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I hope you are doing well on the last day of the year. Enjoy the night. I will be back in New York on Wednesday if you are around.

All the best

Jes

Below is the note I am asking Jamie to let me send out.

Late last month, in a surprise move, Euro zone banks were given near absolute backing from their Central Bank (the ECB) via a lending program to support them with three year money. With this move, the ECB and the Federal Reserve appear aligned and committed to do whatever it takes to cure what ails us. Between our Fed's QE2 and twist and the ECB's three year bank lending program backed by almost any collateral (even shorter term), the stage is set for us to experience an unprecedented expansive push to get the world going.

Pleas by select experts and weekly pundits have finally won out, despite their own claims to have had little effect on cold-hearted European economic traditionalists or, in the alternative, the uninformed or improperly motivated. Keynesian theoreticians have run the table: the two largest Central Banks are taking massive action.

With awe inspiring fiscal deficits on both sides of the Atlantic, nations are primed for the greatest collective exercise to print money yet seen by modern democracies-a scenario that only weeks ago Angela Merkel said was her greatest fear.

A frequent visitor to Germany, I hear three things when it comes to the Euro zone crisis: First and foremost, there is a respect for and sense of accountability to all of Europe. Second is the belief that individual countries must control their budgets. And third –don't miss this-is the conviction that the European Central Bank cannot be allowed to print money to lend to sovereign governments.

Germans are terrified of runaway inflation because it is a brutal tax that falls most heavily on the poor. Runaway inflation is a crushing, relentless burden on society's most fragile. And it is set in motion at times when governments print money to avoid difficult choices. I am very sympathetic to these concerns because of my personal experience in the 1980s, living in Brazil and witnessing inflation's evil and corrosive effect on that country.

It's said that many of the values of America's greatest generation were forged in the deprivations they observed and suffered during the Great Depression. Brazilians in their 30s and older vividly recall what it was like to live through an inflationary economic catastrophe caused by heavy handed planners and government led profligacy.

It's extraordinary yet understandable that the generations presently building Brazil (even their recent, leftist, presidents) for the most part support fiscal and monetary views that our great grandparents and today's conservative Germans would likely endorse.

It's the norm for governments to avoid difficult choices. Yet with all that's gone on in the past few years, it's amazing the we can still find comfort in the assumption that, at crunch time, the right people will be imbued with the necessary special perception and deftness to hit all the correct buttons so everything works out just so.

The Federal Reserve has purchased over \$2 trillion dollars of US debt to fund the last two years of America's deficit spending. Where does this money come from? And now, the Europeans are doing something similar to finance local banks and their demand for Euro zone sovereign debt.

It's only been a short while since Central Banks, regulators, bankers like me and the private sector tricked ourselves into thinking that AAA securities were as good as cash. Today we look back and wonder what we were thinking.

With this in mind, shouldn't we ask how secure is a three year loan from the ECB to a local bank when it is guaranteed by one year paper?

A week ago, the ECB ran its first auction of three year bank funding. More than 500 local banks borrowed over E\$600 billion in a single day. My guess is that, unchecked, this ECB leveraging will grow dramatically in the coming months. Both Central Banks have already multiplied the size of their balance sheets to record levels to get money to the public markets. They now signal that this will continue on a grander scale. At some point, all this money will have to come back or there will be consequences.

It's been said that: "Unsustainable situations usually go on longer than most economists think possible. But they always end, and when they do, it's often painful."

With the ECB now harmonized with the Fed's push for growth, somewhere down the road our Central Bank heads will be called on to demonstrate that they can be "Masters of the Universe". To be successful, they will need to act with uncanny precision, independence and self-control to unwind this unprecedented monetary expansion and avoid painful, unintended consequences.

It's a huge gamble with an uncertain outcome. We are rooting for success. But as officials grasp more levers to operate the world's complex financial machinery, we can only hope that these managers and technicians do not overlook that homespun yet universal economic truth: there is no such thing as a free lunch."