

Operation Twist 2: Pushing On A String

The US economy is quite evidently slowing again and the Fed in its wisdom has decided to extend Operation Twist, that is buying longer dated treasuries and funding that with the sale of shorter dated debt. This is like someone saying he's got to water the lawn just after Hurricane Katrina.

Hasn't anyone at the Fed noticed the frantic buying of treasuries by anyone whose limbic brain has triggered its 'run for your life' algorithm?

A few smart investors will attempt to front run the Fed, and equity valuations will get even cheaper, so there will be support for the bond and equity markets, but for employment and growth, OpTwist is pushing on a very slack string.

For the real economy, the government has all but led the horse to the water and watched in bewilderment as it has refused to drink. Its time to shove the animal's head in the water, hold its nostrils shut and force some liquids down the emaciated beast's neck. This means fiscal policy, and not just any old broad brush fiscal policy; targeted fiscal policy. Any deficit strategy at this stage will be punished. OpTwist should be used in conjunction with OpDrip, to reorganize the debt profile of the government in preparation for some deficit strategy.

Deficit strategy? At a time like this? Only a madman would suggest that! Well, all the rational people have thrown their collective wisdom at the problem and come up empty. Let's try something different.

Its time to stop encouraging investment and consumption; its time to punish non-investment and non-consumption. The tax code is a useful place to start.

All this is brinksmanship of course, you know, a deficit strategy in the

midst of a sovereign debt crisis. Its more of an emergency measure really. But guess what... Its an emergency.