

Breaking Through the Fog of Optimism

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"Brace for 'Recession Shock' as Outflows Rock Equities" headlines Bloomberg with a quote from Bank of America. The break came in the final hours of trading today when the desperate hope that Powell will stop raising interest rates in his fight against inflation failed to appear. It was cheap borrowing rates and massive stock buybacks that created the illusory dream of cheap homemade prosperity.

For an economy to survive and prosper in the long term it must have the tools within its internal structure to recover from financial crises. Capitalism has experienced many bumps on the road to prosperity but had been able clear out the chaff with short crises that relegated the losers to the lower classes. But that is no longer the case mainly because it has no real opposition that can force the system to maintain a liveable society for all, or die. But, of course, without any real opposition it will never die.

Because it is an open ended anarchic world system that follows an haphazard course until it fails it has always depended on the strife that followed to create a reorientation of restructuring built upon the ruins of the old. But the advent of nuclear weapons made total wars suicidal lunacy. Now it's the formation of blocks that pick apart the smaller units while taking jabs at each other.

As to how we got to where we are today, the economy was in recession in the latter part of 2019. Then Covid struck along with a massive social upheaval the following year. The system was scared into offering relief. Stimulus checks, Child Tax Credit, and other types of debt relief. "Between March 2020 and May 2021 more than 70 million consumers with loans worth \$2.3 trillion entered forbearance \$86 billion of their payments. During that period 6.3 million mortgages, 11 million auto loans, 68 million student loans, 62 million revolving loans (credit cards) were in forbearance." (From a Brookings Study). More recently a student debt relief measure was passed that would cancel up to \$20,000 of student debt.

But now that government financial assistance has ended the personal saving rate has collapsed from an historic high 33.8% in April 2020 to 8.7% in December 2021, to 5.8% in January 2022, and two 5.1% in

June. A Bankrate survey in January found that 56% of Americans said they couldn't handle a \$1000 emergency. Many said they would have to use credit cards. Credit card balances increased \$46 billion in the first quarter – that 13% year over year and the largest in 20 years.

But all of the above is chicken feed when compared to what the Fed has plans to do for the financial industry. In July of last year it unilaterally decreed it will create a \$500 billion permanent bailout facility for Wall Street trading houses which can be increased as needed at the discretion of the Fed Chair. The Federal Reserve Act of 1913 was designed to make loans to Fed member banks for engaged in loans for “agricultural, industrial or commercial purposes.” Loans were forbidden “for the purpose of carrying or trading in stocks, bonds, or other investment securities....”

The wrecking of the real economy was done for, or led to, the creation of a predominantly fictitious economy. It shifted from real to balanced to fictitious mainly because only so much ‘real’ is needed while the fictitious is limitless. The only benefit in this for the rest is that it will likely eventually become a fiction – part of a story to be talked about rather than something that is part of life.

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