The First Rule of Holes

"*Promoted by the intellectual glitterati of the central banks, our economic system has become addicted to all forms of debt, much of which has been unproductive*" - **The Humility of Rates and the Arrogance of Equities** – 720 Global 4/20/2015

The quote above from our recent article failed to acknowledge that it is not just central banks promoting misguided policies of exorbitant debt accumulation but also renowned economists from Wall Street and the world's distinguished universities. Brad DeLong, a P.H.D. economist from Harvard, former Deputy Assistant Secretary for Economic Policy at the U.S. Department of Treasury, visiting scholar at the Federal Reserve Bank of San Francisco and University of California- Berkeley professor of economics casts a wide sphere of influence that includes the Federal Reserve and other central banks.

At the IMF's "Rethinking Macro" conference on April 15th and 16th 2015, DeLong made the following comments; "*But how do we fix this risk-bearing capacity mobilization market failure? And isn't the point of the market economy to make things that are valuable? And isn't the debt of reserve-currency issuing sovereigns an extraordinarily valuable thing that is very cheap to make?* ***So shouldn't we be making more of it?***

Click for link to Delong's speech.

What Mr. DeLong is arguing for is a marked increase of sovereign debt. In fairness, Delong prefaced his comment saying "I resist this logic." However, in a startling contradiction, he goes on to promote that very logic, arguing such policy carries "relatively small danger".

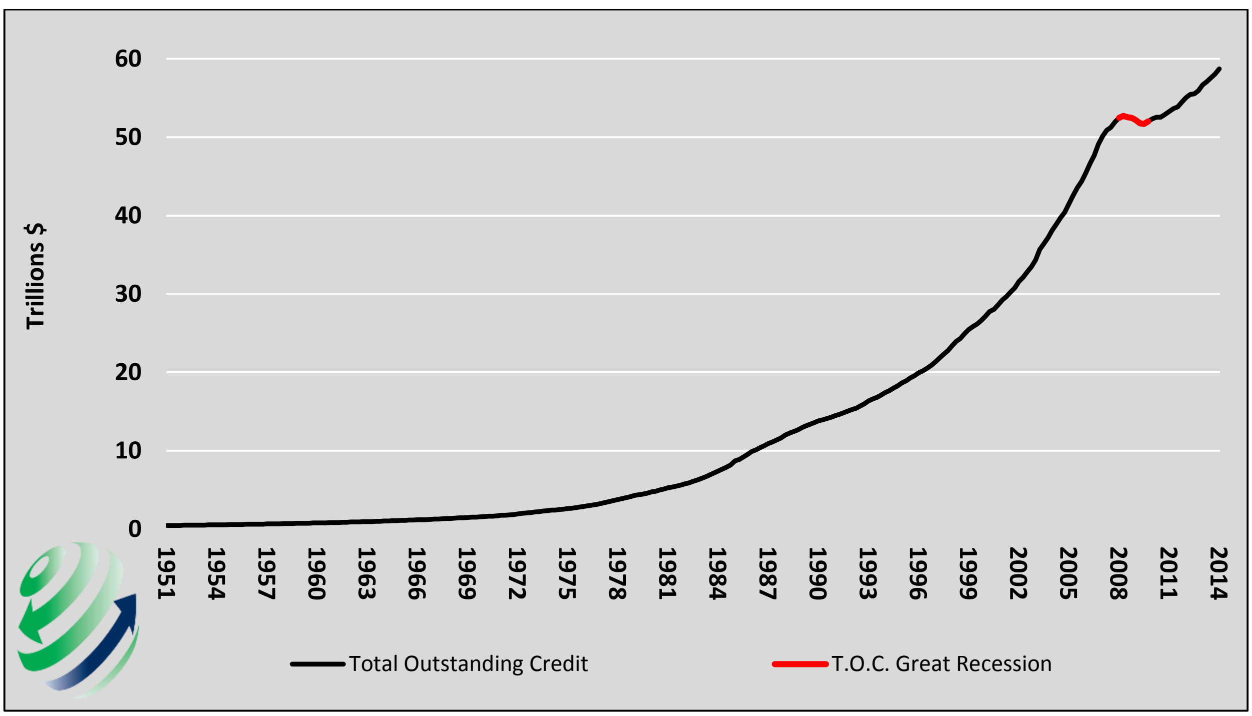
In his book *Economics in One Lesson*, the late New York Times and Wall Street Journal columnist Henry Hazlitt writes, "*Now all loans in the eyes of honest borrowers, must eventually be repaid. All credit is debt.* ***Proposals for an increased volume of credit, therefore, are merely another name for proposals for an increased burden of debt.*** *They would seem considerably less inviting if they were habitually referred to by the second name instead of by the first*."

Intellectual rationalizations like Delong's, which support ever expanding debt loads, highlight an uncomfortable paradox for our economy. On one hand, the lack of discipline accompanying calls for the expansion of debt is partially based upon experiential evidence from the recent financial crisis. As the economy witnessed in 2008, unless the parabolic expansion of debt continues, our economy will suffer mightily. At the same time, the on-going expansion of debt will eventually involuntarily stop precisely because the debt load will become unserviceable. Our economy will be faced with the inevitable Minsky Moment of a Ponzi finance system.

720 Global disagrees with Delong. **The seemingly universal agreement that the prerequisite for a healthy economy is the growth of debt at all costs highlights both a lack of discipline and an aversion to consider different ideas on the part of economic policy-makers.** Leadership fails to grasp what truly constitutes a healthy economy and the longer-term consequences of their short term actions. A change in mindset does not demand a unique level of creative ingenuity, but it does require rejection of the destructive approach currently being employed. A much different approach to economic policy is ultimately required.

The first rule of holes - when you are in one, stop digging.

U.S. Total Outstanding Credit



Data Courtesy: Federal Reserve Z.1

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