

The Power of Repetition

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A person has a health crisis. He is rushed to a hospital and placed on life support. It's touch and go for a while but eventually his condition is stabilized. Gradually, as signs of recovery appear, the various medical interventions are removed and the patient is well enough to go home.

The economy suffers a crisis due to a financial collapse. The government intervenes to get the economy back on its feet. After utilizing everything at its disposal, it finally is able to stabilize the condition. The interventions have done so well at boosting profits that stability is assumed to have advanced to a recovery. Yet the slightest hint that the Fed interventions might be coming to an end generates financial panic and a relapse.

That person who was found unconscious and rushed to the hospital will show much improvement while on life support. A person who requires dialysis every two days is a very sick person even though they can live quite normally between treatments. No one would say they have 'recovered' because of those good two days.

Clearly, there is no evidence that the economy is recovering, but it is certainly vital that every positive financial fact be termed as evidence of recovery because it buys time and gives a psychological boost to the fictitious unreal economy. Some may argue that the economy is really recovering – it's just that those benefiting from Fed largess want to keep it coming as long as possible. That's not likely because, just as a medical intervention will damage the system if it's continued unnecessarily, so the same happens to an economic system when the government uses up its resources just to satisfy corporate greed. Flooding the world with freshly printed dollars – keeping interest rates near zero, etc. will have negative consequences.

For the first time in our history we have a bubble economy that is not based on housing, the Internet and dotcoms, the automobile, radio, etc. This one is based on nothing but Fed liquidity. What happens if this bubble bursts without at least a few years of significant real growth? We may have a chance to find out.

Repetition of baseless factoids has a powerful affect when trying to sell something. For the markets it creates the positive stimulation that helps a flat reality rise to illusory heights.

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