

36 South views by Richard "Jerry" Haworth

Cui bono!

Cui bono (/kwi: 'boʊnoʊ/), literally "to whose benefit?", is a Latin adage that is used either to suggest a hidden motive or to indicate that the party responsible for something may not be who it first appears to be.

Commonly the phrase is used to suggest that the person or people guilty of committing a crime may be found among those who have something to gain, chiefly with an eye toward financial gain. The party that benefits may not always be obvious or may have successfully diverted attention to a scapegoat, for example.

Source: http://en.wikipedia.org/wiki/Cui_bono. Accessed 15th April 2015.

If we look back and trace the events of the past thirty five years and ask the simple question of central bank and government treasury behaviour – 'cui bono?' – we get fascinating insights.

Governments, *ceteris paribus*, have a simple goal and that is power. But power invariably costs money, a small but simple fact that is often overlooked and ignored by the great and wise who seek to extend this power. And what simpler way to get more money than to borrow it? Much easier than raising taxes which tend to irritate the masses who then vote you out of the exact position you were seeking!

But like with all good things there is a snag to using debt willy-nilly. Interest rates. You have to pay a tithe for the money you borrow... damn those savers and their greedy ways!

High interest rates tend to put a natural curb of politician's animal spirits when it comes to borrowing and subsequent largesse because interest has to be paid on the principal amount.

Why not just lower interest rates to zero?

Theoretically possible, little grasshopper, but central banks, who control interest rates, are independent from the government treasury, otherwise surely they would do that. It would be a license to print money. Literally. But, what if they start acting in concert, using various crises as cover in order to lower interest rates to zero and thus borrow as much as they want without cost in the pretence that they are doing it to help financially distressed people and the weakened financial system because there is a crisis?

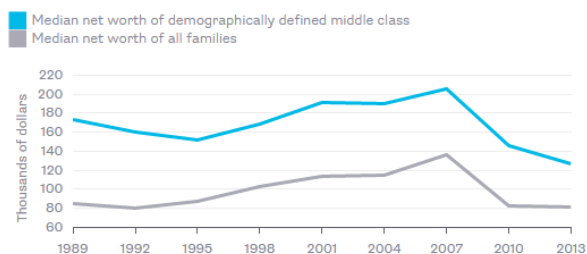
"The party that benefits may not always be obvious or may have successfully diverted attention to a scapegoat, for example."

And like a scientific experiment that suddenly precipitates, we see it plain. Governments have literally benefited with every subsequent crisis since 1987! They have used every crisis as a segue to higher and higher deficits which in turn has led to greater and greater power within the economy.

So now we have answered the main question, 'cui bono?', we turn to the inverse question, 'cui male?' Or, to whose harm?

Well, less obviously, everybody doing the right type of things like working, saving and paying taxes, are harmed. At first blush it seems like the very rich and the very poor do well by the deficit / benefit system, the middle class do not. These are the very people in whose name the “antidote” of increased deficits is purportedly made.

Declining Wealth



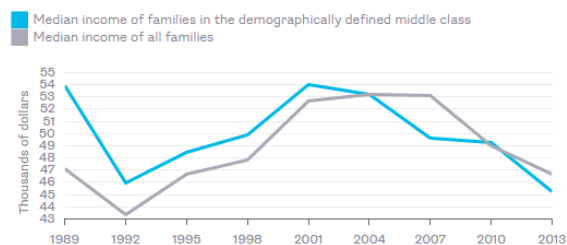
Sources: William Emmons, Bryan Noeth, Survey of Consumer Finances **BloombergView**

Source: <http://www.bloombergview.com/articles/2015-04-10/the-u-s-middle-class-poorer-than-you-think>. Accessed 15th April 2015

The reality is that the more governments co-opt the financial system and distort interest rates, the more out of shape the real economy starts to look and the poorer those people harmed by this system become. They either buy-in via debt or opt out and watch their wealth erode. Thus credit, in ALL sectors, including government and household, starts to go exponential as savers jump head long into risky assets.

Central banks and governments are now co-joined and clearly ‘auribus teneo lupum’ or ‘are holding a wolf by the ears’ and daren’t let go.

Declining Income



Sources: William Emmons, Bryan Noeth, Survey of Consumer Finances **BloombergView**

Source: <http://www.bloombergview.com/articles/2015-04-10/the-u-s-middle-class-poorer-than-you-think>. Accessed 15th April 2015

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