

From: Jes Staley <[REDACTED]>
To: Jeffrey Epstein <jeevacation@gmail.com>
Subject: Fwd: Re:
Date: Wed, 28 Dec 2011 01:59:22 +0000

something I wrote today
Begin forwarded message:

From: "Zuccarelli, Jennifer R" <[REDACTED]>
Date: December 27, 2011 5:13:49 PM EST
To: "[REDACTED]" <[REDACTED]>
Subject: Re:

This is good. I really like it.

But depends where you want to say it. Is this for a closed press speech?

From: Jes Staley [[mailto:\[REDACTED\]](mailto:[REDACTED])]
Sent: Tuesday, December 27, 2011 05:08 PM
To: Zuccarelli, Jennifer R
Subject:

This is something I wrote up. What do you think

" Last week, with the European Central Bank's extension of three year funding to any and every European bank, backed by almost any and all collateral, even collateral with short maturities, Paul Krugman has now run the table. For with this move, the ECB has joined the Federal Reserve Bank of the United States in adopting the most aggressive monetary policy we have seen in our life time. Between QE2/twist, and now the move by the Europeans, we are going to witness an enormous, expansive, and active push by the world's two great Central Banks to get the economies of the world going.

It is part of Paul Krugman's plea that governments in Europe and the U.S. do whatever is necessary, to get economic growth. While Krugman may sound, in his weekly pieces in the New York Times, like he is fighting a losing battle with cold hearted rightist and economic fundamentalists, he actually has been winning in the bigger picture.

While the fiscal outlook may not be great in Europe, it still has one of the greatest safety nets of any modern society. And if you missed it, in

the U.S. we have generated one of the country's biggest annual deficits with a little fiscal push of our own. And now, both Continents are about to try the greatest exercise of printing money that modern democracies have seen.

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 German's printing money.

German's are terrified of inflation. And inflation starts with printing money.

Its 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 who's 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 brutul tax on the poor.

Throw human sympathies out the door, inflation is a government tax to pay down debt, where the burden is carried almot totally by the least able to afford it. Run-away inflation is a crushing and relentless charge on a societies 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 similiar. Central Banks are not supposed to lend without strong, bullet proof collatoral; its called secured lending.

Remember how the market tricked itself with triple AAA securites. 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 worlds economists haven't forgotten the early lesson of economics: There is no free lunch."

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