Quantitative Easing | The Vineyard of the Saker

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By Jimmy Moglia for The Saker Blog

The godfathers of modern banking have a lively lexical imagination. They invented a brave new vocabulary that simultaneously informs and misinforms, leads and misleads, darkens and enlightens, depresses and amuses – while inevitably taxing and confusing the understanding of the uninitiated.

Take 'quantitative easing,' for example. Scrambling for a meaning, the average mortal could possibly think of it as a sudden, massive, impetuous and welcome relief from lingering and oppressive constipation.

Instead, those-in-the-know have offered various explanations for the creative metaphor. The explanations are slightly dissimilar among each other, but all converge on one fundamental point. Quantitative easing is the reification of an ancient fable, namely that money grows on trees.

But declaring the fable true would strain the credulity of most, by making the unthinkable thinkable and the impossible possible. Furthermore causing an epistemological problem of sufficient magnitude, as to lay upon the logical and semantic resources of the English language, a heavier burden than they can be reasonably expected to bear.

Numbering myself among the puzzled, I attempted to understand. By so doing, I also found the solution to a past riddle that intrigued me at the time – though I postponed to an indefinite future the task of finding an explanation. But of this later.

Even so, the godfathers of the deep state, of which the bankers are an integral component, view with suspicion any plebeian who dares to investigate the banks' doings. For analysis and reflection tend to erode the presumption of superior intuition by the rulers, and inquiry is fatal if it supplants faith.

The alleged reason for quantitative easing is to combat deflation – meaning the general lowering of prices – which is anything but true. Anyone buying the essentials for life, for example food, will have noticed that prices have been steadily increasing. As a vegetarian, I notice that even prices of non-exotic vegetables have increased from 20 to sometimes 100 percent, during the last few years. And health-care, tuition and transportation costs have also significantly increased. Taxes, notably on houses where people live-in, move up by about 10% per year where I live.

To account for this elusive deflation we should refer to the Consumer Price Index, which shares intriguing similarities with certain opinion polls, where certain questions are asked of certain people, provided they give the same answer. If doubtful, remember the polls that gave a 99% certainty that Hillary would be the next president.

With the Consumer Price Index (CPI), if food prices increase the CPI may not – because, for example, the price of an iPad has remained the same but the device has now more features. Or cars cost more, but their performance exceed in value the increase in their costs. In other words, the price-stability of improved iPads and cars corresponds to an increase in their value and therefore a reflected lowering of their cost. That more people buy food than iPads or cars seems irrelevant to the magicians of the CPI.

Similar methods are apparently adopted to measure unemployment. In other words, the Cabal (or the political establishment, or the deep state) creates its own reality. Which brings to mind Donald Rumsfeld, secretary of Defence under Bush 2. Who, in a rare moment of truth, when publicly challenged about an overly obvious denial of verified and undeniable facts, said, "We create our own reality."

Back to the main subject. In its essential implementation, and with much simplification, quantitative easing can be direct or indirect. In the direct mode, the state-independent Central Bank (a term preferable to "Federal Reserve" to avoid confusion) pumps money into other independent banks directly or by purchasing, for example, their 'bad assets' – a softening euphemism for worthless assets. Examples of worthless assets are the unpaid and un-payable mortgages involved in the so-called 2007 'sub-prime' crisis that followed the housing bubble. The idea being that, with the newly-found money, banks should be inclined to increase their lending.

The indirect method consists in the Central Bank purchasing (with the quantitatively-eased money), massive volumes of Government Bonds. Why? Because by creating an inflated demand for Government Bonds, the yield (interest) on the bonds would fall. Therefore investors may seek more profitable investing options than Government Bonds, and banks will make more credit available at better interest rates than Government bonds. This – the lowering of interest in Government bonds – according to some experts, is one of the reasons for the current highs in the stock-market. While other experts maintain that the value of the stocks, at large, does not realistically represent the value of their respective companies.

Quantitative easing may just be one quirk of the banking world, were it not that it involves trillions. The trillions created so far, after the burst of the 2007-2008 housing bubble, if equally distributed among Americans, would roughly correspond to occasional bonuses of 8,500 $ per individual, or $30,000 for a family of 4. I doubt if most families in the US have seen a similar added bonanza to their spending money or net worth. If so, where then the trillions go?

I found a clue in the solution of the riddle that chance, not purpose brought to my attention. For it happens that the small computer company I directed for 20 years had a toll-free number differing by just one digit from the toll-free number of a company located in Medford, Oregon, 300 miles south of us.

Medford is a pleasant town, whose air nimbly and sweetly recommends itself to our gentle senses. And, with the help of good soil and mountain water, Medford has acquired a historic reputation for growing the best pears in the country. It's no surprise then that in 1910, two entrepreneurs, called Harry and David, established a company to ship Medford pears and other choice fruits to the rest of the country.

During the holidays, especially at Christmas and Easter, we received a large number of calls from people who wanted to buy pears but misdialed the digit. One year "Harry and David" even sent us a free fruit-basket, in recognition of our help with redirecting the calls to the correct party.

Then one of many New York investment firms (in the instance "Wasserstein, Goldman and Steinberg") bought "Harry and David" for 85-million $$, via a "leveraged buyout," an operation made familiar by Wall Street. In the instance, the investment firm put down 5-million $$, while the other 80 were borrowed from a bank. The 5-million being the 'lever' with which the investors got an extra 80-million to buy "Harry and David."

The reader will assume that the bankers who fronted the 80-million believed the borrowers to be trustworthy – and equally believed in the future increased prosperity and value of the leveragely-purchased company. The assumption is correct but, as we will see, for reasons different from what common sense would suggest.

By the way, I acquired the preceding and following information directly from a journalist of the major Portland daily newspaper. He had investigated in detail the developments of the affair, and I explained to him how my interest in Harry and David sprang from the near identity of our respective toll free numbers.

Upon buying the firm, what did Wasserstein, Goldman and Steinberg do? They fired 30 percent of the workers involved in production (60 out of 180 employees), eliminated the pensions, drastically reduced the health-care benefits and doubled the salary of two or three managers of the firm.

Nothing extraordinary so far, from a management point of view, though it is somewhat difficult to clearly link these measures to the firm's growth and projected increase in profit. But the investors had in mind a cunning plan as follows.

For 'Harry and David' to grow – they said – it must expand, and to do so it required a direct investment from another bank.

The sought-for amount was 250-million $$. To help obtain it, the leveraged buyers needed the total and unquestioning support of the Harry and David's managers involved, meaning those whose salaries they had doubled.

Whereupon the lucky managers, with charts, graphics, expertise, presentations and savoir-faire, demonstrated and convinced a second lending bank that with 250-million $$ "Harry and David" would become a profitable giant in their market. After all, the managers had already succeeded in streamlining costs. And by so doing, they had proved the seriousness and trustworthiness of their intentions.

Believing the cleverly couched presentations and confident in the positive prospects, the second bank loaned the 250-million $$ to "Harry and David. "

What did the investors do with them? They used 80-million $$ to repay the loan from the first bank – the same who had enabled Wasserstein, Goldman and Steinberg (WGS) to buy 'Harry and David' with a mere 'leveraging' 5-million $$ of WGS' own money.

There remained 170-million, of which 15-million went immediately to Wasserstein, Goldman and Steinberg as "consultant salaries," and another 100 million in various general and questionable development costs.

The managers with the doubled salaries now realized what was happening, but it was too late, and as long as it lasted, it would have been stupid to complain. After all they were the authors of the convincing pitch that made the second bank agree to the 250-million $$ loan.

But the situation quickly worsened. Clearly "Harry and David" could not even pay the interest on the 250-million, let alone the principal. The company went into receivership, workers and managers lost their job, while farmers and contractors, who sold their products, machinery and services to the firm, were left with unpaid invoices. Meanwhile Wasserstein, Goldman and Steinberg laughed all their way to their bank, maybe the same that gave them the 80-million $$ to begin with.

For the second bank, the 250-million un-recoverable loan became a bad-asset – similar to those 'purchased' by the Central Bank with 'quantitatively eased' money – though the bad-assets would remain just as bad in the books of the Central Bank.

In the end the losers at large – besides the workers and suppliers of Harry and David – were the American people, whose deposits, in the instance, had enabled the second bank to fork out and lose the 250-million $$. For the bank's loss, along with other similar and much larger losses in the banking universe, creates the inflation that does not officially exist. It is true that the Central Bank replenished the vaults of the second bank with 'quantitatively eased' money. But that is money said to be real only because the Central Bank says so. The sum-total of this multi-party transaction is an increase of 250 million $$ of money in circulation, with an actual decrease in production (the closure of "Harry and David.") A small but understandable contribution to the inflation that doesn't officially exist.

Equally, the "Harry and David" episode shows how the engine of inequality works, sucking money from the poor (in the instance the workers who lost their job and are affected by inflation) and transferring it to the rich (Wasserstein, Goldman and Steinberg).

Oscar Wilde would say, "I believe anything, provided it is quite incredible." Which was my ironic reaction when the journalist told me the story. To reassure myself that I had not misunderstood, I searched, at the time, for a Wikipedia explanation of 'Leveraged Buyouts" and found the following,

"Over-optimistic forecasts of the revenues of the target company may lead to financial distress after acquisition. Some courts have found that Leveraged Buyouts debt constitutes a fraudulent transfer under U.S. insolvency law, if it is determined to be the cause of the acquired firm's failure.

Over-optimistic forecasts of the targeted company's income (in our case "Harry and David") can cause economic hardship.
… Leveraged buyouts often result in drastic reduction of personnel (newspeak for "firing workers"). But in a consolatory final note the article concludes, "Today, instead, leveraged buyouts use complex transactions of financial engineering to reach the same profit goals."

"Harry and David" is also an example of the new world-order's assault not only on workers but on the middle class – in the instance the managers, both those who were fired at the beginning of the leveraged-buyout operation and those whose salary temporarily doubled but lost their job not long later. For the new world-order is a supercharged engine of inequality, fueled through opaque forms of 'financial engineering,' which is but a newspeak euphemism for 'fraud'.

The evolution began 30 years ago, in 1989, with the fall of the Berlin Wall and the end of history. Interested readers may refer to the previous article "Questionable Anniversaries." An event – the Fall of the Wall – that marks the beginning of the 'bell'epoque' of unrestrained turbo-capitalism – an ideology that has deeply infiltrated the political arena, especially in Europe. In the US the infiltration – though more virulent since 1989 – was effectively taken for granted since the establishment of the Federal Bank in 1913, in what was essentially a subterfuge operation.

For the adjective 'federal' suggests 'government' and government suggests the people who elected it. But it is not so. I quote from official publications by experts on the subject, "… most Americans would be surprised to learn that almost all of what we use for money is not issued by our government, but by private banks. They have been "allowed" to form erroneous assumptions about our money and banking system that are far from reality and that serve to shield from closer scrutiny, whether the Fed is truly operating in the public interest or advancing more private agendas, either on purpose or by default."

In essence, money, which is the blood of the state, is controlled, printed and dispensed by a private institution, which equally controls credit and interest rates. The implications would strain the imagination were they not true. Here is but one example from recent history.

President Jimmy Carter – in my view – has been the most decent, humane, hard-working and honest among the US presidents in recent history. There were no wars started, nor US bombs dropped during his tenure. He also managed to establish peace between Egypt and Israel, and he convinced a very reluctant Israel not only to return the Sinai to its legitimate owners, but to remove the Jewish settlements, promptly established after the military invasion of 1967.

Whereupon, angry, frustrated, and bent upon denying Carter a second term in office, the Federal Reserve, in the months preceding the elections of 1980, raised the prime interest rate to 25%, a measure that essentially brought credit to a halt. Keeping also in mind that, at the time, there were no alternative sources of information. It was then easy for the monopolized media to spread the notion that Carter was responsible for the incredible prime rate. Reagan won and the rest we know.

The example of Harry & David is, of itself, only a wavelet in the murky ocean of macro-finance, but in it we can see the baby face of the giant mass of things to come at large. Namely, the transmutation of the economy from production to financialization. By so doing the restraints applying to how, where, and in what conditions things are produced, were/are essentially abolished.

One consequence was the massive transfer of US manufacturing to lower-wage countries, notable for their few or inexistent workers' rights – a transfer accompanied by a reduction of workers' rights at home. For the financialized state holds a damned and irrational fear towards any form of social thinking divorced from profit.

In this evolution, politics becomes the continuation of economy and banking by other means. We could call it the financialization of the social contract.

Other consequences are,

The drive towards a borderless world by importing millions of third-world migrants. For borders imply limitations, brinks where to stop at before altering and then destroying the character of a nation. For globalized bankers borders are a nuisance and an impediment.

America was historically strict about immigration. Then, in 1965 Senator Jacob Javits introduced legislation that abolished the "national origin formula" leading to massive immigration from the third world. Since then the idea has progressed to a call for the tout-court abolition of borders. The Southern US border is effectively open and large numbers of African-Asian migrants are also brought into the country through various other channels and NGOs.

While objectors are labeled as 'racist', this biblical transhumance represents, in effect, the historical third stage of colonization. In the first, Western Europeans went to Africa to import slaves. In the second Europeans went to Africa to create colonies for exploitation. In the third stage, large masses of people are imported, or rather deported from their land of origin.

One planned consequence is the automatic and dramatic depression of the cost of labor in the host countries. Equally, all extant workers' rights, achieved through time, pain and struggle, become gradually irrelevant, just as it was irrelevant for Wasserstein, Goldman and Steinberg to destroy the livelihood of the workers of "Harry and David."

According to the new ideology, migrants should and can move wherever they like, irrespective of borders. Eventually, in a borderless world even the citizens of the original countries become migrants. In Italy for example, there is a large out-migration of Italians, especially the young, unable to find work paying enough to survive.

Globalizers have found the enthusiastic support of Pope Bergoglio. Whereas his predecessor, Pope Benedict XVI had expressed, instead, the idea that migrants should have the right to live in their own country, rather than being effectively deported according to the plan of the globalizing class.

In a financialized world, traditional institutions are obstacles to globalization. Notable examples of obstacles are the family and, as already mentioned, the state. The family is the building block of the social compact, while the state is the extension of the family towards an enlarged community, a society of families sharing the same language, culture, values, history and tradition.

But in a globalized world, based on a financialized economy, there is no society, only individuals. Which, incidentally, was Thatcher's formula and plan for the United Kingdom. Resulting, at her death, in millions across Britain chanting in jubilation, "Maggie, Maggie, Maggie, dead, dead, dead." An example of the consequences that necessarily follow from such wretched premises.

Furthermore any institution that sets limits to profit-based individualism is equally an obstacle to a globalized and financialized world. Which explains the poorly disguised cultural attack against the family. For in the family the relationship between parents and siblings is not based on profit and mercantilism. Parents work and often sacrifice themselves, with no monetary exchange or profit expected from their offspring.

A meaningful instance of the mercantilization of the family is the current available option to 'order' a child online, by selecting his/her specifications and choosing a uterus for rent.

Other means for eroding the power or the influence of the family are:

a) The attack to the figure of the father, portrayed as a symbol of patriarchal hegemony, homophobia, sexism and 'fascism'.

b) The feminist and its close ally, the LGBT movements, with their open glorification of aberration.

c) The attack on traditional religion, especially Christianity. As readers know, it is forbidden, in the US, to have a Nativity Scene in public and a Cross in schools. However, exempted from the ban are the Menorahs, a ruling that should invite reflection on the source and nature of the globalizing ideology.

And it is curious that the attack on traditional religion has found allies where least imaginable. Readers may know of the recent "Amazonian Synod" in Rome, with the attendant officialization of Pagan symbols and Pagan statues displayed in Catholic Churches. And in an article that I cannot now find, a Vatican priest wrote that Hanukah is equivalent to the Catholic Christmas – the implication being that there is no substantial difference between Judaism and Christianity.

d) Globalist finance is an enemy of the nation state, considered an obsolete symbol and remembrance of things past. For the state that, as in the European Union, no longer issues its money, cannot control its economy, nor its policies on social spending – especially those welfare programs that maintained an orderly relationship between workers and the old productive bourgeoisie.

Adding insult to injuries, when Central Banks starve nation-states of credit, they allege, as a reason, that the citizens of the targeted nation-states have lived 'above their means,' – see the case of Greece for reference.

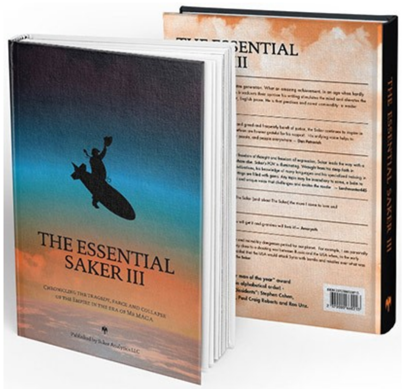
Eventually, in a new globalized and states-less world, individuals will no longer be citizens but migrant consumers, having as many rights as their money can buy. Everything will be a buy-sell transaction. In such an environment even justice loses its name. For everything includes itself in power, power into will, will into appetite. And appetite, as a pitiless wolf, driven by the will to power, will turn everything into a universal prey, and probably at last, eat up himself.

The profiteers from the globalist and turbo-capitalist ideology brand as conspiracy theorists those who attempts to link effects to their causes. Yet, there is a history in all ideologies, observing which we may foresee, with some reasonable probability, the main chance of things as yet not come to life, which lie hidden in the roots of the ideologies themselves.

Still, the megabankers and rulers of the world – the 0.01 % who own as much as the next 3 or 4-billion – condition their audience to only accept the fabricated truth, to love slogans and soundbytes, to remain passive through indifference, weakness and nonchalance. An audience unable to understand that by believing all that flows from the studios of power, ends up with accepting everything. And by accepting everything it ends up with approving all, seduced by a low-cost conscience, purchased in the supermarket of communications and deeply steeped into the philosophy of the politically correct and ethically totally corrupt.

Those who have read so far may wonder what happened to Harry and David. Some time after the debacle, someone bought was left of it and the firm is still in operation. For the Wasserstein, Goldman and Steinberg of this world may come and go, but luckily Medford's lusty pears and succulent fruits will still be with us for a while.

To conclude, the murky world of finance and politics is like a sewage whirlpool, at which our collective nose is in great indignation. In attempting to simplify some of the issues involved, I may be faulted for oversimplification and questionable generalizations. If so I accept the censure. For whoever writes should neither be the plumper for the praise, nor the leaner for the condemnation of his readers.



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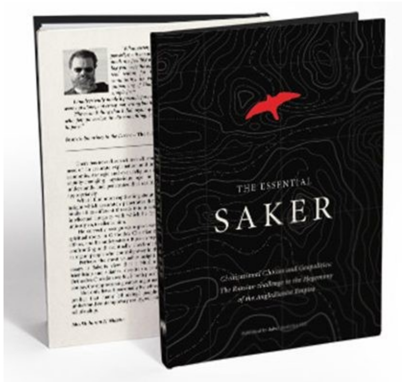

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