Myrmikan Research

January 13, 2021

Daniel Oliver
Myrmikan Capital, LLC
doliver@myrmikan.com
(646) 797-3134

Sauve qui Peut!

Trump has agreed to transition power to Biden/Harris. Pelosi controls the House, Schumer the Senate. Senior Democrats have promised to add D.C. and Puerto Rico as states to produce four permanent left wing senators. Open borders will create a flood of immigrants that will create a permanent majority in the House as well. No one will now investigate the sedition by the intelligence agencies against Trump or voter fraud in the swing states. Senior Democrats have promised to end the filibuster and to pack the Supreme Court.

Yes, there are moderate Democrats from rural areas who will quaver at these radical proposals, like Sen. Manchin—they were the ones who were supposed to stop socialized medicine. But the Party gave them a choice: support Obamacare and get a juicy lobbying position if you lose your seat, or oppose Obamacare and face a well-funded primary challenger. And now big tech can threaten to unperson opponents of the Left juggernaut, as they demonstrate their power against the duly-elected sitting president.[1] And for every Manchin who may defect, there is a Romney or Murkowski who can be bribed.

The final check on the system is lobbyist cash, which may slow the lurch left. For the specific fate of the dollar, however, it almost doesn't matter. The first priority is more stimulus checks to those making less than $87,000 (and their children). They should really be called "wealth transfer checks": the state cannot print consumer goods, so what it adds in purchasing power to one group must match exactly the purchasing power it takes away from another.

And why would "stimulus" checks ever stop? The CCP/COVID virus seems to be here to stay, and there are reports that the second wave this winter will be worse than the first. Moreover, the much-heralded "vaccines" act to depress the symptoms in those who catch the disease (which is useful for the sick and elderly), but there is no evidence that they prevent contraction of the virus and or the ability to infect others

1 On January 8, Trump tweeted: "The 75,000,000 great American Patriots who voted for me, AMERICA FIRST, and MAKE AMERICA GREAT AGAIN, will have a GIANT VOICE long into the future. They will not be disrespected or treated unfairly in any way, shape or form!!!" and "To all of those who have asked, I will not be going to the Inauguration on January 20th." For this, Twitter suspended Trump's account permanently for "inciting violence," as did Yahoo and Reddit, Shopify deleted online stores that sell Trump merchandise, and the Campaign Monitor and Salesforce.com blast email companies also suspended Trump's account. When news leaked that Trump was joining Twitter competitor Parler, Google and Apple removed the Parler app from their platforms (even though—or perhaps because—it was the most popular downloaded app), and Amazon ejected the company from using its cloud-based data centers, shuttering the site temporarily, perhaps permanently. Many prominent Trump supporters were also erased from social media over the weekend in a digitial Kristallnacht.

(the reason the vaccinated still have to wear masks). And their makers do not know for how long they are effective or whether they protect against proliferating mutant strains: in other words, the current vaccines seem unlikely to create herd immunity.

The lock-downs keep the virus simmering instead of allowing it to burn itself out, creating a persistent need for stimulus. Opposing the free-flow of checks has already become politically toxic, as the GOP just discovered in Georgia. As more checks go out, they will become progressively harder to stop—it will be much easier to rename them "universal basic income (UBI)," whatever happens to the virus. This week Atlanta Fed President Raphael Bostic launched this prestidigitation, opining that guaranteed income is "not a crazy conversation to have" given the costs associated with poverty.

UBI has supporters on the intellectual left and the corporatist right. As discussed in Myrmikan's previous letter, our financial system stimulates the manic pursuit of efficiency at the cost of reduced flexibility, which results in falling wages and rising wealth disparity. The corporatists support UBI to placate peasant laborers crushed under our economic system in order keep the system going;[1] the Left likes UBI because implementation will be one more step toward the Marxist ideal of everyone having the same income: again, what the state gives to low-income Americans must necessarily come from those with higher income.

Except state-managed income will not be the same. As Biden promised this week: "Our priority will be Black, Latino, Asian, and Native American owned small businesses, women-owned businesses, and finally having equal access to resources needed to reopen and rebuild." Note the Orwellian use of "equal" to describe giving some demographic groups more than others.

President-to-be Kamala Harris explained the new definition of "equal" in a campaign advertisement:

> So there's a big difference between equality and equity. Equality suggests, 'Oh, everyone should get the same amount.' The problem with that [is] not everybody's starting out from the same place. So if we're all getting the same amount but you [the black man in the advertisement] started out back there and I [the white man in the advertisement] started out over here, we could get the same amount, but you're still going to be that far back behind me.... Equitable treatment means we all end up at the same place.

Enforcing the new equality will be Kristen Clarke, Biden's proposed chief of the Civil Rights Division of the Department of Justice. Clarke wrote in the Harvard Crimson: "Melanin endows Blacks with greater mental, physical and spiritual abilities—something which cannot be measured based on Eurocentric standards." Ergo, any economic shortfall by Blacks from (above) the mean is proof positive of racism.

The World Economic Form, the epitome of the establishment, recently published where the Marxist Utopian dream of the new equality is supposed to bring us in an imagined view from 2030:

---

1 Chairman and CEO of J.P. Morgan Chase Jamie Dimon, for example, pointed out in his 2017 shareholder's letter: "Approximately 42% of American workers make less than $15 an hour. It is hard to argue that you can live on $7–$10 an hour, particularly for families (even if two are working in that household). Decades ago, workers with very limited skills could earn a living wage to support themselves and their family." Mr. Dimon made $30 million in 2017. He proposes to remedy this gross injustice by converting "the Earned Income Tax Credit into more of a negative income payroll tax … [and] also dramatically expand[ing] the tax credit and even make it more available to workers without children."

> I don't own anything. I don't own a car. I don't own a house. I don't own any appliances or any clothes.… One by one all these things became free, so it ended up not making sense for us to own much.… In our city we don't pay any rent, because someone else is using our free space whenever we do not need it.…

Note the use of the passive voice: "became free." How do all these things become free? A.I. and robots may cause manufactured goods and even services to decline in price, as the author argues (though past advances in technology created better products as opposed to lower prices). But rent?

And who allocates the "free" resources? Who gets the free flat in the center of town? Prices do in an unfettered economy, based on scarcity interacting with marginal demand; in the absence of prices, there is only the power of the state. Perhaps the method will be the same way that Obamacare made healthcare free … for certain demographic groups, while bankrupting others.

> My biggest concern is all the people who do not live in our city. Those we lost on the way … those who got upset with the political system and turned against it. They live different kind of lives outside of the city. Some have formed little self-supplying communities. Others just stayed in the empty and abandoned houses in small 19th century villages.

In other words, the trends of the past forty years accelerate over the next ten: the left-wing cities continue to increase in wealth and power while those in the rural areas (who, in fact, do all the real work) become ever more marginalized. It's the Eloi versus the Morlocks, except in this version the Morlocks accept Eloi printing press money as payment.

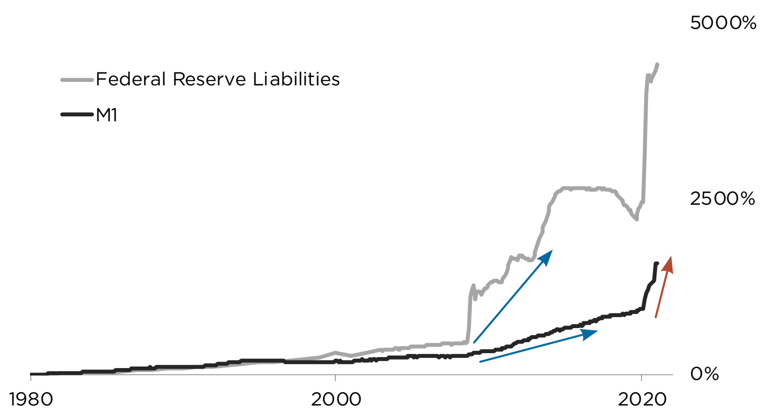
Say's Law tells us that we don't buy things with money, we buy them with our productions: first we produce something, then we trade that for money, and then we use that money to purchase someone else's productions. This reality will puncture the Marxist dream.

Trump won (officially) 83% of American counties, but The Brookings Institute trumpets that these encompass only 29% of "the economy" (by which they mean GDP) to make it seem as though the parasitical red counties rely on the blue. But then ponder that New York City alone "encompasses" 7.3% of U.S. GDP. And what does this city produce precisely? It began as a trading hub, then it became a manufacturing center, finally a financial center with all of the attendant servicers. All of that is gone or nearly so. CCP/COVID merely accelerated the rush of companies moving from financial centers to lower cost jurisdictions (all the banks need leave behind are a few economist/bankers on Liberty Street to receive tips and bailouts from the New York Fed). The only things that New York City exports currently are degenerate culture and printing press money, by-passing the need to produce anything of substance (and cheating and demoralizing those who do produce).

The mechanism of urban funding for the past few decades has been circuitous. The Fed prints reserves for the banks; the banks fund especially the large corporations; stock and bond prices shoot higher; stock jobbers, PE firms, hedge funds, lawyers, accountants, adminstrators, all extract their take, which the city and state tax. City and state government also play the game directly, floating bonds that would never sell in a free market but which find ready buyers in bubble markets.

This is the system that nearly collapsed in 2008 until the Fed flooded the banks with reserves to keep it going. The chart below shows that Fed policy had relatively little effect on M1, which consists of cash outside the banking system and checkable deposits (in order words, cash money ready to be spent). Bernanke told the public: "We're not printing money. The amount of currency in circulation is not changing. The money supply is not changing in any significant way." It was all about bank reserves and credit.

PERCENTAGE GROWTH OF M0 AND M1 SINCE 1980

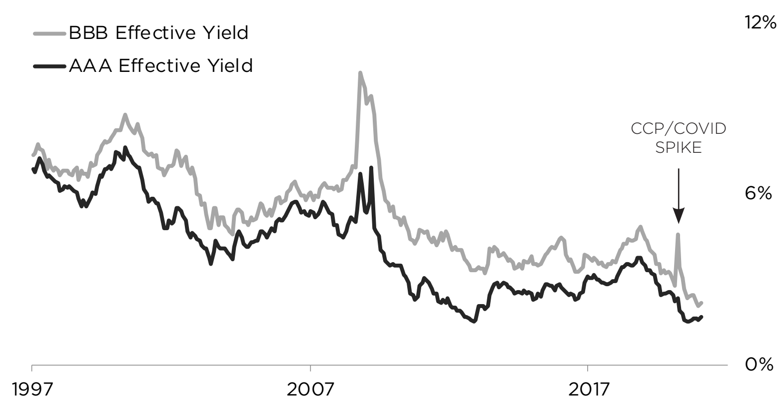


Now the wealth transfer is becoming more direct. The Treasury issues bonds (which the Fed monetizes) to send the people checks: many of these checks go to government and municipal workers (and their children) who have not missed a paycheck: look at the spike in M1!

The progressive Left having captured the federal government, look also for Congress to send direct bailouts to mismanaged urban centers that are now also seeing an exodus of tax-paying professionals: Schumer would be better characterized as Senator from New York City and Pelosi as Congresswoman from San Fransisco. M1 should continue to soar as there is now no stopping the spendable-QE (just don't call it MMT, Modern Monetary Theory).

For the moment, the corporatists find common cause with the Leftists: the Fed monetizes Treasury bonds by buying them from the banks and is also buying mortgaged-backed securities and backstopping the corporate debt markets: marvel at corporate debt yields.

US CORPORATE INDEX EFFECTIVE YIELD

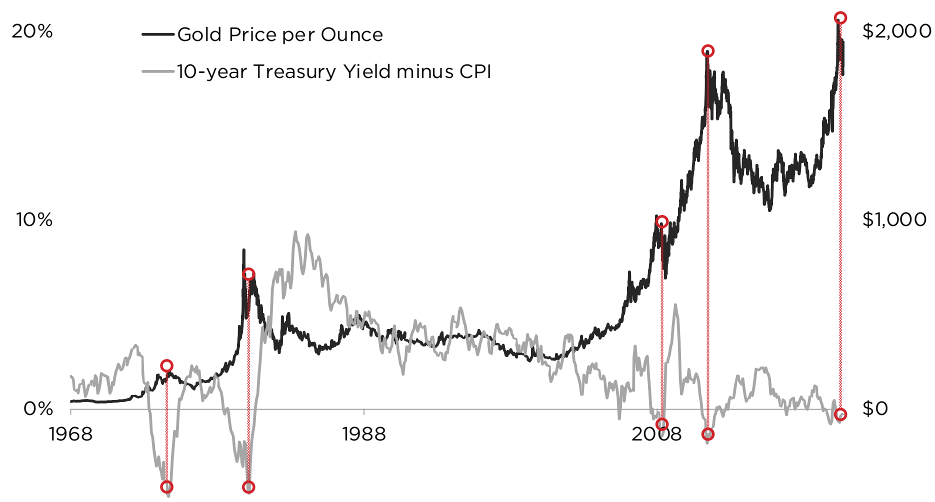


Customers are stuck at home, employees are being paid by the government not to work, commodity/input prices are soaring, supply chains are stressed: and the cost of borrowing has gone down? Only for corporations large enough to issue debt, of course, and large enough to make political contributions and offer well-compensated board seats to former government officials.

Falling borrowing costs introduce the possibility of another—final—credit bubble. As rates fall, existing cash flows become more valuable and ever more submarginal projects appear to be profitable, driving an investment boom and the Keynesian sugar high for employment and industrial commodities.

The chart below shows that whenever real rates go negative (as now), gold shoots higher. The question for gold investors is: will the boom (if one comes) be large enough to allow the Fed to push real interest rates positive again for a time.

THE NOMINAL GOLD PRICE IS DRIVEN BY REAL RATES



Nominal Treasury yields have indeed soared recently, with the 10-year surging to 1.15% from 0.90% on election day and 0.55% in July, which has knocked gold off its recent highs. But federal, state, municipal, corporate, and consumer debt levels continue to rise (who wouldn't borrow at these rates), and the Fed will find it ever more difficult to allow higher rates if it is to maintain the integrity of the financial markets (which fund the government). Sooner or later the Fed will be forced into yield curve control, which will lead to higher inflation and (therefore) increasingly negative real rates and gold at much higher levels.

Policy makers may console themselves that "a sudden burst of moderate inflation would be extremely helpful in unwinding today's epic debt morass" (so wrote Kenneth Rogoff in 2008, when debt levels were a lot lower). From a Keynesian/monetarist aggregate perspective it makes sense: if all prices suddenly double, then the real burden of debt is halved.

That's not how it works in the real world, however. Food prices rise before wages do, crushing workers. Businesses sell product at the going price only to discover that buying new inventory costs more, draining them of working capital. Governments discover that tax revenue is worth far less by the time it is collected.

What does do well once inflation heats up are stores of value, such as gold, and those closest to the printing press, such as banks and private equity firms. The financial industry will continue to concentrate economic power by funding acquisitions of smaller companies by larger ones (just as occurred in Germany during the 1920s).

What enriches the corporatists also aids the statists. It would be really, really hard to nationalize the barbershop industry because ownership is so diverse and the barriers to entry are minimal. Whereas, it was almost trivial to nationalize the healthcare insurance industry: oppressive regulation had pushed out the smaller players and mega-mergers had fused the largest into just three companies that controlled most of the market—the state presented the CEOs and directors with a check in one hand and a gun in the other.

As Vladimir Lenin perceived, and contrary to what is imagined by intellectuals, there is no titanic struggle between socialism and capitalism as it is now practiced:

> Capitalism in its imperialist [monopolist] stage leads directly to the most comprehensive socialisation of production; it, so to speak, drags the capitalists, against their will and consciousness, into some sort of a new social order, a transitional one from complete free competition to complete socialisation. . . .

Is this is not what is happening to the U.S. economy as frenetic industry concentration places economic power in the hands of fewer and fewer actors?

> This "state apparatus" [of large companies] … we can "lay hold of" and "set in motion" at one stroke, by one decree, for the actual work … is here carried out by employees, most of whom are themselves in a proletarian or semi-proletarian position. . . . As for the higher officials, of whom there are very few, but who gravitate towards the capitalists, they will have to be dealt with in the same way as the capitalists, i.e., "severely".

How easy it would be to remove the top executives at Twitter, Facebook, Google, Amazon, and Yahoo and turn the companies into tools of the state, as China is doing to Alibab and Ant Group (no one has seen Jack Ma since October). We're not ready for that kind of direct power grab, but legislation and regulation can apply more subtle pressure to produce similar outcomes.

Let us recall, however, what actually happened after the Bolsheviks took over and tried to collectivize the economy: first starvation. The cities under Bolshevik command had nothing with which to trade for food from the country. So they sent Stalin out to obtain it by force; he dealt with the farmers "severely," and the following year there was little food.

The parallel will not be exact, but imagine that food and commodity prices (which determine the lower bound of consumer prices) continue to soar under the accelerating need to monetize federal spending under Pelosi/Schumer. How will the blue districts fund continuing purchases of food and supplies produced in red districts? When the money fails, will they send in the National Guard Stalin-style?

As Alexander Hamilton saw centuries ago, currency and debt are what glue an imperial nation together. The failure of either one of those will see America fracture.

Left-wing media and politicians are behaving as if a few dozen rioters (some in Halloween costumes) allowed entry into a building were a threat to the integrity of the government (note that anti-Kavanaugh protesters banged on the doors of the Supreme Court and also nearly breached the Capitol building, with three hundred arrests, and nary a word was spoken about the integrity of the republic).

The real insurrections—the kind that last for weeks not hours and topple governments—will occur at the state Capitols. They will not come because of a stolen election or because of big tech tyrrany, though these create fertile soil. They will come as the cost of living and taxes accelerate faster than wages and government hand-out checks, and as the demographic groups that the Left has divided us into compete for ever fewer resources that are ever more controlled by the state.

The progress of inflation is painfully similar over thousands of years of history: first a need to fund a growing state bureacracy and army, then payments to favored citizen groups struggling with rising prices, then price controls, then shortages, then direct distribution of goods by the state (which necessarily involves manufacturing quotas), then revolution and collapse. Witness the disasterous allocation of CCP/COVID vaccines by Governor Cuomo, and then imagine him or someone like Kristen Clarke distributing food or manufactured goods. Then imagine what the protests would look like.

Technology will ensure that the remaining steps in this process play out not over centuries, as in the ancient world, or decades, as in the 18th century, but years. Gold bullion provides capital safe passage through this turbulence. Keynesians and monetarists still hold that gold has no utility and is therefore is intrinsically worthless, and America is probably not yet at a point that it would allow the confiscation of bullion Bolshevik-style (and why confiscate a useless good?). Gold mines will face higher taxes, as they did in 1930s, but (as in the '30s) at least there will be something to tax.

The real question is: are we entering an extended dark age of technical tyranny (with Chinese characteristics), in which case even gold will ultimately fail for (as in the Dark Ages) there will be nothing to buy, or do Americans yet retain sufficient spirit of liberty (and ammunition) to frustrate the Marxist plans of the elite.