



## Powell's Clownish Move

Bill Bonner

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Grab a beer and watch...

Last week's news from the Fed reminded us of those home videos where someone gets hurt, writes Bill Bonner in his [Diary of a Rogue Economist](#).

Fun to watch. But painful if you're in the picture.

And now, front and center, is the US financial system. Have a seat. Get a beer. How often do we get to see the world's leading economy blow its brains out?

Yes, the pieces are starting to fall into place. The puzzle is coming together, faster than we expected.

We thought the Fed would at least have the decency to wait for a crisis before it caved in to the Deep State. And we were surprised, too, how fast Mr. Trump has moved to pack the Fed with political hacks...who are sure to pull the trigger when the pistol is offered to them.

But these moves...such as they are...help us to see more clearly how the feds made a mess of the economy...and how Congress, AOC, Trump, the Fed, and the whole company of Deep State heaven will turn it into a real catastrophe.

This is a big subject...with many moving parts...so let's go slowly. Step by step...piece by piece.

Last week, we were looking at who pays unpayable federal debt. As we studied the subject, a whirlwind of staggering news blew up.

First up came Jerome Powell, chief of the Fed, with an extraordinary announcement. The Fed would not be normalizing interest rates anytime soon, he said.

And as for that \$3.6 trillion the Fed conjured up out of thin air...well, get used to it. The Fed would not try to normalize that, either. It's here to stay.

From an economic point of view, the move was clownish. No serious theory supports it. But if you are conniving to protect Wall Street and Washington...and ready to turn the Fed into another gear in the Deep State's political machinery...well, why not?

Then, in the breaking wind of the Fed's foul announcement, long-term interest rates fainted and tumbled over. Mortgage rates fell. All of a sudden, financial commentators saw an inverted yield curve and a recession coming.

When it comes, now or later, it will do to the Trump Team's fantasy growth projections approximately what the "bomb cyclone" did to the Midwest. The 3% growth forecast will soon be underwater.

And it will blow the roofs off stock prices, too. That was the funny thing. The Fed was so eager to avoid losses on Wall Street, it seems to have caused them. The breeze picked up on Friday morning; by the close of trading, the Dow was down a cool 460 points.

We were still holding onto our hat when another ill-wind blew from the Bloomberg pages. Word came that, last month, the US posted the biggest monthly budget deficit ever.

More than a year after the Trump tax cut went into effect...promising to "pay for itself" in extra growth...the feds lost \$234 billion last month – a new record.

In a nutshell, where it belongs, the feds are going to run trillion-Dollar deficits, from here to eternity...and the Fed is going to "pay" for them with phony money.

But someone, sometime, somewhere, somehow is going to have to pay, for real. And the bill will be huge. We estimate the feds' debt could hit \$40 trillion by 2030.

We've been looking at how it works here in Argentina. Inflation is said to be running as high as 100% (Steve Hanke's estimate). And GDP is set to fall some 6% this year. It is an economic and financial catastrophe.

Who pays? Not the rich...who are still enjoying the good life in Buenos Aires. And not the poor – they have nothing to lose. And not the insiders, chislers, and cronies who live off the government; the feds are still spending money.

Whom does that leave?

Retirees, consumers, taxpayers, shopkeepers – and all the people who make the win-win economy work. In the end, government debt is always essentially a transfer from the Main Street win-win economy to the feds' win-lose system.

Even when the feds promise to index wages and benefits for inflation...there is always a lag and phony accounting. The result is just what you'd expect – the typical working stiff pays.

But now, it is a new week. And tomorrow, we look more at some of the trash the storm has picked up.

In particular, President Trump threw his candy wrapper out the window in the form of one – Stephen Moore.

POTUS is nominating Moore – a campaign advisor – to fill an empty seat on the Fed's board. Typically, Fed governors are academic economists or PhD non-entities. Moore is a political hack.

What's up? Stay tuned...