Intermezzo

9-11-15

The Tuesday opening of American markets experienced a large rise on low to medium volume. The cause? China's terrible import/export figures for August – down year to year 14.3/6.1 percent induced a promise of stimulus which began with the juicing of its own markets on Monday. That made first the European and then the US markets very happy, and Abe did a little more for the Japanese market by promising corporate tax cuts for next year. In short – bad can be very good.

All attention is on the guessing game – what will the Fed do next week. Participants are evenly divided as exemplified by the S&P 500 fluctuations in recent weeks. There have been nine consecutive reversals since July 17th. This week ended in a rise – does that mean a, 'She loves me not', next week? The UK has followed American policies in lockstep. This week the Bank of England announced that their interest rate will remain at rock bottom. Will the US for a change follow Britain? Then there is the plethora of volunteered advise. Most Emerging Market central bankers want the Fed to make its measly adjustment; the constant uncertainty as to what it will do creates more instability than the actual doing of it. But the chief economist of the World Banks advised against an increase specifically because it would be disastrous for the Emerging Market nations. Then there is the very reasonable – since the world economy is failing even though every bit of central bank firepower has been thrown into the breach – one must raise the rates before the collapse in order to retain whatever belief remains as to its effectiveness for future use.

Today the German finance minister responded to Draghi's announcement that the ECB can extend its easing program beyond the 2016 termination date if the Eurozone dissolution continues. Schauble made a sensible point – it's not working, why flush more liquidity into an economy that going down the drain very well using its own propellant? Being a right-winger he no doubt means austerity when he speaks of structural changes.

Paul Krugman, after years of enthusiastic praise for the Fed's courageous violation of economic norms now thinks everything may fail because of loss of nerve. Why should governments buy assets when they could stimulate the real economy by buying real stuff? Many countries have pursued that policy many times over (Japan, China). The US started off with a $750 billion “spade in the ground” public works program. Such programs are too slow-acting to prevent dangerous consequences in a collapsed economy. Never know when the masses may take things into their own hands. But such a program may have helped in tandem with easing. The best way is getting more money in the hands of active consumers (low income folks) because they have immediate needs unfulfilled because they lack means. But even that won't work unless private parasitic speculator class is put out of business. The state apparatus, rather than supporting private financial interests, must eliminate them as a dominant ruling sector. But that would mean transforming a capitalist machinery run by a committee of capitalists for their personal benefit into a form of state capitalism run by an elite that determines what it thinks best for their class. AKA – something like a fascist state. At least that is something that will secure their rule even if it doesn't work. From Wall Street to the Bunker.

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