Goldman Sachs' Secret Global Conquest

Retrieved Wednesday 30th of August 2017 07:02:34 PM

Yesterday we pondered the beginning of the end of central bank control… over everything.

Stockmarkets, corporate bond markets, house prices, exchange-traded funds (ETFs), mortgage lending and mortgage buying, bank regulation, but most of all government bonds, are in the hands of unelected, unaccountable, frequently foreign, and unknown academics with an infinite supply of funds.

But they've suddenly gone quiet.

Central bankers seem to be signalling "It's over to you, politicians." That's because money printing only buys time to fix the deeper problems. At least that's the conclusion we've reached after many years of trying to solve everything with monetary policy.

And so today we examine the government front.

The absence of pressure on reform

The irony is that central bankers have done away with any pressure to solve problems at the government level. If the money printers stand at the ready to cover for them, politicians can promise anything.

Deficits really don't matter if new money can finance them and keep interest rates low. The destruction of the economy by regulation and taxation doesn't matter if the central bankers stand ready to support it.

Government doesn't reform unless it feels fiscal pressure. In Greece, that pressure needs to be so high there's rioting in the streets. In Ireland, the pressure was handled a lot better. The British needed the humiliation of George Soros and the International Monetary Fund to get their act together.

But without pressure, nothing will change.

And so the central bankers have not done anyone a favour by removing that pressure. Instead, they've raised the stakes by allowing governments to go further down the path of fiscal unsustainability. The same goes for overindebted companies, investors and consumers.

Central banks have done the opposite of what Mario Draghi claimed when he said their policies made economies more resilient. They've made economies more reliant on quantitative easing (QE), dragging that policy into "normalcy" by necessity. They can't raise rates now and must keep supporting the markets and governments.

That addiction was exposed by Citigroup's Matt King:

> *At an investor breakfast in Stockholm this week, when asked how many subscribed to what we call the "central bankers' and economists' view" that fundamentals were now strong enough to permit a very modest dialling back of central bank QE, not a single one of the 25 present raised their hand.*
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> *All subscribed to our view that it was instead likely to prove surprisingly disruptive for markets.*

Markets are incredibly fragile thanks to central bank policy. They have become the market itself, not a stabilising influence. As Nicholas Smith from CLSA said, they have nationalised the market.

That's why nothing has changed since QE began

With central bankers financing politicians, it's not really surprising how little has changed on the government policy level. Politicians were so determined to change things in 2008 – back when the crisis applied fiscal pressure on governments around the world. Only some of the PIIGS have improved things.

But now the banks are bigger, the government involvement in financial markets is stronger, deficit projections are worse, reliance on central bankers and bailouts is bigger, and the list goes on. Government-supported Fannie Mae and Freddie Mac made 54% of the US's loans for apartment purchases in 2016.

Even the people in charge are much the same. In 2008 the number of Goldman Sachs alumni reached absurd proportions in policy-making roles.

Former Federal Reserve insider Danielle DiMartino pointed out in her recent book that, "In 2017, four out of the five District Bank presidents eligible to vote on the FOMC will be Goldman alums. And let's not forget Bank of England governor Mark Carney and Mario Draghi, of the ECB, just two of the many former Goldman Sachsonites now in overseas central banking posts."

You'll never guess where the favourite contender to replace Janet Yellen used to work…

What the politicians are busy doing instead of reform

Posting on social media is keeping the politicians too busy to reform anything these days. It's not just Donald Trump on Twitter though. EU pollies are avid twits too.

Politics seems to have become an ideological drug dealer. People need increasing numbers of doses that reaffirm their biases increasingly often or they feel lost and aimless. The media and politicians are happy to oblige. And Brexit is the ultimate topic.

The EU negotiation team and EU leaders have been busy criticising the British side on social media. Apparently they're disorganised, slow and dreaming. And don't know how to reply to baiting on Twitter.

But there is progress. Of a sort. The kind that delays things.

Both sides of the Brexit negotiations finally admitted the two-year deadline is a fraud. The timeline can be extended by mutual agreement according to the rule that imposes it, so the whole two-year deadline hullabaloo was nonsense from the beginning.

But they're seeking a transition period instead of agreeing to an extension under the rules. This would allow Britain to pursue free-trade deals which come live the moment we finally leave the EU. There would be no gap where we revert to World Trade Organisation rules while negotiating deals.

The snag is in the details of EU law when it comes to the transition period. To achieve a smooth transition with EU trade, we need to have the deal ready to go for exit. But if the transition period is too long, it contravenes the internal EU rules by smelling like a de facto trade agreement.

Divorcing the UK can be agreed by majority vote at the EU, but trade deals must be unanimously supported. This means two separate deals. Any suggestion that the divorce deal looks like a trade deal in disguise will cause trouble. The arbitrary deadline for that trouble is two years.

Brexit negotiations… over what?

Something has always mystified me about the negotiations. What is each side's definition of winning and losing? Who wants what?

Obviously, paying a divorce bill is a financial loss for Britain and gain for the EU.

But is higher or lower immigration good for Britain – not that we can count immigrants anyway. Is it a win or a loss for the EU to have immigration restrictions with the UK? What policy are they wanting?

What about trade – who doesn't want free trade to continue between the UK and EU? Who is opposed to it?

I just can't see where the trade-offs for Britain and the EU come out as anything but mutually beneficial or mutually harming. Aside from the divorce bill, what do they have to disagree about? The incentives are aligned, not a zero-sum game. Otherwise this would be true within the EU as well.

Surely it's in Britain's interest to provide EU citizens with rights. Trade is by definition mutually beneficial or it wouldn't happen. And the majority of Brits support immigration.

The EU must protect its prestige and credibility to keep other countries from leaving. But what else are they motivated by?

Until next time,

Nick Hubble
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