Bubble 3.0, Chapter 7; What Price Bubblenomics?

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The election of Donald Trump in 2016 was one of the biggest political upsets in US history. Besides his unlikely victory, another unexpected outcome was that his policies inadvertently led to the first implementation of the economic model detailed in Chapter Six: Modern Monetary Theory (MMT).

Initially, though, Mr. Trump's arrival at the White House ushered in another shock: Instead of unleashing chaos due to his unorthodox ideas, such as instituting a trade war against friends and foes alike, a worldwide boom ensued. Perhaps it was more accurate to call it a boom-let but, regardless, Trumponomics quickly triggered what became widely known as a "synchronized global expansion". His myriad critics were not pleased.

The capstone of Mr. Trump's attempt at a replay of Ronald Reagan's economic miracle was his enormous corporate tax cut in 2017. Ironically, it's passage was pretty much the high-water mark of the synchronized global expansion. By the second half of 2018, the expansion was looking a lot less synchronized. Many countries were once again sputtering economically as they had for most of the post Great Recession period.

Even in the US, conditions were fraying. By 2019, there was an industrial and earnings recession underway (in the latter instance, based on the broadest measure, the National Income and Products Accounts or NIPA).

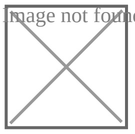
As you will soon read, September 2019 brought what some wags (like me) began referring to as "repo madness." This referred to a complete breakdown of the vitally important repurchase market, nicknamed "repo market". This is where the largest financial institutions exchange immense sums on a daily basis. Something clearly was amiss.

In fact, it was so serious that the Fed reluctantly felt compelled to begin another, though unofficial, round of quantitative easing (QE). It restarted its Magical Money Machine to buy the government debt that was failing to attract bids even with yields approaching 10% in the repo market. The Fed was effectively forced into a position where it was monetizing Mr. Trump's trillion-dollar deficits which were unprecedented in an economic expansion. Earlier in 2019, there were calls from Bernie Sanders, Alexandria Ocasio-Cortez (AOC), and other members of the far left to adopt MMT. Ironically, it was implemented by a president they loathed.

If you think this all sounds surreal, well, you're spot-on. But, then again, surreal seems to be the most appropriately descriptive word of the last fifteen years. That would include how America--the planet's champion of free enterprise and capitalism--began a dangerous flirtation with socialism in 2019, one that continues to this day. Surreal would also apply to how the worst pandemic to hit the world in a century produced one of the biggest wealth surges ever seen.

As usual there is plenty of blame to go around for this unhappy trend of socialism's growing popularity in America. However, in my view, per the main theme of this book, the Fed deserves the lion's share. Its enabling of multi-trillion dollar deficits and its relentless inflation of massive asset bubbles are two examples of its culpability.

The excellent new book on the Fed, “The Lords of Easy Money”, makes clear that there was considerable internal dissension within it, over a decade ago, about its headlong plunge into massive money fabrication. Former Fed chairman Ben Bernanke, however, overrode those who realized its risks. In 2015, after he had successfully prevailed in his power play, Mr. Bernanke wrote his prematurely self-congratulatory autobiography, “The Courage to Act”.   Unfortunately, for America, far too few inside our mighty central bank had the courage to ask: “What Price Bubblenomics?”*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*One of those who did was Thomas Hoenig. Mr. Hoenig was at that time a voting member of the all-powerful Federal Open Market Committee (FOMC). After initially supporting QE 1, which Mr. Bernanke insisted was a temporary emergency measure, Hoenig voted against further iterations, incurring the former chairman’s wrath. In “The Courage to Act”, Mr. Bernanke peevishly wrote: “Surprising no one, Hoenig dissented—and, to boot, gave an interview the day after the meeting to Sudeep Reddy of *The Wall Street Journal* in which he criticized the Committee’s action. Hoenig’s comments had irked me…” (Source: “The Lords of Easy Money” by Christopher Leonard.)

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