

Chaos and Carnage

June 17, 2022

American indices were down once again for the week with the Dow and Nasdaq in bear territory -- though strictly speaking the DJIA is *only* 19.63% off its last high. Bloomberg reports that this is the most broad based decline since the Great Depression (that's the one in the 30's). Besides virtually all stocks being down it's the same around the world. The MSCI All-Country World Index which tracks 2900 stocks in developed and emerging markets closed at 597.64 earlier in the week -- down 21% and with \$18 trillion despatched to oblivion.

Powell increased the Fed interest rate 0.75 in his fight against inflation and a recession. Both Powell and Yellen claim to see little risk of recession, but the bond and securities exchanges (where more money is invested than stocks) have been indicating 'recession' since March and yields in the longer termed is well above 3%. Furthermore, there have been rapid fluctuations in pricing very likely because of the difficulty in locating collateral.

One of the fun things about capitalism is that no one can predict even its immediate future with any significant degree of accuracy. Adam Smith's 'invisible hand' is outside of human cognition, and if there were such a hand it would probably be punching its operator in the nose rather than trying to adjust anything in the economy. It is said that Paul Volcker ended Stagflation by inducing two recessions in 1979 and 1981 by a large increase in interest rates. But he like Powell did it to take some heat out of the economy not to throw a wrench into its mechanism. Still, when he was widely praised for his brilliant achievement, he was pleased to take full credit.

The "highly respected" (by capitalists) economist Milton Friedman said this about the public figures in charge of the economy:

"The difficulty of having people understand monetary theory is very simple—the central banks are good at press relations. The central banks hire people and the central banks employ a large fraction of all economists so there is a bias to tell the case—the story—in a way that is favorable to the central banks."

Friedman and his 'Chicago Boys' had their chance to demonstrate to the world how true believers in the greatness and efficacy of capitalism can make it work for all that deserve its benefits -- namely, the *capitalists*. All one needs is a fascistic dictatorship like Chile under Pinochet with a strong, loyal, armed forces and police who would have no qualms about rubbing out recalcitrant Chileans.

There was high praise of the results by foreign capitalists: what a clean and efficient (high rate of profit) system. Of course it meant dry bread and no social benefits for the super exploited workers. But at least it was brutal exploitation without the bullshit that the poor devils had under 'democracy'. But even that 'pure' capitalism withered and became a crisis-ridden dysfunctional mess. So now Chile is back to normal capitalism with another 'socialist' president trying to do more for the people without causing another capitalist coup.

Banks Tracking 2008 Bailout

On the 23rd of this month the big NY banks will undergo a stress test. With the markets and the economy in a dive and the banks as weak as they were in 2008 when \$29 trillion was needed to keep them solvent. The five NY megabanks that incidentally own the NY Fed Bank have \$300 billion less common equity market capitalization than they had a year ago. The worst is JP Morgan Chase which has lost \$120 billion of its market cap in a year, largely because it has a ridiculously large 2.94 billion outstanding shares taking a dive along with the economy as a whole.

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