Economic and Market Review

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Money *For* Nothing

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"We can guarantee cash benefits as far out and at whatever size you like, but we cannot guarantee their purchasing power"
Alan Greenspan, Former Federal Reserve Chair, February 15, 2005

"I don't believe we will see another crisis in our lifetime"
Janet Yellen, Former Federal Reserve Chair, June 27, 2017

"Noah: How long can you tread water?"
~ God

"*There are decades when nothing happens; and there are weeks when decades happen"*. And with that oft repeated quote attributed to Vladimir Lenin, the unprecedented events of the past month are deftly consigned to the realm of "Black Swans". And if Black Swans, surely no one is to blame. Who, after all, could have possibly foreseen the emergence of a global pandemic caused by the SARS-CoV-2 virus and its' concomitant devastating impact on the health of the population as well as the underlying global economy? Who indeed! But it is not for the mantle of clairvoyance regarding the particular "random snowflake" for which we have for years agitated, but for the **inevitability of the avalanche**. The pursuit of economic and financial market stability, the chimera of all stabilizers and central planners, induces the erosion of margins of safety, the reduction of liquidity, massive increases in leverage, the mispricing of assets, and the cumulation of malinvestments and error. It engenders a **stable disequilibrium** - an increasing accumulation of snow - the collapse of which, when it occurs, is not as we are being told, an unforeseeable Black Swan, but an imminently predictable *White one*. As our long-time clients can attest, for nearly 20 years, we have unwaveringly insisted that the increasing frequency and severity of financial crises are due, not to the mythical business cycle – nor to Black Swans - but to increasing **economic fragility** due to the cumulation of the massive dislocation, distortion and malinvestment precipitated by nearly 50 years of unbridled expansion of non-productive debt combined with the great experiment in central planning, to wit, **inflationism** and **interventionism**. And with each successive crisis we have been equally resolute in our insistence that '*Atlas will not shrug*', our euphemism for the intractability of central banks from their role as asset stabilizers. The inability of central banks to withdraw from their support of asset prices is a validation of our contention that it is the **potential of a debt deflation** *a la* Japan, that informs and drives monetary and fiscal policy. For an economy built on the sands of a fiat credit money system, the end game to an **uncontrolled debt deflation** is that 'Money *from* nothing', may become 'Money *for* nothing'.

What is an antinomy? According to J.I. Packer, *"an antinomy exists when a pair of principles stand side by side, seemingly irreconcilable, yet both undeniable."* Using Packer's definition, let us set out an antinomy as a basis for helping us to understand a **key principle** underlying the economic and financial crisis we face today. A principle we have written extensively about in years past, but it may be good to recall at this time, how the **circle gets squared**.

In wisdom literature we read two reasonable principles which *seem*, at first glance, to be contradictory. First, we read; "For the love of money is the root of all evil." Yet in the same literature we also read; "But money answers all things." We will not spend time trying to establish the *truth* of these principles, as a simple review of either history or human nature will reveal them to be self-evident. The problem described in the statement regarding the love of money as the root of all evil, is of course, not "money" itself as the evil, but rather the societal ills that follow upon an inordinate desire for money, from avarice and greed. From it flow frauds, deceit, robbery, murder, and corruption of government and judicature. Yet we also understand that money, and money alone, answers all things. Money alone is *pecuniae obediunt omnia* – **money commands all things**. And while money of itself, does not *directly* house, clothe nor feed anyone, as the instrument of commerce, as the **store of value** and **medium of exchange**, it nevertheless answers all the occasions of this life. What is to be had, may be had for money. Why then should it be thought wrong to desire the one thing which is absolutely essential for meeting all things that pertain to life? As regards our understanding of what Keynes called ***the economic problem***, the resolution of the apparent conundrum between the necessity and the desire is found in the limiting factor of scarcity and labor. Writing in his monogram on Economic Sophisms, the French economist Frédéric Bastiat addressed the economic problem; *"In the sweat of thy brow shalt thou eat bread: But everyone wants as much bread and as little sweat as possible. This is the conclusion of history."*

Circle squaring was very popular in the nineteenth century, but hardly anyone indulges in it today. For one thing, there is no money in it. More importantly however, there is no future in it. In 1882, the task as originally defined - the challenge to construct a square with the same area as a given circle (*pi*) - was proven to be impossible. Today, circle squaring is a metaphor for **doing the impossible**. More to our purposes, it was Garet Garrett writing in 'The Bubble that Broke the World' in 1932, who, in a paucity of words, described how **modern economics had squared our circle** when he wrote: "*The Lord giveth increase, but man devised credit*". Man, as affirmed by a myriad of economist including Bastiat, is circumscribed by the need to work for all that he needs to sustain life. And because neither man, nor the bounty of nature are infinite, scarcity exists. And because of scarcity, choices must be made. Recall that economics, rightly defined by the Austrians, is simply the science of human choice. Given the constraints of scarcity – time, natural resources, gifts and endowments, capital – what will we give priority to given our limitations? The problem was once colloquially expressed as "guns ***or*** butter". But wait, have we not established that money answers all things? Yes, but we have also established that money, in and of itself, does not provide those things, it only provides the means of obtaining them. But surely if we only had more money, we might annul scarcity and permanently improve the human condition. But what of the limiting factor called labor? After all, it is labor that ultimately provides those things, money is simply the claim that arises *from* labor, to be exchanged against the labor of others. For all the befuddlement over what money *is*, at its core, money is simply the medium of exchange of labor or wealth, which itself is merely labor unspent. Ah, but then an epiphany! Let us concede that labor provides all which we need, and due to the law of scarcity, is a constraining factor, money only serving as its lubricant in exchange. Surely if the exchange be enhanced, scarcity would be attenuated. Still there is that pesky labor constraint. But wait, another epiphany. What if labor is not constrained absolutely, but merely temporally? Recall it was Einstein who said, *"the only reason for time is so that everything doesn't happen at once."* What if there was a way where we could bring labor forward and *spend* it today? A brave new world would open up. We could have both "guns ***and*** butter" Scarcity would be annulled, choice, that enablement unique to man, upon which the integrity of civilization hangs, could be reduced to mere preference. If money is control over labor and labor is constrained for want of money, what is needed is future money, now. Garrett had divined the answer; **man devised credit**. All that remains to square our circle is to turn a vice into a virtue.

In the depths of the Great Depression, one academic scribbler stood head and shoulders above his peers. John Maynard Keynes, a British economist of brilliant intellect and no small achievement, surveyed the intractability of the economic problem and concluded that the issue was not a crisis of economics, but a crisis of ideas. On ideas Keynes wrote: *"Practical men who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. Soon or late, it is ideas, not vested interests, which are dangerous for good or evil."* Ironically, the *academic scribbler of a few years back* whose ideas now so completely dominate the economic policies of the *madmen in authority*, is none other than those of Lord Keynes. Yet as Keynes own quote reveals, ideas are often adopted, not because of their veracity, but because of the prejudice of the madman. Owing to the prejudice of the day, their was universal adoption of Keynes idea that the Great Depression was caused, not by **overproduction** stemming from the excessive expansion of credit, but rather from **underconsumption**. Under the ideas of the classicalists, the first a vice, the second a virtue. Keynes wasted no time in disabusing classical economy of its' error. For while moderation may be a virtue among individuals, within nations, Keynes declared it "hoarding", an unjustified withholding of demand by the miserly consumer desirous of saving, dragging recession and unemployment in its wake. Capitalism, declared Keynes, not the economy, was in crisis, by having made a virtue (savings) of a vice (hoarding). Keynes offered the way out. By demonizing savings, and its' offspring underconsumption, he succeeded in replacing moderation with profligacy as the virtue *par excellence*. Writing in his book 'The Road to Serfdom', F.A. Hayek identifies the self-serving nature of Keynes' new idea; *"The 'fatal idea' which became Keynesian theory provided the politicians with tempting opportunities . . .* ***Spending money and having budget deficits [*****profligacy*****] were suddenly represented as virtues***." Having overthrown the classicalists by juxtaposing underconsumption for overproduction as ***the*** **economic problem**, so virtuous was the new medicant, credit, that the way was now clear. Henceforth it would be considered virtuous, in terms of national economic policy, to desire money, future money in the form of credit, without limit. The coup was complete. Keynes fatal idea of '**something for nothing'**, surely the greatest folly ever to be countenanced as wisdom, was inaugurated, thus **squaring the circle for all time**.

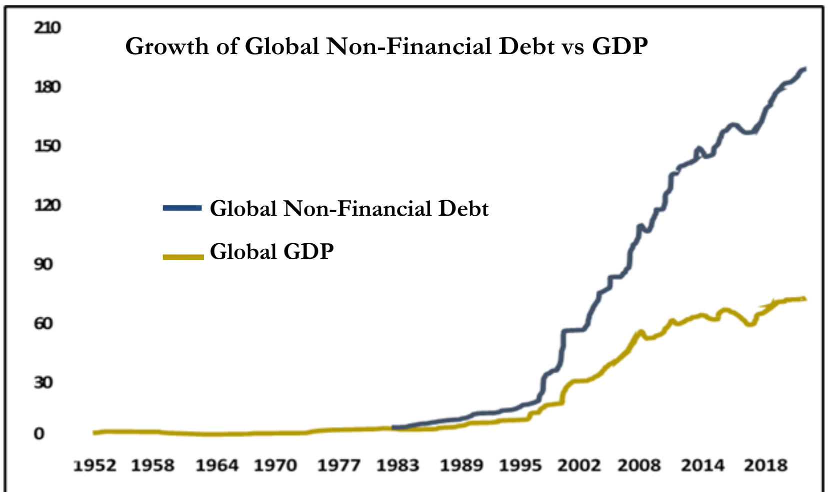
Today, in the shadow of that wisdom, we have perfected that virtue to the point that we have an entirely credit-based fiat money system where, apart from a trivial amount of state-sponsored currency, <u>all money is credit</u>, and all credit is created by the banking system *ex nihilo* – **out of nothing** - it is simply loaned into existence as a new deposit (money). (For a technical explanation, see Money Creation in the Modern Economy) In a 2010 Federal Reserve research paper, *'Money, Reserves, and the Transmission of Monetary Policy: Does the Money Multiplier Exist?'*, we read: *"Simple textbook treatments of the money multiplier give the quantity of bank reserves a causal role in determining the quantity of money and bank lending and thus the transmission mechanism of monetary policy. . . . . <u>Using data from recent decades, we have demonstrated that this simple textbook link is implausible in the United States</u>."* Translation: The Austrians were right, **banks, not the Fed, determine the rate of growth in credit money**. As such, it is a complete misunderstanding of modern economics to believe in a "fractional reserve banking system" <u>that must first receive reserves from the Fed, then lend them out</u>. Money is not, as most economic textbooks teach, exogenous to the economy with an all-knowing central bank, like the Wizard of Oz behind a curtain, controlling the pace of economic activity by calibrating the precise rate of growth of money. <u>Money is endogenous to the economy, arising almost entirely through the pursuit of self-interest by a banking cartel endowed with an exorbitant privilege</u>. The Austrian Business Cycle Theory is essentially a theory of the misallocation of capital, where the seeds of the bust are planted in the fertile soil of the credit-expansion. The proof of which is the fact that all recent crises have been due to an excess of speculative credit, not a recession. Nevertheless, there is no need to vilify banks alone for the overproduction of credit. Banks profit by creating credit. One only need recall Adam Smith on the power of self-interest: *"It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest."* And what holds true for the baker, holds equally true for the banker. Unjustly empowered to create ***money from nothing***, why should anyone be surprised that the banking cartel errs, overextending speculative credit, and so jeopardizes the very solvency of the banking system, and with it the markets and the economy? Writing in the early 20th century, Sir Josiah Stamp, Director of Bank of England attested to this power: *"The Bankers own the earth. Take it away from them, but leave them the power to create deposits, and with the flick of the pen they will create enough deposits to buy it back again."* For this reason, the stabilizers' primary role is to protect the cartel from collapse, and with it the financial system, from an **uncontrollable debt deflation**.

Why have we labored for years, contrary to consensus opinion, to establish the veracity of this symbiotic relationship? Because, the hubris of Ms. Yellen aside, and with apologies to Ray Charles, '*Here We Go Again*.' Today we stand again on the edge of the deflationary abyss, the cause of which is not a Black Swan (COVID-19 is merely the catalyst), instead it is once again the abuse of that exorbitant privilege in pursuit of self-interest, coupled with fraudulent behavior on an unprecedented scale, and enabled by the *raison d'etre* of the stabilizers. Not for the last time, we will repeat the most important *fact* directing all policy choices under this "New Normal": <u>**deflation *is* the fact, inflation is the fear**</u>. It is for this reason we remain confident '**Atlas will not shrug**' since any sustained decline in asset prices would threaten to plunge the financial markets into an intractable debt deflation, a condition Societe Generale Global Strategist Albert Edwards has dubbed the **"Ice Age."**

A quick glance at the assembled charts, Figures 1 thru 3, would suggest the paternalistic instincts of the stabilizers are not without good reason. Notice that in each chart, there is a marked **period of transition** in which the respective data series permanently diverges from its' historical trend or correlation. In each case that period of transition falls roughly between 1970 and the end of the 1990s. Of course, the inauguration of this period was the August 1971 closing of the gold window by President Nixon, eliminating the last vestige of restraint on the unlimited expansion of credit money. This was followed by a 20-plus year period of dizzying deregulation which included the elimination of usury rate ceilings which energized credit card lending, the abolishment of Reg Q and the elimination of interest rate ceilings permitting banks to compete for interest bearing deposits, the removal of restrictions on interstate banking and branching, inaugurating the era of bank mega-mergers and the collapse in the number of independent banks, all culminating with the keys to the kingdom being finally handed over with the repeal of the Glass- Steagall Act of 1933 in stages between 1986 and 1999, removing all restrictions against combining banking, securities and insurance operations for financial institutions. These actions would ultimately lead to the **financialization of the US economy**, completely transforming the banking and financial industry and creating in its' wake, the pretext in which all modern financial crises would occur. Enabling, as it were, former Goldman Sachs CEO Lloyd Blankfein to go forth and *"do God's work"* unimpeded. [3]

Figure 1 reflects the massive disconnect between global non-financial debt and global GDP. Roughly speaking, this is illustrative of the cumulative impact of nearly 50 years of Keynes' 'Fatal Idea' of dissociating credit (money) from wealth - the ***something for nothing*** trade. While the degree of leverage or gearing in the economy is certainly ***something***, (though markedly understated due to the absence of derivatives and the effects of re-hypothecation), in as much as GDP is a proxy for income (doubtful but universally accepted), we have certainly received next to ***nothing***. Due to the paucity of income supporting the massive accumulation of debt, this is a graphical depiction of the potential "deflationary abyss", into which the mere prospect of falling, "drives and informs monetary and fiscal policy." Interest rates must be "managed' and asset prices must be "supported". In his 1933 book, 'The Debt Deflation Theory of Great Depressions', American economist Irving Fisher succinctly expounded the impending peril in Keynes' 'Fatal Idea': *"A credit inflation that creates claims that masquerade as money is prone to deflation since the wealth needed to liquidate the credit is in short supply relative to outstanding credit claims."*

Figure 1



Source: BofA Merrill Lynch Global Research, BIS. Data for 47 countries making over 90% of world GDP.

Figure 2

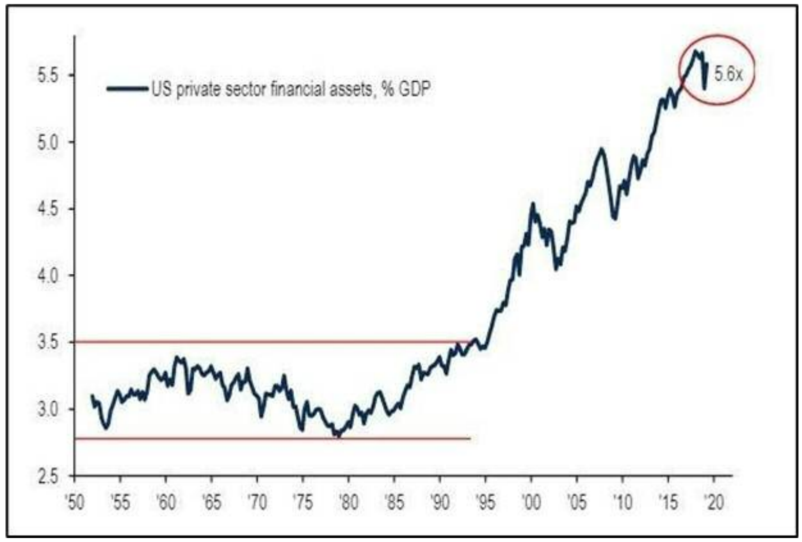


Figure 2, which illustrates the ratio of financial asset prices as a percentage of GDP, is one measure of the degree of the **financialization** of the economy. From a ratio of around 3 times GDP for the first 30 years post-WWII, that ratio has risen to over 5.5 times GDP, highlighting the overdependence of the economy to rising asset prices. Figures 1 and 2 taken together convey, not the success of the 'Masters of the Universe' in bringing about permanent prosperity, but the necessity of the stabilizers to do ***"whatever it takes"*** to prevent asset prices from declining on a sustained basis. The chart also negates the viability of a **debt jubilee** since in Keynes' *brave new world*, every man's debt is another man's asset, and to cancel a debt in a deflationary default, is to destroy an asset. Addressing this riddle in his book 'A World in Debt', Freeman Tilden wrote: *"the only solution to a Gordian knot is violence."*

Figure 3

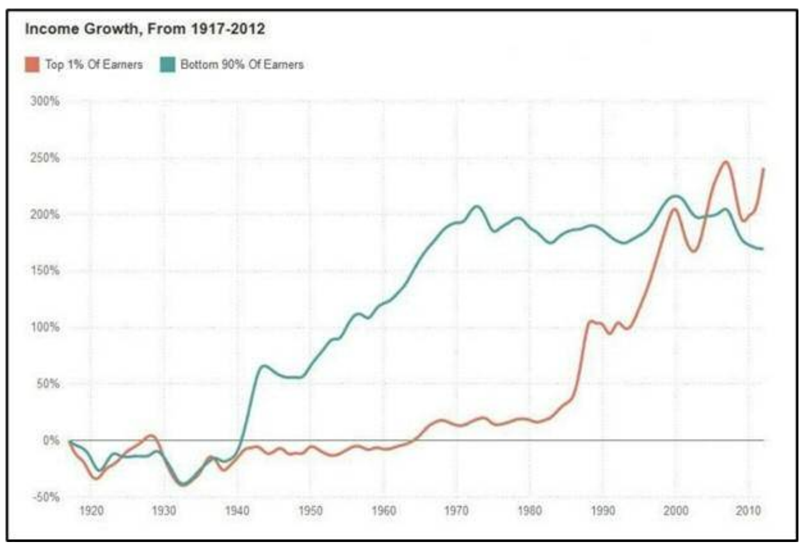
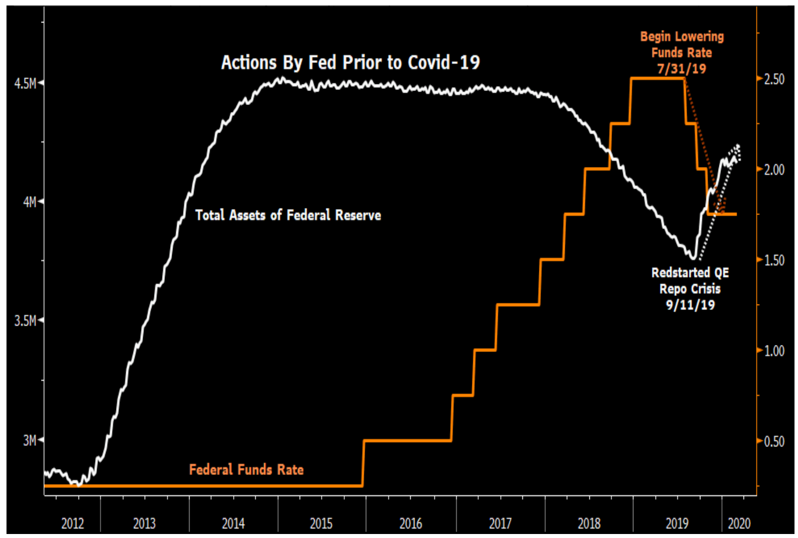


Figure 3 highlights our long-running theme of a **famine of income** for those who have been systematically disenfranchised from the ownership of financial assets. After rising without interruption for 30 years, from the start of WWII until the closing of the gold window in 1971, income growth for the bottom 90% of income earners **has trended sideways in a no growth pattern for the past 50 years**. Concurrently, the growth in the income of the top 1% of income earners has exploded higher over the same period of time, rising in step with asset prices. This is no coincidence for as we have outlined in past monographs, the financialization of the economy did not take place in a vacuum. It was mirrored by the hollowing out of manufacturing through what we labeled DOA: downsizing, outsourcing and automation. Through a *Jacob and Esau trade*, the US effectively "sold" its industrial birthright for a bowl of pottage in the form of "always low prices" through corporate globalism, shareholder value maximization as the sole measure of corporate management, and the financial repression policies of below market interest rates that drove excessive "investment" in the de-industrialization of the US .

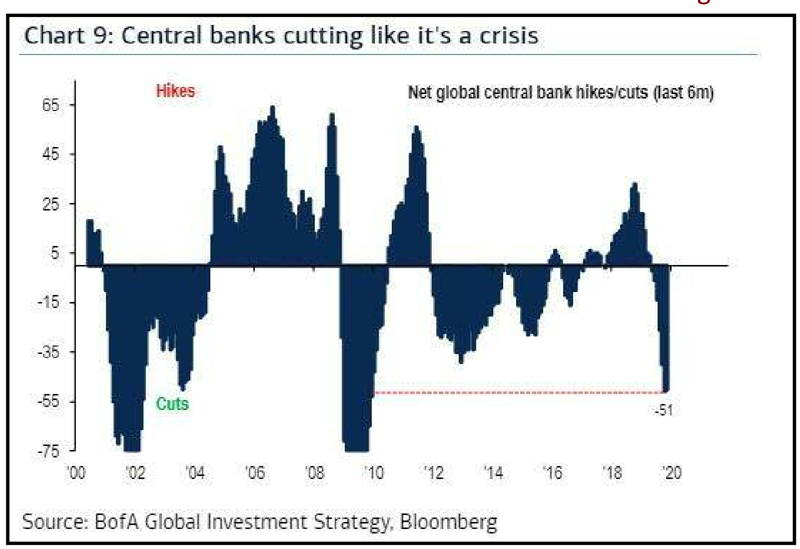
Having labored to reiterate the foundation of all crises in the new era of financialization —an exorbitant privilege to create money from nothing, enabled by the attendant moral hazard of an independent central bank with the power to provide emergency liquidity without limit— the result of which has been an increase in the number and severity of financial crises, the "solution" to each having been an attempted **controlled deflation** through repressive policies of interest rate manipulation, large asset purchases and market management, we now turn to consider the Great Crisis of 2020. And yet what shall we say? Among mainstream commentators, the focus is on attempting to predict the severity and duration of the *coming* economic downturn caused by a shutdown of economic activity due to concerns over the virus. And while without question, there "will be blood" due to the forced shutdown of the global economy, nevertheless a careful review of the actions taken by the stabilizers to date, will reveal that the real concern remains as it always has, the prevention of an **uncontrolled debt deflation** from a collapse of asset prices increasingly supporting financial speculation.

Figure 4



Referring to Figure 4, we can see that in December of 2018, the Fed abandoned their attempt at *rate renormalization* following the **2018 Christmas Eve Massacre in stocks**. This was followed by an aggressive lowering of the Funds Rate in response to signs of increasing economic weakness and market instability in July of 2019, fully seven months before most Americans had heard of Wuhan China. Ditto for Fed asset purchases as QE was abruptly restarted in September of 2019 in response to the **crisis in the repurchase market**. Both actions represent abrupt and significant policy changes in response to *clear and present dangers* well before the pandemic. In addition, we must remember that what was true regarding the panicked policy actions of the Fed prior to Covid-19, was equally true of the policy actions of the majority of the global central banks. This is reflected in Figure 5 which shows the net total cuts versus hikes of official policy rates of

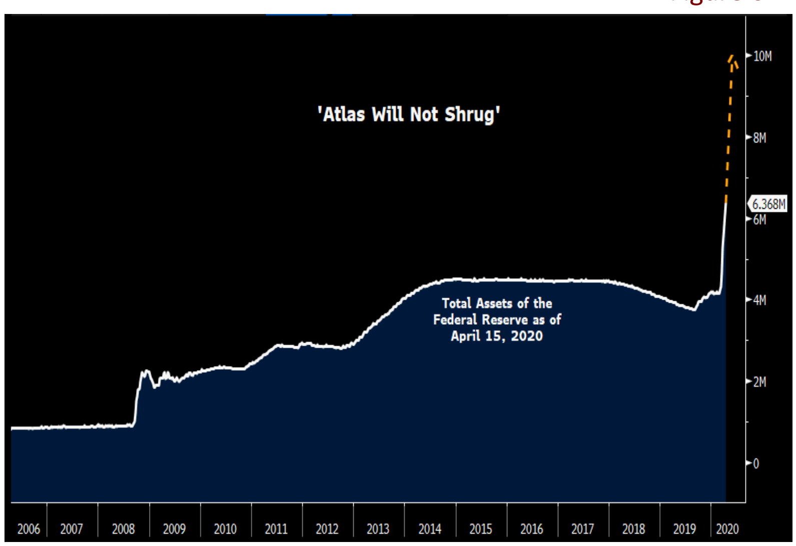
Figure 5



all global central banks as of January 2020. As reflected in the chart, net rate cuts totaled 51 by all central banks, the highest level since the GFC of 2008, months prior to the any impact from the Covid-19 virus. To disabuse Buffalo Springfield, long before the Wuhan Flu, there was already "***something happening here***."

To be sure, subsequent to the impact of the global pandemic and the forced shutdown of global business and economic activity, the response of both the Federal Reserve and the US Treasury went into overdrive during March, with the breadth and scope of their activities simply beyond superlatives. Over the course of the month of March, the Fed dropped the funds rate over 150 bps to "zero", launched a dizzying number of lending program acronyms totaling over $1.5 trillion to provide market liquidity, a *credible promise* to provide **"unlimited QE"**, and capped their "**unprecedented**" actions on April 9th by rolling out a $2.3 trillion emergency lending effort to support local governments and small and mid-sized businesses. Concurrent with the actions of the Fed, Congress passed the CARES act (in three parts), with part III totaling over $2.2 trillion to provide "assistance" to large and small businesses, health care and direct payments to individuals. In fact, this amount will grow to over **$6 trillion** as the $454 billion provided by the Treasury as "equity" will be leveraged on the Fed's balance sheet to $4.5 trillion using a Special Purpose Vehicle or SPV to buy bonds of all flavors, including ETFs and junk bonds. As a result, the budget deficit is projected to explode to over $3.5 trillion for FY 2020 while outstanding Treasury debt, marked at $22.7 trillion as of September 2019, is expected to easily rise above $25 trillion by the end of FY 2020. The numbers are so large as to almost be incomprehensible. Speaking years ago, the physicist Richard Feynman described it thus: *"There are 10^11 stars in the galaxy. That used to be a huge number. But it's only a hundred billion. It's less than the national deficit! We used to call them astronomical numbers. Now we should call them economical numbers."*

Figure 6



As for the Fed's balance sheet, we update in Figure 6, the series from Figure 4, total assets of the Federal Reserve, as of April 15, 2020, subsequent to the actions taken during March. It does not however, reflect the projected addition of "bad assets" to be acquired from the SPV operation which could cause total Fed assets to exceed **$10 trillion** in the near future. As a visual aid, we have supplied the dotted line. They say a picture is worth a thousand words. The sheer magnitude of the response reflected in Figure 6, which utterly dwarfs that of the GFC in 2008, speaks volumes about the depth of the distress and dislocation in risk asset prices in the financial markets. Ironically, it was Jerome Powell, speaking in Chicago in June of 2019 that provides the context: *"Perhaps it is time to retire the term 'unconventional' when referring to tools that are used in a crisis."*

James Grant of Grant's Interest Rate Observer characterizes the Fed's actions as nothing less than a *"leveraged buy-out of the United States of America."* We believe this characterization is accurate, and as such, all pretense of a re-**normalization** of financial markets should be discarded. Atlas will not shrug as the stabilizers cannot and dare not withdraw from their critical role in support of asset prices. The Fed is sponsoring the largest asset price distortion ever, totally decoupling prices from any basis in reality. Since the August 2019 low, the Fed has increased their balance sheet by $2.6 trillion, a 70% increase in eight months, equal to 12% of GDP. Due to the size and magnitude of the bailouts and the Fed's footprint, market prices will cease to be an effective guide to risk and return in rsk assets. Nevertheless, the never ending siren song from Wall Street remains unchanged: BTD for TINA. Translation: *Buy The Dip* for *There Is No Alternative*. Scores of investment banks have done an about face in recent days, calling the bottom on stocks, confidently predicting a V-Shaped recovery, and advising investors to "*follow the Fed, you can't lose.*" Already, vast sums of vulture capital are being assembled by private equity funds to cherry pick the debris in the new Fed-medicated markets. The sheer inanity of these *gilded* investor recommendations was summed up by Goldman's chief equity strategist David Kostin who jokingly remarked: *"surprisingly, the largest shock to the global economy in 90 years has left equities only 18% below the record highs of mid-February and roughly in line with the market price in June 2019, just 10 months ago."*

Yet juxtaposed against this liquidity-induced "feeding frenzy" of risky assets, are predictions by the same firms of second quarter GDP contractions on the order of 25% to 35%, with full year GDP projected to contract between 5 to 10%. Unemployment is projected to spike to levels exceeding the Great Depression, perhaps hitting 40%. Early indicators on unemployment claims are without historical precedent. Ditto for industrial production, retail sales, airline, hotel and restaurant revenues, and rent payments. The disconnect between the fate of Wall Street and Main Street is both palpable and surreal.

Following the dislocations in March, there has been a marked bifurcation in the credit markets with investment grade debt in markets backstopped by the Fed—Treasury's, Agency debt, Agency mortgage debt, municipal bonds - seeing a return to orderly flows and good, if not occasionally *tidal* liquidity (It comes and goes). Conversely, the lower rungs of investment grade and junk bond markets have seen large outflows as risk spreads have widened as they brace for a spike in defaults and fallen angels. During this time, we have seen windows of opportunity, particularly within high quality tax exempt and taxable municipals, to buy good bonds at distressed prices as fund managers faced with client withdrawals, must often sell their best bonds to catch a bid. And while we believe that the dislocation of municipal pricing will ebb and flow until there is greater transparency regarding the duration of the lockdowns and realistic estimates of the impact on state revenues, we continue to believe they will ultimately be temporary dislocations that will resolve as the marginal buyer returns from his "investment quarantine".

Regarding our theme of **"lower for longer"** with respect to interest rates, we believe this trend will continue as interest rate suppression and yield curve control are an essential part of the stabilizers controlled deflation policy toolkit. In our opinion, with the Fed's effective 'monetization" of the entire yield curve, the probability of a sustained rise in interest rates is, practically speaking, quite low. This because the stabilizers have made it unambiguously clear from their "unprecedented response", that all options—including negative interest rates and the elimination of cash—are on the table. As such they have placed the markers on notice that there is no limit to the number of zero's they are willing to tack on their balance sheet to prevent an uncontrolled deflationary contraction.

Nevertheless, now that the genie is out of the bottle as regards Modern Monetary Theory or MMT, with direct payments going out to consumers even as we write, it would be foolhardy to join hands with Ms. Yellen and declare "Peace for our time" and insist there is no scenario under which *we can ever see interest rates rise in our lifetime*. To date, excepting only the token payments to consumers under the CARES Act, the majority of the manufactured crisis liquidity has remained inside the financial system, inflating asset prices, not commodity prices. MMT, depending upon how extensively it is embraced, if at all, has the *potential* to generate commodity price inflation. Such on outcome would have the *potential* to drive long-term interest rates higher. Under such conditions, we believe gold inside a high quality municipal bond portfolio, would act as an effective hedge against any temporary impairment to the market value of the bonds. In this way, through the active management of both the bonds and the gold, they may be actively swapped on a select, tax-efficient basis at an opportune time.

With the conveyance of an exorbitant privilege to create *money from nothing* on the banking cartel, unfettered by meaningful macroprudential regulation and fully underwritten and back-stopped by the unlimited (and unsupervised) power of the stabilizers to create unlimited liquidity, manipulate interest rates and warehouse bad assets, our financial markets have devolved into a form of privileged ponzi capitalism that is in a state of perpetual crisis. This is the "new normal", a label that is in our opinion, far too sanguine as it belies the tectonic shift that has actually taken place in the way the world works. We now live in a Keynesian world unmoored from the confines of scarcity, a world of planned economies and managed currencies, a world in which economies have become overly dependent on the financial sector and leveraged speculation. In this "brave new world", the stabilizers dare not reduce their all-in commitment to the global Guttenberg games. As a result, the stabilizers have unwittingly committed themselves to a strategy of "mutually assured destruction" or MAD, the goal of which apparently is to prevent the destruction of the banking system by risking destruction of the dollar. In his book, Michael Hudson trenchantly sums up the crux of the economic dilemma we now face; "Debts that can't be paid, won't be paid." As such, the only real question which policy must address is how are we going to go about not repaying the debt? Stripped of all pretense, there are only two possible courses of action: controlled deflation via a permanent policy of financial repression replete with a massive reflationary money print *ex nihilo*, or an uncontrolled deflation via an unprecedented avalanche of debt default. At this point we can only pause to insert the sardonic wit of Woody Allen: "*More than any other time in history, mankind faces a crossroads. One path leads to despair and utter hopelessness. The other to total extinction. Let us pray we have the wisdom to choose correctly*."

As for Noah's dilemma: *Après nous le deluge* Translation: *After us the flood*