

## Confidence

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The markets' storming the heights following the Fed's minuscule \$10 billion taper cut announcement was said to show its confidence in the strength of the economy. Actually, it was the insignificance of the initial cut that made investors deliriously happy. The Fed probably would have preferred leaving everything in place, but with a tapering that should have begun in September (a year after the start of QE 3), and so much talk that it must be done in December because of an apparent GDP strengthening, they had to do something to keep illusion believable.

GDP growth for the third quarter was enhanced from 3.6 to 4.1 per cent. Since the earlier figure was reported to be mostly an inventory buildup, presumably this last one is the same. 4.1% was said to be additional evidence that the recovery is taking hold. It was the highest quarterly rate since the end of 2011. Now, QE 1 began 11/08; QE 2 began 11/10; QE 3 began 9/12. Note that the fine GDP growth in 2011 was *not* a sign of strength. In fact, things were looking so bleak the following year that the Fed didn't even wait the traditional 2 years to extend the easing.

Housing is said to be the prime indicator of the strengthening economy. New housing construction is growing at an annual rate of almost 1.1 million units. True, applications are down. True, existing home sales have fallen for three consecutive months. True, that new home sales were last reported at a 444 thousand annual rate. True, that they were at around that same figure for the first 6 months of 2013 before dropping to a 300's rate the following 3 months. They were in that 300,000 range all of 2012. Existing new homes on the market are less than 200 thousand. That would explain some of the increase in construction. But the main reason is the same as the inventory buildup. Credit and money is currently a bargain. It can't go on forever. The Fed balance sheet has now topped \$4 trillion (note that as a percentage of GDP, the Bank of England, the EU central bank, and Japanese central have an even higher figure – you see, they are all doing it!). The population continues to grow. People need to live somewhere. Building houses has little risk since we've already learned to what inventive extremes financial institutions will do to sell them. And if things take a turn for the worse, the Fed will be holding those lousy mortgages.

Everything is just fine, for them, not us. UCal-Berkeley reports that virtually all of the new wealth has gone to the top 1%. Their wealth has increased by 31% since 2008. The rest of us 99% - 0.4%. Some trickle down! That's like shaking out a few drops before you zip up. Our two top liberal economists have diverging views on what should be done. Stigler thinks the problem is that lower income folks need to be making more money because they are, by necessity, spenders. Even the rich, gluttons though they be, eventually achieve satiety. Only limitless investing offers them enjoyment. Krugman thinks that isn't the problem - they spend quite enough. Probably has to defend this dumb position because he's defended this lousy policy since day one. Meanwhile, the right wing PM of Japan is with Stigler, he wants Japanese corporations to hand out some of their \$2 trillion in

cash to their workers so they can spend it and keep his maniac version of easing from being the biggest flop in the capitalist world. Clearly investor confidence is not based on the real economy but in their ability to keep their victims from their throats.

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