

Zanetti Monday Missive 2021.10.11 Kobayashi Maru and the Fed

Hello Everyone,

Dr. Bones: *Lieutenant, you are looking at the only StarFleet cadet who ever beat the no-win scenario.*

Lieutenant Saavik: *How?*

Captain Kirk: *I reprogrammed the simulation so it was possible to rescue the ship.*

Kirk's son: *He cheated.*

Star Trek II, The Wrath of Khan

Yes, this morning's missive is going into full Star Trek "geek mode" to make the point. In fairness, I had to look up the quotes and research Klingon weaponry. No. I did not know it off the top of my head. And, no I do not have a StarFleet uniform hanging in my closet. :>)

But, the **Star Trek** theme seemed a good way to make a financial point. So, let's dive in.

In the famous **Kobayashi Maru** (no win) training exercise, *StarFleet* cadets were faced with a situation where three Klingon Warships surrounded the Enterprise. There was no way out. The instructor's goal was to see how the cadets performed under pressure as the Klingons opened fire---- and the virtual "*Enterprise*" was destroyed piece by piece.

I believe our Federal Reserve is engaged in a real life **Kobayashi Maru** scenario.

- The US dollar (and by extension the economy) is the *USS Enterprise*.
- Klingon Warship #1 is the debt service on our pending \$30+ trillion debt.
- Klingon Warship #2 is rising inflation.
- Klingon Warship #3 is an out of control Congress. Both Team Red and Team Blue.

Let's go through the scenario.

When Afghanistan fell so badly in August, the world took notice. It wasn't that we left Afghanistan. We could not stay there forever. It was the chaotic manner in which it was done. Trust and confidence in America fell. The petrodollar system that supports our currency began to dissemble.

Seeing this, the Federal Reserve began vacuuming up dollars to support our currency.

In short, the Federal Reserve went to "shields up" to defend the currency.

Meanwhile, Klingon Warship number #1 started firing its interest rate photon torpedoes. Even at near zero percent interest rates, over \$400 billion will be needed to service the government debt in 2022. That would mean approximately 25% of all income tax revenues would be needed just to fund the interest (!) on the debt.

But if you use a far more accurate "true interest expense" measure of US debt payments, you quickly get to 111% of income tax revenues needed to cover America's current interest obligations.

Next, Klingon Warship #2 is firing its phasor banks of rising inflation. The Enterprise's answer should be to raise interest rates. But if the Fed raises rates, the stock market and the housing market would tank. That would be a self-incited wound. If, however, the Fed does not raise rates, then inflation will continue to run hot and the dollar's viability will continue to be called into question.

Finally, Klingon Warship #3 is firing its disruptor cannons in Congress. The debate is raging as to whether \$3.5 trillion, \$5.5 trillion, or \$6 trillion (Senator Bernie Sander's number) is needed to "get the economy moving."

Who will buy all that debt? The Chinese? Europeans? Peru? Or, the Federal Reserve with printed money?

Thus, we are in the ***Kobayashi Maru*** no-win scenario. To quote Lou Gromen over at ***Forest For The Trees***, the Fed needs to either, "Get busy inflating or get busy defaulting." In either case we lose.

Unless of course the Fed can pull a Captain Kirk and find a way to reprogram the scenario!

Thus, this recent headline:

- ***Fed Prepares To Launch "Review" Of Central Bank Digital Currency That Could Render Cash, Privacy Obsolete*** Zerohedge, Monday, Oct. 04, 2021 - 10:00 PM

Long time readers know we have been following the path to a new digital dollar for a long time. The ***Banking for All Act*** and the ***Illicit Cash Act*** are still working their way through Congress. Both outline the transition from cash to digital dollars.

And please recall these headlines from the past year or so.

- ***In Unprecedented Monetary Overhaul, The Fed Is Preparing To Deposit "Digital Dollars" Directly To "Each American"***
- ***"Fed's "Direct Money Transfers" are Coming: Brainard Says Fed Collaborating with MIT on Hypothetical" Digital Currency—August 14, 2020***
- ***"All Federal Reserve Banks shall, not later than January, 1, 2021....make digital wallets available to all residents and citizens of the United States and to businesses domiciled in the United States." Source [gove.info.gov/content.pkg.bl---](https://www.federalreserve.gov/info.gov/content.pkg.bl---) just search digital wallet.***

You get the picture. Decades of monetary and fiscal mismanagement are coming home to roost. The Fed is in a no-win ***Kobayashi Maru*** situation. So, they are preparing to change the rules of the game. Change the currency. Revalue the currency via a digital dollar. Voila...escape the trap. Or at least don't take the blame.

The best way to navigate this (IMHO) is to be in basic investments people must have regardless of the vehicle used to acquire these basics. And that is how you are positioned.

Signed Your Watching-Money-Go-Where-No-One-Has Gone
Before Financial Advisor,
Greg

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