Paper Profits While Infrastructure Rots

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When an ordinary American worker loses a home or car because they can no longer keep up with payments, both are seized by the seller and re-sold, and there is no refund of the thousands paid in the losing battle for ownership. When a major real economy enterprise like General Motors goes bankrupt, those that drove it into the ground lose nothing of their millions in earnings because only the private corporate entity by that name is liable for losses. It's up to the taxpayer to pay recovery cost if the enterprise is deemed critical to the real economy. But if the big banks run into difficulties because of their casino gambling they have a solution built into the banking systems itself. The 12 banks of the federal reserve system, which are owned by the largest private banks, and the federal reserve board which is selected by the bankers themselves with one exception -- its chairman, which while nominated and approved by the executive and legislative branches is usually from banking-finance sector.

When the Great Financial Crisis brought down both financial and real economy enterprises, Obama proposed and had enacted, with great resistance coming from financiers, an $800 billion program to refurbish the long neglected infrastructure of the country and in so doing recoup some of the jobs lost due to runaway financial greed. To aid the secondary economy the Federal Reserve flooded the financial system with $13 trillion worth of real and fictitious money to get it back on its feet, and while the real economy has never come close to a full recovery ($5.5 trillion short in GDP terms before the pandemic enhanced the original disaster with a new one), the markets have been repeatedly hitting new highs while the economy is near death and more than a half million Americans have sadly experienced the real thing.

It was revealed this week in congressional testimony that between September 2019 (which is when the current recession began) and September 2020 the New York Fed acting as an agent of Fed Board distributed more than $9 trillion to its 24 primary dealers operating through the big banks for the purpose of backing up repo loans.

Repo loans, or repurchase agreements, can involve very complex transactions. It's usually an overnight loan in which a financial institution sells securities (usually bonds or treasuries) to a buyer with an agreement to repurchase them at a higher price the next day. The seller must deliver the security at a specified time to the buyer where it will serve as collateral for business purposes, and the buyer must return the security to the seller at a specified time.

This key element of financial wheeling and dealing often breaks down at times of financial crisis because good collateral like treasuries are held rather than circulated. Risk taking vanishes in times of crisis -- hence the Fed opening the floodgates because a proliferation of failed repos can seize up financial transactions and bring the entire economy to a halt.

That happened in the Great Depression and brought about the Glass-Stegall Act which separated investment banking from business and personal banking. It was repealed by the brain dead Clinton Administration which thought that American was on the path of such endless prosperity that the entire national debt will be paid off by 2010. Some are calling for the reestablishment of banking separation. But that will never happen as long as greed rules the investment class.

Economic Info

– Not only are the rich getting richer (except for Tesla and Musk with the stock valuation falling almost $300 billion the last 4 weeks) but they are paying a third less in taxes (measured against total wealth) from the peak year 1953. The pattern began in 1980 with tax cuts mostly for the rich to stimulate the economy, and that has been repeated a number of times because the economy never really recovers and thus always the need to seemingly do something about it.

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