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Yellen Voices Support For Permanent Inflation

5–6 minutes

No, seriously, that's exactly what she's now promoting (although I doubt she realizes it):

> WASHINGTON (AP) — Treasury Secretary Janet Yellen on Tuesday offered her strongest public support yet for the idea of liquidating roughly $300 billion in frozen Russian Central Bank assets and using them for Ukraine's long-term reconstruction.
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> "It is necessary and urgent for our coalition to find a way to unlock the value of these immobilized assets to support Ukraine's continued resistance and long-term reconstruction," Yellen said in remarks in Sao Paulo, Brazil, where Group of 20 finance ministers and central bank governors are meeting this week.

In other words, **steal the funds**.

Yellen goes on to say she believes there is a strong international law case for stealing the funds. Well perhaps there is and perhaps not; I will not pass judgment on whether *one can find justification in international law* for such an action.

I can and **will**, however, pass judgment on the immediate *and permanent* outcome of such an action, because that is both obvious and inevitable.

It will force trade settlement into all bilateral currency forms immediately *and permanently.*

Now this might not sound so bad and were our government not running a ~7% fiscal deficit right now it might not be. *But we are running a 7% fiscal deficit, and kneecapping having trade settlement performed in dollars -- or Euros -- or Pounds -- or whatever else* by taking this action will *permanently and immediately* force all fiscal deficits (not just in the US) to reflect back into that nation's economy in the form of inflation.

We have, in the United States, benefited to an *enormous* degree from this temporary sequestration over the last 20 years. That was unwound to a large degree when the first round of sanctions was laid and now effectively *all* trade with either side of the Russian / Ukraine conflict is no longer using dollars as a funding currency.

Why does this matter?

Because if that trade goes from $1 trillion a year to $2 trillion a year ***during the period of time when it increases there is $1 trillion in deficit spending that is effectively "impounded" while the goods are in transit.*** It is the *increase* in such trade that drives this, not the volume (since once the transaction settles those funds wind up back into the flow of commerce in the US.) But as international commerce has expanded *and the dollar and, to a lesser extent the Euro, were used as the currencies while in-transit* our nations have enjoyed a sizeable "sink" for deficit spending without having it immediately rebound back into consumer and producer prices.

The inflation of the last few years is directly traceable to the

end of this practice, and it was our sanctions that caused it. The Covid deficit spending was certainly a factor but much of that was absorbed *and would have stayed absorbed* as trade rebounded post pandemic *but for our sanctions activity when the war in Ukraine broke out.*

Now Yellen claims that the "frozen" assets were not just sequestered -- she wants to *take* them. Most of these funds are in the EU, not the US -- but the problem with the action is that producers and customers have no way to influence or prevent such an action by their government in the future *and thus this is an external risk that can only be controlled by not exposing yourself to it; thus you demand payment in your local currency.*

Removing this leg of the stool leaves only *one* way to get inflation under control: *Deficit spending must be cut to no more than the increase in productivity in the economy.* When the "PIGS" problems showed up in Europe the EU's response to this was to mandate no more than a 3% fiscal deficit -- which *reasonably* aligns with productivity.

Meeting this today in the United States would require a cut in federal spending of more than $1 trillion dollars ***this fiscal year alone,*** and an escalating amount as existing treasury debt is rolled over at higher rates. Within the next two to three years ***the total cut required would be more than two trillion or approximately the entire Medicare and Medicaid spend this fiscal year***.

If that's not done?

We will get runaway -- exponentially so -- inflationary pressure and be forced to do it anyway at even greater levels of economic pain.

If you are betting on lower rates at any time in the next decade,

given this position of our government, you're going to be sorely disappointed both in the outcome and in asset prices.
