
From: Jes Staley <[REDACTED]>
Sent: Wednesday, December 28, 2011 1:59 AM
To: Jeffrey Epstein
Subject: Fwd: Re:

something I wrote =oday

Begin forwarded message:

From: =/b>"Zuccarelli, Jennifer R" <[REDACTED]>
Date: December 27, 2011 5:13:49 PM =ST
To: "[REDACTED]" <[REDACTED]></=iv>
Subject: Re:

=div style="word-wrap: break-word; -webkit-nspace: space; =webkit-line-break: after-white-space; "> This is good. I really like it.

But =epends where you want to say it. Is this for a closed press =peech?

From: Jes Staley [mailto:[REDACTED]] =br> Sent: Tuesday, December 27, 2011 05:08 PM
To: =uccarelli, Jennifer R
Subject:

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This is something I wrote up. What do you think
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" =ast week, with the European Central Bank's extension of three year =unding to any and every European bank, backed by almost any and all =ollateral, even =ollateral with short maturities, Paul Krugman has now run the table. =nbsp;For with this move, the ECB has joined the Federal Reserve Bank of =he United States in adopting the most aggressive monetary policy =e have seen in our life time. Between QE2/twist, and now the move =y the Europeans, we are going to witness an enormous, expansive, and =ctive push by the world's two great Central Banks to get the economies =f the world going.

It is part of Paul Krugman's plea that governments in Europe =nd the U.S. do whatever is necessary, to get economic growth. =nbsp;While Krugman may sound, in his weekly pieces in the New York =imes, like he is fighting a losing battle with cold hearted rightest =nd economic fundamentalists, he actually has been winning in the bigger =icture. While the firscal outlook may not be great in Europe, it =till has one of the greatest safety nets of any modern society. =nbsp;And if you missed it, in the U.S. we have generated one of the =ountry's biggest annual deficits with a little fiscal push of our own. =nbsp;And now, both Continents are about to try the greatest exercise of =rining money that modern democracies have seen.

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It is what Merkel has said she fears most. When you visit Germany, everyone will tell you three things when it comes to the European crisis. First, Germany owes an enormous debt to Europe. Second, Southern Europe must control their budgets. And third, and don't miss this one, Germany can never let the European Central Bank print money. For every German believes that part of what led to the first issue, was the hyper inflation of the 1930's created by Germany's printing money. Germans are terrified of inflation. And inflation starts with printing money.

It's a point I have some sympathy for, as I lived in the hyper inflation world of Brazil in the 1980's. It is no wonder that two consecutive, leftist Presidents in Brazil, starting with the labor leader known the world over, as Lula, ran a government whose fiscal and monetary policy would make the farthest right leaning, German... proud. For Lula witnessed the reality of inflation in his early years. Inflation is a brutal tax on the poor. Throw human sympathies out the door, inflation is a government tax to pay down debt, where the burden is carried almost totally by the least able to afford it. Run-away inflation is a crushing and relentless charge on a society's poorest. And it is caused, primarily, because governments print money to avoid difficult choices.

Paul Krugman's economics contemplate extraordinary deftness by high officials pushing the right economic buttons. Right now, our Fed has bought over \$2 trillion dollars of US debt to fund almost every penny of deficit spending of the last two years (where did they get that money from?). And now the Europeans are doing something similar. Central banks are not supposed to lend without strong, bullet proof collateral; it's called secured lending.

Remember how the market tricked itself with triple AAA securities. So how secure is a three year loan collateralized by a one year piece of paper. What would you say if a bank gave you a three year loan, and said that you only had to show proof that you could pay your loan back in the first year.

Last week the ECB held its first auction for this type of transaction. Over 500 banks in Europe borrowed over \$600 billion in one day. And I would wager, unchecked, this will grow by another \$1 trillion early next year when they do it again.

What both the Fed and the ECB are doing, is dramatically growing their balance sheets by putting money into the public markets. What all economists know is that at some point, they will have to take this money back.

If the heads of our Central Banks are indeed the true "Masters of the Universe", they will show a level of self control and card counting, like the very best card sharks of all time. And Paul Krugman will have helped save the world's economy.

But it is a huge gamble, and one can only hope, that the world's economists haven't forgotten the early lesson of economics: There is no free lunch."

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