

THE STOCKMAN *Letter*

THE WEAPONS OF THE DEEP STATE

By David Stockman

Part 1: The Federal Reserve

Right now, our country is under attack.

And, no, it's not by terrorists, immigrants, or even Russian hackers...

It's the power-hungry government officials and morally bankrupt politicians who continue to pillage our country and rob our citizens to satisfy their never-ending lust for power...

It's the warmongers who run our national security apparatus who send our troops to die fighting wars in places we have no business being in...

It's the insatiable greed on Wall Street and the Keynesian money-printers running the Fed... who continue to inflate our markets, ruin our economy, and then siphon BILLIONS of dollars right out of our pockets, and the pockets of our children and grandchildren.

It's the traitors in our intelligence agencies who undermine our democracy, and work day and night to violate our privacy and our Constitutional rights in the name of "national security"...

It's the powerful elites who are unelected, unimpeachable, unaccountable, and virtually untouchable... who act with impunity and complete disregard for our country's well-being.

It's the group known simply as the Deep State.

Its power comes from another stately structure of classical design, on Constitution Avenue N.W. at 20th Street N.W. in Washington, D.C.

It's the Marriner S. Eccles Federal Reserve Board Building...



And it's the factory of Bubble Finance.

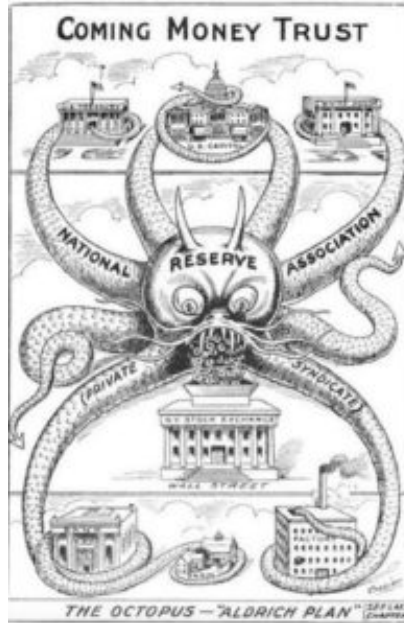
Bubble Finance and the Death of Sound Money

And I sincerely believe, with you, that banking establishments are more dangerous than standing armies; and that the principle of spending money to be paid by posterity, under the name of funding, is but swindling futurity on a large scale.

– Thomas Jefferson, Letter to John Taylor, May 28, 1816

Perhaps the most famous – and prescient – cartoon in American history is the depiction of a “Federal Reserve Bank” as a giant octopus... with its eight arms wrapped around U.S. institutions and also constricting free markets.

It was published in 1912, just a year before the creation of the Federal Reserve.



But no one could have ever imagined just how powerful the monster would become over the next hundred years.

Because, like it or not... money is power. And, if you control the money supply, you control power.

No one has more control over our money supply than the arrogant central planners who run the Federal Reserve.

As you may know, the Federal Reserve is not by the federal government. Nor is it a “reserve.”

In reality, it’s the purest expression of “crony capitalism”...

It’s a private organization run by a cartel of bankers who effectively dominate the world economy using what can be best described as financial tyranny.

It’s a regime that benefits the few and bilks the many.

I was there when the Federal Reserve turned from responsible custodian to aider and abettor in the financialization of the American economy.

I’ve been inside the smoke-filled rooms with these unelected, unaccountable, and unrestrained nut-job bureaucrats – who, despite all that, wield nearly infinite and unchecked power.

And I know the unseemly truth about the trillions of dollars these Keynesian money-printers have funneled to Wall Street's speculators and high-rollers... at taxpayer expense.

I call it "Bubble Finance"...

And, thanks to its unlimited ability to debase the dollar through the manipulation of interest rates and outright money-printing...

The Fed can systematically crush workers, savers, and investment in productivity and growth...

In short, it can systematically crush Main Street.

A reality that would never be possible if we had sound money – which is money that has purchasing power determined by markets, independent of governments and political parties, and is usually tied to a commodity like gold.

But, alas, we exist in a world of pure economic fantasy...

Of endless free money, rampant speculation across all asset classes, and a sinful level of financial fraud in the form of unearned dividends, share buybacks, and mergers and acquisitions...

A world where markets can only go higher and Wall Street continues to pump out one "get rich quick" meme after another to lure the next greater fool...

And, sooner or later, it's all going to come crashing down on Main Street investors and taxpayers.

...Which is exactly what The Deep State wants.

But the Donald – "The Great Disruptor" – could make all that come to an end...

The Fed Must Die for Main Street to Survive

Poverty is the parent of revolution and crime.

– Aristotle, *Politics* (350 B.C.E.)

Monetary central planners destroyed honest price discovery in the markets.

And they've set the seeds to do the same to their whole system.

Wall Street doesn't remember the recent past. Nor is it discounting a rational future.

It's a hot mess of headline-reading algos and chart-point-chasing day traders.

Any rational investor would avoid it at all hazards.

Events of the last two decades (including the Global Financial Crisis/Great Recession and the dot-com bust) have left a broken, debt-burdened Main Street economy.

The recovery is weakening rapidly. And it's already really old.

There's no way a subpar economy should support super-normal price-to-earnings ratios in the stock market...

And now, the Federal Reserve is walking back its decadent money-printing from its trailblazing "quantitative easing" experiment.

Over the last two decades, central banks scooped up more than \$20 trillion of sovereign debt, corporate bonds, and even stocks and exchange-traded funds.

And they paid for those assets with money spun from thin air.

This madness has systematically and massively falsified the pricing of every financial asset, be it stock, bond, real estate, derivative, and everything and anything in between...

Now, they're about to stop.

And here's where it goes from "bad" to "ugly."

When the next big "correction" happens, Corporate America will plunge into another frenzy of "restructuring."

That means inventory and capital expenditure cuts. And it means job cuts.

And it's "Mean Streets" again in Middle America...

We don't much believe in financial market reflation. State money-printing and state borrowing just isn't sound policy over the long term.

"Reflate," though, is what the Federal Reserve, the U.S. Treasury, and Congress have done with alacrity and aggression in the past.

But it'll be impossible this time around. Our central planners have backed into a policy prison of their own making.

Another of these Bubble Finance-style recessions will trigger another fiscal crisis.

But – this time – it's a recipe not just for financial destruction. Another, greater downturn will create "critical mass" among the people.

And when it does, there will be hell to pay.

Part 2: Wall Street

“Bubble Finance” makes the new world go 'round.

That “new world” includes rising wealth inequality, alienation of people from government, and “forever war.”

The Federal Reserve System, the central bank of the United States of America, owns the biggest pump. So, there is a home-team advantage.

But it's not one that benefits Main Street.

In fact, like a millstone, Bubble Finance is helping the “new world” grind America's middle class out of existence.

And we need look no further than the insatiable greed on Wall Street to understand how the Deep State has been able to rob what Donald Trump aptly called “Flyover America” blind.

What was once the seed for a generation of incredible economic growth – amid existential threats from abroad – is now nothing but a weapon used to oppress and control.

Here, even amid the late stages of the Washington Consensus, the Fed's policies are helping make the rich even richer, at the expense of the many.

The Fed's Fools Feed Wall Street's Wolves

This enterprise [the Amsterdam Stock Exchange]... is at once the fairest and most deceitful in Europe, the noblest and the most infamous in the world, the finest and the most vulgar on Earth. It is a quintessence of academic learning and a paragon of fraudulence. It is a touchstone for the intelligent and a tombstone for the audacious, a treasury of usefulness and a source of disaster, and, finally, a counterpart of Sisyphus, who never rests, as also of Ixion, who is chained to a wheel that turns perpetually.

– Joseph de la Vega, *Confusion of Confusions* (1688)

Let's make a bill of particulars.

In 1962, in the middle of the postwar boom, the bottom 90% and the top 1% each owned about 33% of American wealth.

A gap opened up in the 1980s, closed for a while in the 1990s, but then yawned – bigly – in the 2000s.

In the U.S. today, the top 1% of American households now owns more wealth than the bottom 90% combined... while 41 million Americans receive food stamps and a hundred million aren't in the labor force.

There's almost \$70 trillion of public and private debt outstanding.

Household debt is nearly 200% of wage and salary income.

Real median household net worth has declined by 30% since the late 1990s.

All as financial assets have climbed to ever increasing highs, inflating the wealth of those who rig our system, while the middle class crumbles.

How did this happen?

Wall Street is a debt-fueled casino, and its game is rigged against you.

But the hideous level of speculation rampant on Wall Street today would never have happened in a million years with an honest free market.

Stock market indexes are hanging from a skyhook only because the present megabubble was enabled by the TARP bailout of October 2008 and the Fed's \$3.5 trillion money-printing spree.

There has been absolutely no after-tax barrier to capital investment in recent years thanks to the Fed and other central banks. They've made the cost of capital – both debt (ultra-low interest rates) and equity (ultra-high price-to-earnings ratios) – cheaper than at any time in modern history.

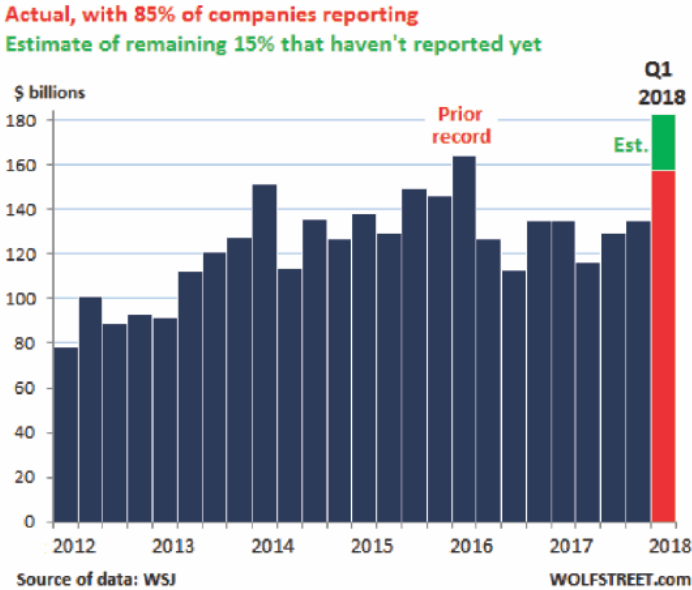
The Fed's post-crisis policy has been a pure gift to the Wall Street Wolves and to the top 1% who own most of the stock.

Because no matter what the President, the GOP, or anyone else tries to tell you... the infinite wisdom of our central planners – monetary as well as fiscal – isn't aimed at reinvestment in businesses or job-creation or anyway otherwise to the benefit of the American worker.

Instead, it's being strategically used to continue inflating this financial asset bubble to new heights.

And, now that the data is in for the first quarter of 2018, there's no room for dispute.

Share Buybacks, Quarterly, by S&P 500 Companies



Total share buybacks of \$180 billion by components of the S&P 500 set an all-time record.

And, when you throw in record mergers-and-acquisitions activity and dividend payments of another \$400 billion, the annualized rate of financial engineering for the S&P 500 alone is approaching \$2 trillion...

It goes without saying that distributions to Wall Street do not grow the economy in the near term – regardless of the theoretical merits of high returns to shareholders.

That's especially the case when such distributions are paid for with debt or represent the one-time impact of tax policy changes.

The so-called economic recovery we've experienced? It's essentially smoke and mirrors.

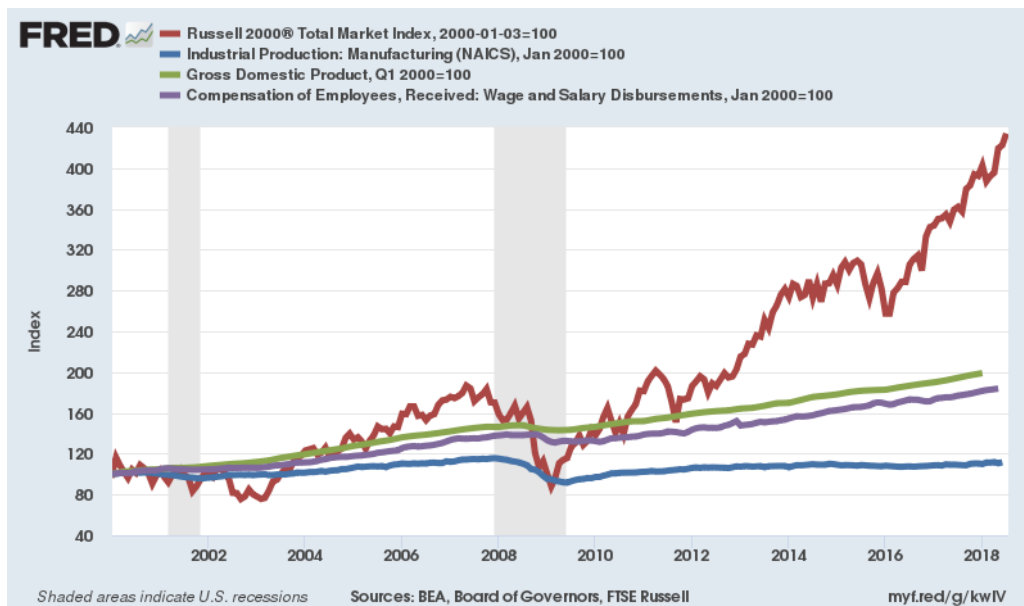
All of that money has been sucked into up into the biggest con game of all...

Excessive engineering from bankers, financiers, CEOs, and CFOs, all in an effort to pump and dump their stocks...

That's because, during Fed-driven bubble cycles, unsustainable imbalances and speculative excess build up throughout the financial system.

Accordingly, the longer the bubble cycle's duration – and this one is the second-longest expansion on record – the greater the risk of a thundering collapse originating on Wall Street.

Indeed, the Russell 2000 Index's recent leap over the 1,700 mark – which took the price-to-earnings ratio of America's small and mid-sized companies to an absurd 90 times earnings – was a clanking warning bell that the end is near.

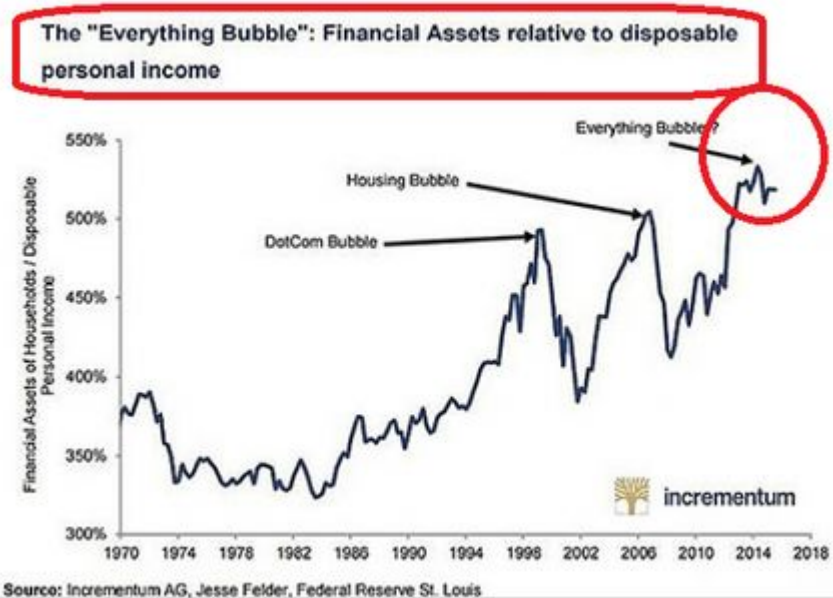


When these artificial financial bubbles eventually implode under their own weight... they send Corporate America into frenzies of “downsizing” and “restructuring,” which really means closures and layoffs.

In plain English, crashing stock-option values for CEOs and CFOs are what cause modern recessions.

Needless to say, the bigger the bubble, the greater the ensuing shock to Main Street.

And we have no doubt whatsoever that what's been called the current “Everything Bubble” is far more egregious than the prior three that brought the blue spaces in the chart to an abrupt end.



And, thanks to the Fed's policy of Bubble Finance, the decades of rot were never purged during the last financial crisis.

Wall Street is well and truly a ward of Imperial Washington – ultimately dependent upon central planners' timely interventions and subventions for stability and survival.

The End of Wall Street?

OCTOBER: This is one of the peculiarly dangerous months to speculate in stocks in. The others are July, January, September, April, November, May, March, June, December, August, and February.

– Mark Twain, *Pudd'nhead Wilson* (1894)

A crash is coming. It's only a matter of when.

But here's the thing...

The real issue is not the exact month when the next recession officially begins...

It's how long gross domestic product (GDP) and stock market averages dwell after the coming cliff-dive... It won't be a "V"-pointed, short-and-sharp bottom, like 2009-10. Nope...

We're about to take the biggest "L" in history.

What's coming down the fiscal pike every month until then are bone-jarring battles over \$1.5 trillion-plus annual deficits, soaring interest expenses for consumers, businesses, and governments, debt-ceiling extensions/increases, and continuing resolution battles the likes of which Washington D.C. hasn't seen in modern times, if ever.

More importantly, when it does happen, there won't be some kind of TARP 2.0 or Obama Stimulus redux.

Nor is the cavalry coming from the Eccles Building.

To the contrary, the Fed has now started to shift away from its Bubble Finance money-printing operation and is reversing course.

Our monetary central planners are already implementing another great experiment – this one based on draining the bond pits of \$600 billion of cash at an annualized rate beginning in October.

“Quantitative tightening” – the equal and opposite reaction to “quantitative easing” – should terrify the wolves on Wall Street.

After all, the Fed will be draining cash at an annual rate which is greater than the entire footings of its balance sheet in April 2002 – a position that had taken fully 88 years to accumulate.

As the Fed giveth to Wall Street, so it taketh away.

And when it does... there will be blood.

The ugly truth of this entire era will finally emerge.

Wall Street's been running on hot air since the turn of the century. But Imperial Washington's tearing itself apart. It could destroy the Acela Corridor.

And, to that I say, “Good riddance.”

Part 3: Imperial Washington & Money in Politics

Crony capitalism.

It's what happens when politicians use government power to give massive tax cuts to the mega-donors, big business, and special interest groups...

Who then use that money to help those same politicians get re-elected so they can continue to pass laws which benefit the elite.

Those empty suits in Congress don't represent you, the concerned citizen.

They represent the highest bidder.

And that money comes out of the pocket of the American taxpayer.

We pay for it at the grocery store thanks to government subsidies for farmers.

We pay for it at the drug store because Big Pharma has no real competition.

We pay for it, quite literally, when we bail out Big Banks while they speculate with our retirement funds.

We pay for it with the loss of jobs because of trade deals, bought and paid for, by multinational companies.

We pay it through our taxes, which are at a higher rate than the billionaires funding the Super PACs.

And we pay in the loss of political equality... the idea of one person, one vote... when the people we elect do the bidding of donors instead of voters.

It's a perversion of capitalism and democracy.

And since my time in Congress and in the White House, it's only gotten worse.

Money dominates politics.

And, as a result, we have neither "capitalism" nor "democracy."

We have the worst of everything.

We don't have a free market... there isn't risk taking in the sense that if you succeed you keep your rewards, and if you fail you accept the consequences.

Look at the bailout in 2008.

During a few weeks in September and October 2008, American political democracy was fatally corrupted by a resounding display of expediency and raw power.

Wall Street gambled with our savings and received trillions of taxpayer-funded dollars for their trouble.

And after the bailout, the door swung wide open for the entire legion of Washington's K Street lobbies – reinforced by the free money dispensed by their affiliated political action committees – to relentlessly plunder the public purse.

How Corporate America Conquered Washington D.C.

I hope we shall take warning from the example and crush in its birth the aristocracy of our monied corporations which dare already to challenge our government to a trial of strength, and to bid defiance to the laws of their country.

– Thomas Jefferson, Letter to George Logan, November 12, 1816

I started on Capitol Hill in the 1970s. And, as I can vividly recall, corporate leaders then were consistent.

They might have complained about big government, or they might've complained about the tax system.

But there wasn't an entitlement expectation that if financial turmoil or upheaval came along, that the Treasury, or the Federal Reserve, or the FDIC or someone would be there to back them up.

That would have been considered shameful!

True free-market capitalists never go to Washington with their hands out.

They expect consequences, maybe even failure of their firm.

Certainly loss of their bonuses and maybe the loss of their jobs.

But somehow, over the last 30 years, the corporate leadership of America has gotten so addicted to their stock price by the hour, by the day, by the week...

That they're willing to support anything to avoid a hit to their stock price and the value of their options.

And as a result, there is no real political doctrine or ideology left in the corporate community.

They are simply pragmatists who will take anything they can find, and run with it.

Remember the welfare queens that Ronald Reagan used to talk about?

Now, we have an entitled class of financiers and CEOs who believe the government is there to do what is ever necessary.

Quasi-socialist Europe's head central banker, Mario Draghi, even bragged that he would do "whatever it takes" to keep the scams going.

If it involves tax relief, tax incentives, tax cuts, loan guarantees, Federal Reserve market intervention and stabilization...

Whatever it takes in order to keep the game going and their stock price moving upward...

They'll pay a king's ransom to any politician willing to shovel more taxpayer money their way.

Today, the biggest companies have upwards of 100 lobbyists representing them, allowing them to be everywhere, all the time.

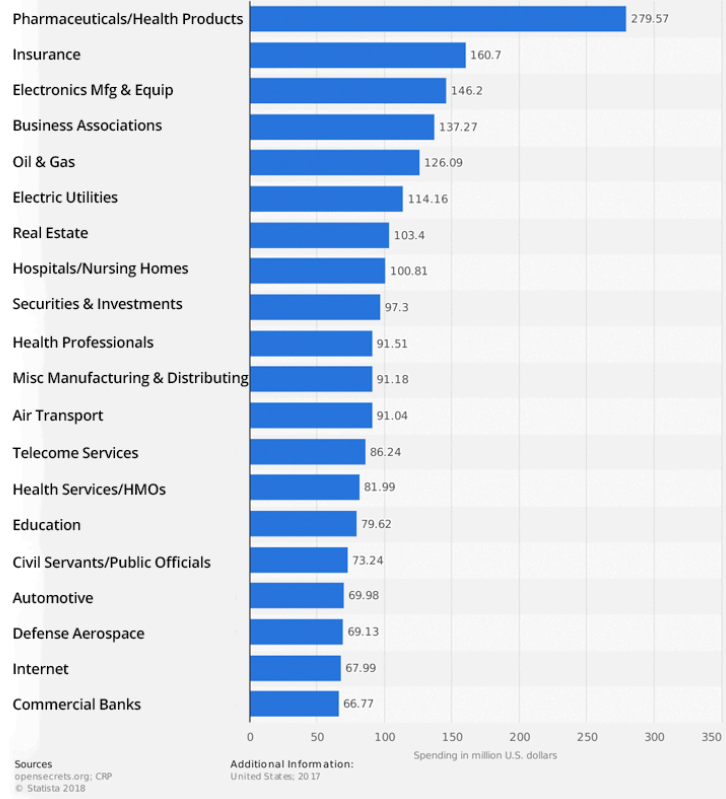
For every dollar spent on lobbying by labor unions and public-interest groups together, large corporations and their associations now spend \$34.

Of the 100 organizations that spend the most on lobbying, 95 consistently represent business.

Total Lobbying Spending



Top Lobbying Industries in the U.S. in 2017, by total spending



Congress is owned lock, stock and barrel by one after another, after another special interest.

And once they're done selling you out to the highest bidder, they'll land fat six- and seven-figure jobs working for the same lobbyists who bought them. How did this happen?

Strangely enough, the foundation for today's K -Street lobbying mafia was laid during my time serving under President Reagan, when some of his other advisors so unceremoniously declared "deficits don't matter."

The destruction of fiscal rectitude under Ronald Reagan – one reason I resigned as his budget chief in 1985 – was the greatest of his many dramatic acts.

It created a template for the Republicans' utter abandonment of the balanced-budget policies of Calvin Coolidge and allowed George W. Bush to dive into the deep end...

And it bankrupted us through two misbegotten and unfinanced wars, a giant expansion of Medicare, and a tax-cutting spree for the wealthy that turned K Street lobbyists into the de facto office of national tax policy.

In effect, the G.O.P. embraced Keynesianism – for the wealthy.

The explosion of the housing market, abetted by phony credit ratings, securitization shenanigans, and willful malpractice by mortgage lenders, originators and brokers, has been well documented.

Less known is the balance-sheet explosion among the top 10 Wall Street banks during the eight years ending in 2008.

Though their tiny sliver of equity capital hardly grew, their dependence on unstable “hot money” – capital that is frequently transferred between financial institutions in an attempt to maximize interest or capital gain – soared as the regulatory harness the Glass-Steagall Act had wisely imposed during the Depression was totally dismantled.

Within weeks of the Lehman Brothers bankruptcy in September 2008, Washington, with Wall Street’s gun to its head, propped up the remnants of this financial mess in a panic-stricken melee of bailouts and money-printing.

It’s the single most shameful chapter in American financial history.

There was never a remote threat of a Great Depression 2.0 or of a financial nuclear winter... contrary to the dire warnings of Ben Bernanke, the Fed chairman since 2006.

The Great Fear – manifested by the stock market plunge when the House voted down the TARP bailout before caving and passing it – was purely another Wall Street concoction.

Had President Bush and his Goldman Sachs adviser (a.k.a. Treasury Secretary) Henry Paulson Jr. stood firm... the crisis would have burned out on its own and meted out to speculators the losses they so richly deserved.

The Main Street banking system was never in serious jeopardy. ATMs were not going dark and the money market industry was not imploding.

Instead, the White House, Congress, and the Fed – under Mr. Bush and then President Obama – made a series of desperate, reckless maneuvers that were not only unnecessary but ruinous.

The auto bailouts, for example, simply shifted jobs around – particularly to the aging, electorally vital Rust Belt – rather than saving them.

The “green energy” component of Mr. Obama’s stimulus was a nearly \$1 billion giveaway to crony capitalists – like the venture capitalist John Doerr and the self-proclaimed outer-space visionary Elon Musk – to make new toys for the affluent.

Less than five percent of the \$800 billion Obama stimulus went to the truly needy for food stamps, earned-income tax credits, and other forms of poverty relief. The preponderant share ended up in money dumps to state and local governments, pork-barrel infrastructure projects, business tax loopholes, and indiscriminate middle-class tax cuts.

The Democratic Keynesians, as intellectually bankrupt as their Republican counterparts (though less hypocritical), had no solution beyond handing out borrowed money to consumers, hoping they would buy a lawn mower, a flat-screen TV or, at least, dinner at Red Lobster.

The Undrainable Swamp

The mystery of government is not how Washington works but how to make it stop.

– P.J. O’Rourke, *Parliament of Whores: A Lone Humorist Attempts to Explain the Entire U.S. Government* (1991)

These policies have brought America to an end-stage metastasis.

The way out would be so radical it can’t happen.

It would necessitate a sweeping divorce of the state and the market economy.

It would require a renunciation of crony capitalism and its first cousin: Keynesian economics in all its forms.

The state would need to get out of the business of imperial hubris, economic uplift and social insurance, and shift its focus to managing and financing an effective, affordable, means-tested safety net.

All this would require drastic deflation of the realm of politics and the abolition of incumbency itself, because the machinery of the state and the machinery of re-election have become completely intertwined.

Prying them apart would entail sweeping constitutional surgery:

- **Amendments to give the President and members of Congress a single six-year term, with no re-election**
- **Providing 100% public financing for candidates**
- **Strictly limiting the duration of campaigns (say, to eight weeks)**
- **And prohibiting, for life, lobbying by anyone who has been on a legislative or executive payroll**

It would also require overturning Citizens United vs. FEC – thus limiting the influence of money in politics – and mandating that Congress pass a balanced budget or face an automatic sequester of spending.

And this is the swamp...

Thick, black, impenetrable, and completely undrainable...

So, how do we turn that around? Unfortunately, I think it's going to take a real crisis before maybe the decks can be cleared.

And that's exactly what's in our very near future.

Part 4: The Warfare State

On Jan. 17, 1961, President Dwight Eisenhower offered the nation a dire warning about what he described as a threat to democratic government.

He called it the “military-industrial complex,” a formidable union of defense contractors and the armed forces...

A never-ending state of warfare designed to prop up private industry, influence the electorate, and grab ever-increasing amounts of power.

But the Deep State’s seed for eternal warfare was planted decades prior to Ike’s warning, after the First World War...

In 1917, President Woodrow Wilson opened the Pandora’s Box of federal debt monetization by permitting the Fed to own government debt.

That was a step strictly forbidden by the stringent 1913 enabling statute, drafted by the legendary maestro of sound money, Congressman Carter Glass.

And with this perversion of sound money principles, Wilson “drafted” the printing press of the newly minted Federal Reserve for war finance duty.

The Cost of Waging Never-Ending War for Everlasting Peace

In the councils of government, we must guard against the acquisition of unwarranted influence, whether sought or unsought, by the military-industrial complex. The potential for the disastrous rise of misplaced power exists, and will persist.

**– President Dwight D. Eisenhower, “Farewell Address to the Nation,”
January 17, 1961.**

In 1914, the public debt was only \$1 billion... about \$11 per American and less than 2% of gross domestic product.

That was the level we had maintained since the Battle of Gettysburg in 1863.

But by the end of 1919, the public debt had mushroomed to \$27 billion... a 27 times increase in just five short years.

Not only did Wilson's globalism prepare the world for Nazism and Communism, but he also gave America an interventionist central bank...

And, with it, the template for Imperial Finance.

The trauma of the 1930s was not the result of the inherent flaws or cyclical instabilities of free-market capitalism.

It was the financial legacy of the carnage of the Great War.

It also reflected failed efforts during the 1920s attempts to restore the liberal order.

Up until then, that meant sound money, open trade, and unimpeded capital flows.

This trauma was thoroughly misunderstood. It, therefore, gave rise to the curse of Keynesian economics.

That took the form of war mobilization and rearmament in Nazi Germany...

...labor welfare-ism in England and France...

...New Deal public works boondoggles in the U.S....

And, everywhere, it unleashed politicians to meddle in all aspects of economic life.

But none of the destructive work of the American Empire is possible without Wilson's original perversion of Carter Glass's "banker's bank."

That made it possible to finance the Warfare State on the cheap.

And it helped Imperial Washington buy off the natural anti-war constituency of middle-class taxpayers.

"Forever war" has been pretty healthy for the Deep State... and for many of us, too.

But, at length and after all these decades, we're on the verge of crisis.

Agents of the Deep State: Democrats and the Liberal Media

The whole aim of practical politics is to keep the populace alarmed (and hence clamorous to be led to safety) by menacing it with an endless series of hobgoblins, all of them imaginary.

– H.L. Mencken, *Notes on Democracy* (1926)

Here – everywhere, it seems – Imperial Washington is the guarantor of security.

The American Empire's sphere of influence is Earth.

It continuously passes judgment on foreign leaders and regimes... which imposes a unique terror on peoples and lands the Warfare State surveils, occupies, and obliterates.

And it mainly produces blowback.

There's not a whole lot more life, liberty, and happiness for Americans in places like Brea, California... Lincoln, Nebraska... and Springfield, Massachusetts...

But Imperial Washington is as good as any regime in the nation-state era at convincing its people there's always a bad moon on the rise.

“Preemptive” war and occupation is now the top business of the Department of Defense.

Fear and obedience are the instruments of power.

It's the military-industrial-congressional complex.

It's the bureaucratic-social justice-entitlement complex.

But if you want to know why America is going to hell in a handbasket...

It's because the last vestige of opposition to the Warfare State, and the fiscal muggings of the military-industrial-intelligence complex, has utterly evaporated.

I am referring, of course, to the delirious Russophobia that has overtaken the Dems and the liberal media since they had the daylight shocked out of them by the 2016 election.

A state of mental derangement that has turned into downright hysteria since the Helsinki Summit.

It had already been the case that anti-Russian policy actions (e.g. sanctions) pass through the Congress with bipartisan greased lightning...

And defense appropriations have exploded to the highest level in post-war history in real terms.

In 1990... the final year before the Soviet Union with its 55,000 tanks and 9,000 nuclear warheads slithered off the pages of history... the defense budget was \$550 billion (adjusted for inflation)...

The budget for fiscal year 2019, in a world where the United States has no real major threat to national security?

\$716 billion.

So, we're already spending 30% more than we did at the peak of the Cold War, but you haven't seen anything yet.

Not now that Rachel Maddow and Anderson Cooper have become rabid war hawks, virtually begging for military confrontation with Russia and its pipsqueak economy and pint-sized military.

But here's the truth the Dems and the liberal media will never admit about the threat Russia poses to America and its allies...

The GDP of the NATO-29 is \$36 trillion... 26 times that of Russia.

Likewise, when you add the NATO-28's (i.e., excluding the United States) military spending of \$280 billion to Imperial Washington's humongous defense budget...

The total is a \$1 trillion per year... 16 times Russia's entire military expenditure of \$61 billion per annum!

This is not at all like the days of the real cold war in the 1960s and 1970s when America actually did face a deadly dangerous enemy...

And when it was also evident to most rational people that rash provocations could be fatal... and that the Cold War was something to be vigilantly endured, not won.

But the sobriety of purpose and military spending restraint we saw under presidents from Dwight Eisenhower to Jimmy Carter vanished after the Cold War's end.

And as this phony Cold War 2.0 has reached a fever pitch, the military-industrial-surveillance complex surely thinks it has died and gone to heaven.

After all, Washington is now spending 80% more against essentially a non-existent threat than it did during the pre-1980 era of Cold War 1.0 when the Soviet nuclear threat was palpable.

Indeed, in their mindless and unhinged anger at losing the 2016 election to Donald Trump, the Dem/liberal media wing of the War Party has so demonized Putin, and so grotesquely exaggerated the Russian threat, they literally can't see straight or assess actual facts with even a modicum of rationality and proportion.

That's more than evident in their hysterical response to Trump's unwillingness to attack Russia for its purported election meddling...

And in their utter incapacity to see that Mueller's grandstanding indictment of the 12 Russian spear-phishermen is not Pearl Harbor at all...

But much more like the false flag hurled up from the Gulf of Tonkin by L.B.J.

In ordinary circumstances it might be the case that the present Russophobe hysteria gripping the Imperial City would eventually burn itself out.

But that wouldn't serve the interests of the Warfare State one bit.

Dismantling the Warfare State

This is, I repeat, the best way of life to be found on the road the world has been taking. This is not a way of life at all in any true sense. Under the cloud of threatening war, it is humanity hanging from a cross of iron."

– President Dwight D. Eisenhower, Speech to the American Society of Newspaper Editors, April 16, 1953

I've been skeptical my entire adult life about our interventionist, aggressive foreign policy.

It's been one mistake after another.

Vietnam was just the first step in a multitude and in a long-running history of interventions in places where the true security of the American people was not at issue.

And for my entire career, I've been trying to explain to both conservatives and libertarians that the Warfare State is every bit as statist as the Welfare State.

When you put it all together... foreign assistance, security aid, veterans affairs, the Pentagon budget, the spy state apparatus, the intelligence agencies...

It consumes a massive amount of resources (\$1 trillion by my estimates), employs hundreds of thousands of civilian employees, and benefits millions in the private sector...

And they're all looking for a mission to keep the party going (and the money rolling in).

Overcoming the self-interested inertial forces of the Deep State and its vast syndicate of contractors, weapons suppliers, military pork barrels, and think tank supplicants is a monumental challenge...

And, unfortunately, I think we're losing this battle.

I don't want to be a pessimist, but when you look around and you see the Republican Party has so completely capitulated to the neocons and the Warfare State apparatus...

It's no wonder they're not credible when they say we need to shrink the welfare state.

And, frankly, that's something that I faced day after day in the battle for the budget during the Reagan administration.

We couldn't persuade even the middle-of-the-road Republicans in the House to do what was necessary to begin to shrink the domestic budget.

They just kept whining about the massive Reagan defense build-up... which, I'll openly admit, was a huge mistake.

It was unnecessary and left us with this huge, conventional war machine that has been used to invade all the areas of the world – Iraq, Afghanistan, Somalia, and everywhere else that we shouldn't have been involved in.

That's why there's no easy answer for bringing the government to heel and getting back to some kind of productive and prosperous capitalist system here in America.

And the Donald's pathway to "America First" is further obstructed by the fact that the Dems are way off-sides for purely partisan reasons.

Because here is the truth the leftist media empire refuses to admit...

Neither Russia nor China even remotely possesses either the intent or the means to threaten the America.

In this day and age there is absolutely no conventional military threat to the safety and liberty of citizens in places like Omaha, Nebraska, Spokane, Washington, or Springfield, Massachusetts.

That's because there is no nation on earth that could mount a giant naval and air armada sufficient to invade the American homeland.

Or, if it were foolish enough to try, could it survive the guided missile blitz that would send its forces to Davy Jones' locker long before they crossed the blue waters which surround the North American continent.

Stated differently, nuclear deterrence, the great ocean moats, and a territorial military defense is all that it would take to keep America secure in today's world.

There is no need for Pax Americana, even if it could succeed, which manifestly it has not; and even if it could be afforded, which clearly it can't be.

Likewise, a potential US withdrawal from Syria and Trump attempts to negotiate with Russia to de-escalate tensions in the Middle East would remind America that "regime change" has been an utter failure.

Yet without an imperial foreign policy that is implicitly designed to either bully or remove uncooperative lesser governments anywhere on the planet... whether or not they have the intent or capacity to harm the U.S. homeland...

There would be no case at all for 11 carrier battle groups, massive air and sealift capacity, and Washington's far flung string of bases and occupations spread among more than 100 countries around the planet.

To that end, we must tease out the full possibilities of an America First foreign policy now that the Donald has somehow succeeded in saddling his ample belly right up close to the bar.

“The Great Disruptor” & “America First”

Cry havoc and let slip the dogs of war!

– William Shakespeare, *The Tragedy of Julius Caesar* (~1599)

As crude and bombastic as Trump’s articulation of the America First proposition sometimes sounds, it does amount to a frontal attack on the intellectual superstructure which...

- **Keeps the Fifth Fleet in the Persian Gulf**
- **35,000 troops in Germany**
- **29,000 of America’s military personal in harm’s way on the Korean peninsula**
- **11 carrier battle groups on the oceans**
- **A continued expeditionary force of 100,000 troops**
- **Dependents and support personnel in Japan and military operations and economic and military aid in more than 100 other nations around the planet**

Say what you will about the Donald. But he at least proved that the people will hear and vote for an anti-empire message.

The great virtue of the Donald’s campaign was his clear intent to re-assess America’s role on the world stage.

No longer would Cold War “logic” prevail in Imperial Washington.

He would revamp NATO and other relics of a conflict that ended more than 25 years ago.

He’s accurately observed that demonizing countries and leaders accomplishes nothing.

“Make America Great Again” meant – as much as anything – discarding “regime change” as the core tenet of our foreign policy.

These eminently sensible notions struck the Deep State to the quick. His rapid-fire actions toward these objectives have shocked the Acela Corridor.

Finally, an American president has woken up to the fact that World War II, not to mention the Cold War, is over: There's no need for U.S. troops to occupy Germany.

Vladimir Putin isn't going to march into Berlin in a reenactment of the Red Army taking The Führerbunker – but even if he were so inclined, why won't Germany defend itself?

So, here's the essence of the Donald's most recent triumph.

He ignored Imperial Washington's poobahs of perpetual failure and its flamethrowers for forever war.

More importantly, America is tired of war.

It's grown sick from the debilitating costs of empire.

And the Donald wants the mantle of peacemaker – if only to prove his rabid mainstream critics wrong.

Most importantly, it will happen because Imperial Washington's entire narrative is a tissue of lies and misdirection.

That's true with regard to Korea. And it applies to the rest of the world as well.

Our presence on the 38th parallel is not a necessity of homeland security.

It's the handiwork of the Warfare State.

And the Warfare State gets its power, purpose, and profit from its stewardship of the American Empire.

Imperial Washington – like Rome – is forever in need of new imperiled frontiers and imperiling forces.

Thus big-speech phrases such as “axis of evil” become real-world rallying cries... That's how it justifies its heavy draft of military and economic resources.

Trump is impetuous. He's an egomaniac. And he's also uninformed.

But he can see the pointlessness of the American Empire's misadventures.

For that alone, the Donald's election will prove more than worth its price.

He is, in the eyes of Imperial Washington, yet another “bad moon.”

Surely, though, the Donald won't be the last American emperor.

Just as surely, though, his reign could trigger the Warfare State's decay.

To do that, the Donald must overcome the self-serving forces of the Deep State.

And that vast syndicate of bureaucrats, "wise men," weapons dealers, lobbyists, lawyers, and leeches, creates a lot of inertia.

His path is further obstructed by Democrats, who are now handmaidens of the Warfare State. That includes most of the so-called liberals and progressives.

Their grief and anger over the 2016 election has left them incapable of rational thought — about Russia and/or everything else.

But the Donald is a showman. He commands attention.

It's what makes him uniquely able to disrupt those who will stop at nothing to keep the Cold War revival cranking.

They're the same people who keep the Warfare State mission creeping and the Welfare State payoff growing.

Part 5: The Welfare State

Here's the problem with socialism:

It doesn't work.

But that doesn't mean people want to give up on it... especially not if it benefits them personally.

And especially not when we have politicians who rely on plundering the pockets of others in order to give to special interest groups and buy the support of their political base.

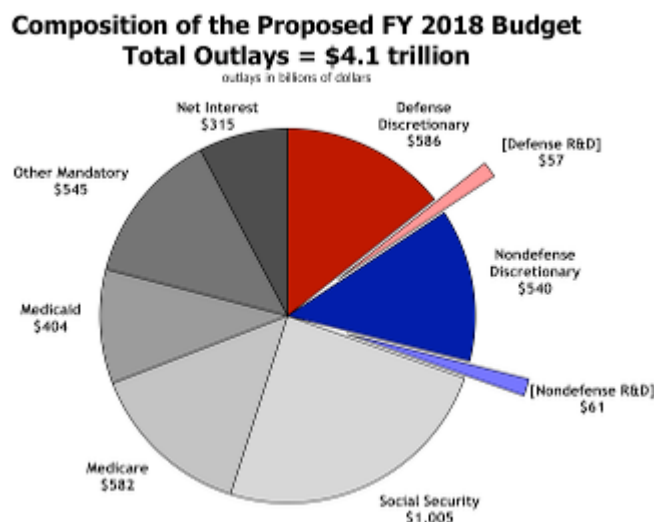
Which is why it's damn near impossible to make any sort of meaningful spending cuts to fix the dumpster fire that is our bloated domestic spending agenda.

I couldn't get it done when I served as the budget director under Ronald Reagan...

And, despite the Donald's efforts to lay waste to every regulatory body in Imperial Washington, the recent omnibus bill – the fiscal appropriations package for fiscal 2018 – shows the Deep State is still alive and well fed.

The budget is as appealing as it is massive.

Take a look at this chart to see what I mean...



Source: Budget of the United States Government FY 2018. Projected deficit is \$990 billion. © AAS 2017

If you're unfamiliar with the U.S. government's budget, it's divided into three categories.

Net interest is what we pay to service our enormous \$21 trillion (and growing) debt.

Discretionary Spending includes items that can be set through an appropriations bill and is considered "optional." Military spending is going to go into this category, along with everything else.

Mandatory Spending (or "entitlements") is already baked into the budgetary cake. The spending for these programs, as the description suggests, is mandated by law and determined by the eligible number of recipients.

These are programs like Social Security, Medicare, and Medicaid. Congress would have to pass legislation to alter the expenditures for these programs.

And, while you might feel personally entitled to benefit from any of these things, therein lies the rub.

In fiscal 2019, the federal budget will be \$4.407 trillion...

The U.S. government estimates it will receive \$3.422 trillion in revenue, creating a \$985 billion deficit for October 1, 2018 through September 30, 2019...

Of that \$4.407 trillion budget, \$2.739 trillion (or roughly 62%) of it goes to Mandatory Spending!

Regardless of your personal political viewpoints, there's simply no denying the fiscal math.

None of this is sustainable.

But Who Will Tell the President?

There are two methods, or means, and only two, whereby man's needs and desires can be satisfied. One is the production and exchange of wealth; this is the economic means. The other is the uncompensated appropriation of wealth produced by others; this is the political means... The State, then, whether primitive, feudal, or merchant, is the organization of the political means.

– Albert Jay Nock, *Our Enemy, the State* (1935)

Well, 37 years ago, the person to “tell the President” was me.

I had the nerve to tell Ronald Reagan he was about to preside over a fiscal calamity.

I was a great deal younger. And I was, perhaps, more foolhardy.

So I told President Reagan a big mid-course correction in fiscal policy was imperative.

For all his faults, the Gipper had common sense to spare. And he could recognize the impossible fiscal math we faced.

It evolved after the tax-cut bidding war in the summer of 1981, his massive defense increases, tepid domestic cuts, and an impending deep recession.

He also had spent a career reminding voters that, contrary to Keynes, no nation can borrow its way to prosperity.

So after the deficit broke toward 10% of GDP in the fall of 1981, he reluctantly signed three consecutive tax increase bills in 1982, 1983, and 1984.

Those tax increases saved the day. In sum, they recouped 40% of the revenue lost in the treasured tax cut of 1981.

So, we closed the deficit sufficiently for the monetization policies of Alan Greenspan and his successors at the Federal Reserve to do the rest – at least for a few decades.

Almost four decades later, we face some fiscal math that – if you can believe it – is even more impossible.

Let’s take a look at our rapidly worsening fiscal equation.

Yes: It’s tied to interests of Deep State subsidiaries – the Warfare State and the Welfare State.

To get the \$80 billion in new defense spending his War Cabinet ginned up to capture his imagination, the Donald also signed off on \$63 billion of new domestic pork.

It’s not entirely unlike the situation in 1981.

Except now the Fed is out of dry powder.

And the current incumbent in the Oval Office is no Ronald Reagan.

Also, the Deep State runs the country, gaining power without firing a shot.

Here's the thing...

All the growth since 2009 has been purchased on credit!

It's another dose of borrowed prosperity.

It's actually the biggest dose... maybe a kill shot.

We'll soon find out, because payback time is on the horizon.

In April of 2018, the Congressional Budget Office (CBO) published a blockbuster report that saw little to no light at the end of an endless fiscal tunnel

Sure, it is absolutely "The Donald Show," all day, every day. But this is not the kind of subplot that attracts eyeballs and advertising dollars.

Indeed, it's the kind of story none of the Deep State's subsidiaries – the Warfare State and the Welfare State as well as what is essentially our State Media – want to be told.

It's right there on p. 87 of the official report: a public debt that reaches \$33.85 trillion – or 130% of gross domestic product (GDP) – by 2028.

That's actually the "good" part of the report.

And it's a bit of fantasy.

To believe that the public debt is only heading for 130% of GDP during the next 10 years, you have to believe in "rosy scenario" economics.

And you have to be OK with crooked bookkeeping forced on the CBO by our estimable legislators.

Sober and honest scrutiny reveals a public debt number 10 years out that's closer to \$40 trillion and 150% of GDP.

And there's no conceivable way we dig out from under it.

No "big wave" surfer alive will be able to ride the tsunami of Baby Boom retirements and the associated Welfare State fiscal costs on our horizon.

It's huge. And it hasn't crested.

Combined Social Security and Medicare costs will rise from \$1.8 trillion in fiscal 2019 to \$3.3 trillion by fiscal 2028.

That's because the rolls will grow by 33%, from 60 million beneficiaries to 80 million.

And there are cost-of-living adjustments and medical-care inflation as well.

Whatever "solvency" the Welfare State trust funds had will be quickly wiped out by this epic swell.

In fact, the trust funds' cash deficit in the coming year will total \$108 billion. It will rise to \$504 billion by 2028.

It'll head into the trillions shortly thereafter. And that's "per year"...

Those vaunted trust funds are going bust. When they do we'll have a monumental Welfare State crisis.

From 2019 through 2028, the Welfare State will collect nearly \$2.8 trillion less than the benefit costs the retired population will be entitled to under law.

At length, fiscal policy will become hostage to a moveable firestorm of political and generational conflict. The budget and debt ceiling battles of recent years will be a walk in the park by comparison.

Baby Boom demographics are not going to change. That energy was unleashed a long, long time ago. The only rational course for fiscal policy in 2018 was to get prepared for the wave.

That is, to begin to phase in now the benefit retrenchments and/or revenue-raising measures that will be needed to stem the fiscal hemorrhage just around the corner.

That's not what happened.

It took only 90 days of fiscal madness between December and February. And the Warfare State and the Welfare State piled \$459 billion onto next year's deficit.

That eruption included \$285 billion for the tax bill and \$174 billion of spending add-ons for defense, domestic programs, and additional debt service.

It turns an awful situation into an outright disaster.

Who's Your Daddy?

In general, the art of government consists in taking as much money as possible from one party of the citizens to give to the other.

- Voltaire, *Money* (1770)

People have become used to the idea that the State is their Sugar Daddy.

Many apparently believe that it has some undisclosed, infinite stash of resources at its disposal which it can shower them with at will.

The reality is, unfortunately, different.

In short, the only thing that can lastingly improve the living standards of workers is an increase in the capital invested per worker.

If one introduces a law that introduces minimum wages above the level that can be supported by the market, one simply ends up creating institutional unemployment – less skilled workers will become unemployable because employing them will produce losses.

All interventions that end up restricting production will slow the accumulation of capital and make the situation more difficult.

However, to a great many people this is apparently not clear.

For decades, politicians have made promises and increased the unfunded liabilities associated with these promises.

These promises are based on continued growth of real wealth that can be confiscated and redistributed.

In Western welfare states, people now insist that these promises be fulfilled – whether it is possible to do so or not.

Since the growth of real wealth has slowed dramatically as a result of decades of intervention, politicians have resorted to borrowing more money to keep the show on the road.

Central banks are supporting this growth in public debt by printing ever more money – but it should be obvious that neither the one nor the other can possibly solve the problem.

It will only hamper real wealth generation even more.

An enduring myth is also that it could all be fixed if only the wealth of the rich were confiscated and redistributed... but that is just a communist fantasy that has never played out well in reality.

But the electorate in many countries rightly feels betrayed by the political elite. Unfortunately, instead of demanding more economic freedom, it has reacted by looking for a “better sugar daddy”.

Maybe I’m just too pessimistic, but I see no evidence that the populist swell against the establishment elites is likely to bring more economic freedom or more sensible economic policies.

The much-heralded “third way” (the mixture between socialism and a market economy that was supposedly going to lead to Utopia) is spiraling toward insolvency, we are more likely see increasingly violent confrontations and more and more repression in response.

So how do we fix this problem?

The Only Way Out Is “Out”

So, how would I fix this mess if I were king for a day?

By getting out...

Of all of it.

Just like I think we need to stop funding the Deep State’s imperial agenda overseas... we need to stop funding it entirely here at home.

The federal government should not be in control of welfare programs.

This problem cannot be solved in Washington... because Imperial Washington is filled with lobbies of every kind and they always win.

Which is why I believe the only way we are going to avoid national bankruptcy, is to bring the states back into a competitive ballgame.

I say put \$600 billion worth of welfare or means-tested programs, Medicaid, food stamps, cash assistance, SSI and so forth in one big block grant, send it back to the states...

Who, by the nature of their constitutions, are required to balance their budgets...

And, we cut them by 5% a year for the next 20 years.

Next, we must get rid of crony capitalism, which means we get the government out of tax subsidies. We need to get back to a free market system and we maintain that discipline.

And if we want to help people do it through the safety net, we need to have actually a more generous, a more stable and a more adequate safety net for people who cannot pass the means test...

Whether they're old, whether they're poor, or whether they have a job and need to supplement what they're earning under minimum wage.

Which means yes, I'm saying we should get rid of entitlement programs entirely for people who can afford to go without.

I and anyone who has enough assets, or a pension, or other income to have a decent standard of living, should not be eligible for Social Security or Medicare.

I realize this is a radical position...

But we're going to get to that point anyway when we get into the 2020s and 2030s and we have this massive retirement generation.

We have millions of people who are being driven out of the labor force today. They're on food stamps. They're on disability. They'll never get back in.

The burden of supporting a welfare state is going to be so massive that only those who pass the means test can get it.

And while we are at it, the Cabinet-level outposts of Crony Capitalism should go...

I would get rid of half of these federal agencies we have...

Energy Department, Small Business Administration, Labor Department, Commerce Department...

They're all a big waste of money as far as I'm concerned.

We have to focus the limited resources we have on the safety net. That's what needs to be done.

But it'll be a cold day in hell before that happens...

Empire Is Over... If You Want It

Someday this war's gonna end...

- Lt. Col. William "Bill" Kilgore, "Apocalypse Now" (1979)

As went Rome, so goes America.

Empire is bankrupting us, too.

And that's why the final component of restoring fiscal solvency requires a thorough-going embrace of an America First national security policy and the dismantlement of the Warfare State that is predicated on Empire.

What we need instead is a Homeland Defense policy that would cost about \$250 billion per year – or one-half trillion dollars less than the mammoth global war machine that exists today.

A Homeland Defense policy would require only a modest conventional capacity to defend the shorelines and airspace against any possible rogue assault and a reliable nuclear deterrent against any state foolish enough to attempt nuclear blackmail.

The fact is, our nuclear deterrence shield was already bought and paid for during the cold war.

The existing triad of minutemen ICBMs, Trident SLBMs (submarines launched nuclear missiles) and long-range stealth bombers cost only a few ten billion annually for operations and maintenance and were more than adequate for the task of nuclear deterrence.

Likewise, conventional defense of the U.S. shoreline and airspace against rogues would not require a fraction of today's 1.3 million active uniformed force – to say

nothing of the 800,000 additional reserves and National Guard forces and the 765,000 DoD civilians on top of that.

Rather than funding 2.9 million personnel, the whole job of national security under a homeland-based America First concept could be done with less than 500,000 military and civilian payrollers.

Altogether, the conventional forces and nuclear deterrent needed to keep the Homeland safe and secure would not only cost just one-third of today's swamp of waste at the Pentagon...

But would also be a signal to the world that it no longer need fear the bombs, drones, invasions and occupations that are the inherent fruits of Empire.

In that environment, the chance for returning to the pre-1914 world of peace among the nations and thriving trade and prosperity for all would be giving a new lease on life.

After all, that chance was blown when the old Soviet Union slithered off the pages of history in 1991 and Washington opted for global empire and hegemony.

We now know Washington's choice led to an unmitigated foreign policy failure, and also that there is no way to pay for this kind of rampant interventionism when both the American economy and the Federal government are buried in unpayable debts.

In short, the only way out of the nation's monumental fiscal mess is to pivot sharply away from the Welfare State and the Warfare State.

Seventy-eight million Baby Boomers drive American politics. And they plainly will not vote to trim the \$3 trillion per year Welfare State.

The Donald's GOP sealed that deal when it refused to reform Social Security and Medicare and when it failed to land any real blows against Obamacare and Medicaid.

And the generation that marched on the Pentagon in 1968 against the insanity and barbarism of LBJ's Vietnam War long ago abandoned the cause of peace.

So doing, it acquiesced in the final ascendancy of the Warfare State that actually costs nearly one trillion bucks per year when you count security assistance and foreign aid, the \$200 billion cost of taking care of our Veterans, and interest costs on the war debt...

But Boomers keep voting for the GOP's anti-tax allergy.

We refuse to pay up to close Imperial Washington's yawning deficits.

We don't play by the rules, because we think we don't have to.

Freedom was our founding birthright.

Our purpose now is simple: the American Empire.

A hundred years ago, to imagine a return to the world that existed before "the guns of August."

It was also possible, 30 years ago, to imagine a better world than the one that fell with the Berlin Wall.

It's a shared illusion of relative peace and prosperous global capitalism.

The old idea of "American Exceptionalism" was also liberated with the end of Cold War realism.

And our self-perception as the "Indispensable Nation" was only made more obvious when the Iron Curtain crumbled.

From there, our purpose burst into a quest for global hegemony.

In short order – under Bush the Elder and the Clintons – Washington morphed into the Imperial City.

It's now a beehive of militarism, with think-tanks, consultants, lobbyists, and racketeers buzzing for bombs and billions...

Imperial Washington's unimaginable prosperity flows from that beehive.

The American Exceptionalism/Indispensable Nation meme is the glue the Deep State's political hacks use to bind the Warfare State to the Welfare State.

American Empire is a terrible thing.

It is indeed the health of the state.

But it is also the enemy of prosperity and liberty.



DEEP STATE
DECLASSIFIED
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