as a “miracle for the middle class.” But it will do little for average taxpayers; many would

their taxes go up as a result of the plan.

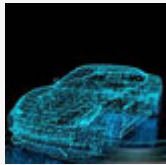
We recall the Reagan boom, such as it was. It began with a tax cut, largely financed with more debt.

During his two terms, President Reagan increased government spending and ballooned the national debt.

The deficit was 1.6% of GDP in 1979. When Reagan finished his last term, in 1989, it had risen to almost 5% of GDP.

How was it possible, [we asked yesterday](#), that this spending boom did not cause inflation to go up?

Recommended Link



[Could This Strange, American “Car” Single-Handedly Save the U.S. Economy?](#)

Today, only several thousand of these unique vehicles are on U.S. highways. According to *Business Insider*, by 2020, more than 3 years, we should see 10 million—a 49,000%+ spike. That’s a faster adoption rate than cellphones, the internet, personal computers. [Click here for the full story...](#)

Greenspan’s Conundrum

It was a “conundrum” to former Fed chief Alan Greenspan. It is a “mystery” to his successor Janet Yellen.

Greenspan’s conundrum dates from 2005, when he noticed that long-term Treasury bond yields fell as the Fed raised rates. (Normally, you’d expect bond yields to track interest rates higher.)

Ms. Yellen’s mystery is of more recent vintage.

Last month, she wondered why inflation didn’t rise, even though the economy had hit employment... and continued making credit available at rates lower than the rate of consumer price inflation.

Free money used to cause inflation; why not now?

Both puzzles are essentially the same question: How come the economy doesn’t respond to easy money the way it used to?

We have a hypothesis...

Value-Subtracting Economy

Money has no intrinsic value. It is useful only as information.

In the simplest terms, money is a score-keeping system. It tells us how much of a claim we have on the world’s goods and services.

More important, it measures inputs and outputs: Time. Resources. Skill. Innovation. Productivity.

We count on honest money to tell us what things are worth – whether we’re losing money or making it... when we should stop... or invest more... or give up and go home.

Without honest money, we are lost.

That was an important reason why the Soviet Union’s economy fell apart. The apparatchiks set prices for everything. Without a free-market system, they couldn’t depend on price discovery to tell them what things were worth.

After a while, they had no idea whether they were going or coming.

By the time they gave up, the economy was taking raw materials, adding labor, time, skill, capital, and all the other ingredients it takes to make a finished product.

But the resulting output was worth less than the inputs that went into them. The Soviets had created a value-subtracting economy. The harder people worked, the poorer they got.

Recommended Link



[California's Nightmare Begins Now](#)

California's sunny landscape is home to more solar panels than any other state. Panels are cheaper... tax rebates are high... sunlight is plentiful... [What could go wrong?](#) Millions of Californians are about to find out that "free" solar power is anything but... And a handful of investors are about to get very rich from their mistake. [Here are the full details.](#)

—

Fraudulent Money

The U.S. has not reached that level. But it's ed in that direction.

The economy is running at about one-half to one-third of the rate of growth during the 1960s and 1970s.

And if consumer price inflation was calculated the way it was during the Reagan years, it would show that "real" (inflation-adjusted) GDP growth has been about zero for the overall economy.

And by our estimation, more than half the country has been in a depression for the entire 21st century.

The reason is essentially the same as in the Soviet Union: Price information has become dishonest and unreliable.

The new money system – introduced in 1971 – is fundamentally fraudulent. The new dollar is not connected to gold or any other natural thing.

It is not connected to real wealth. Or real output. Or time. Or anything else that is anchored by the real world.

Out of Whack

In the first 17 years of the 21st century, global central banks fed \$20 trillion of new money into the system; government deficits were running wild all over the planet.

And yet... where were the higher rates? Where were the higher prices?

Where were the price signals – for credit or consumer items – to tell us that something was out of whack?

Before the 1970s – when the dollar was still anchored to gold – savings were limited. You could only save money if you first earned it. Savings reflected the wealth savers had saved.

When the government borrowed, it had to draw from this same pool of savings as everyone else.

If it borrowed too much, it "crowded out" private borrowers. This drove up interest rates and could send the economy into a recession.

This, in turn, reduced federal tax receipts and increased the cost of federal debt, as the old loans needed to be rolled over at higher rates.

The limit on available savings naturally prevented federal borrowing from getting out of control.

Come the Reagan team, and it was a new world. Deficits didn't matter because the new dollar was, essentially, unlimited.

The feds could borrow as much as they wanted without driving up interest rates. No higher rates, no recession. No recession, no need to tighten up or pull back.

But there was no inflation either.

Why?

Ms. Yellen says it is a "mystery." Tomorrow... the mystery solved.

Regards,

Bill