

36 South views by Richard “Jerry” Haworth

Whatever it breaks...

Like a lion who spots a potential prey in a herd and subsequently ignores other herd members rushing close past him whilst he pursues single-mindedly his chosen quarry, so too have Central Bankers chosen deflation as their quarry of choice, to the exclusion of everything else.

Now call me stupid but deflation per se is not a bad thing; prices going down because of technological advances, removal of middlemen, removal of regulation, restrictions and borders. Most of us punters would be happy with this scenario if our wages were reasonably stable whilst the cost of our shopping basket fell. Even if our wages were falling, as long as they were falling SLOWER than the cost of the shopping basket, it would be fine.

But deflation does not suit debt providers such as the government who, being the biggest, naturally has a certain aversion to systemic deflation and will do anything it takes, whatever it breaks to avoid it.

Add to that a layered systemic credit bubble 30 years in the making, whose situation is about as stable as a hamster in a python cage (doing nothing i.e. freezing, is not a bad strategy in both cases!), and you have a potential global macro brew that should provide us with the Chinese curse “may we live in interesting times”.

Whatever it breaks?

Now, artificially creating demand by changing the stock of money is a cheap trick relying on our illusion that a piece of paper has value and if Central Bankers have their heart set on inflation, there is probably nothing to stop them. But why in God’s name do they choose to give banks the prime spot just under the money spigot?

Relying on Banksters to pass on the benefits to the general population is akin to giving Hannibal Lector the post of Headmaster at the local blind school!

But wait, it makes sense if the priority seating is given to banks on the condition that the proceeds of the money spigot must be recycled back into government debt so the government can choose how to spend it. Eureka!

And big business, second at the money spigot, can also borrow ultra-cheaply, with interest rates fixed at next to zero for years and years as well ensuring their ongoing success in the future which in turn will drive their share prices higher.

And ultra-wealthy, next at the money spigot, can gear up with cheap mortgages and loans and ride the asset price squeeze.

And for the hoi polloi there is nothing much on offer at the back of this gravy train and therein lies the rub.

Bread and circuses will work for a while but when the government achieves what it wants, i.e. inflation, it will have sown the seeds of its own destruction as inflation exaggerates social inequality and this will spill over to social unrest or war or both.

Whatever it takes will become whatever it breaks.

There will be a hard rain coming...

*“Tell me how do you sleep at night and help me
To understand your twisted mind:
Living off someone's misery and giving
Away the pain... and feeling fine?
You're waiting for a miracle to wash your sins away?
Sorry, but I can't change your pity story...
There's nothing I can do at all
Too late, the only thing that's left is to wait
A little for that final call... your fall
Still praying for a miracle to wash your sins away?
Whoever you betrayed, whatever price you've paid -
It all'll be washed away... a hard rain is coming
Whoever's on the run, whatever's left undone -
It will be over soon... a hard rain is coming.”*
Royal Hunt, “Hard Rain’s Coming”