

Special K Collapse

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Economists are worried about the literal shape of the economy as it is depicted on a chart. For them the two key elements that bode ill on our immediate economic future are GDP and M2 money supply. When the two which should be more or less toddling along in sync diverge with the GDP shooting upward at an angle one can see on a chart an ominous 'K' - the same avatar that had descended on our two previous economic crises.

Since the GDP is mainly the sum total of personal consumption expenditures, government expenditure, domestic and private investment, it is clear that this form of GDP is not a product of a healthy economy but a sick one requiring an extraordinary increase in the debt burden to maintain a basic and a functioning economy.

The lower limb of the 'K' is the money supply M2 which consists of M1, the very liquid real money in cash, savings and checking accounts, and the not so readily available M2 – investment in money market securities, mutual funds and the like. It also includes savings deposits which is in between the two in terms of ready availability as long as they don't exceed FDIC protected sums.

These two elements of 'K' come into existence as part of government fiscal and monetary policy, and there's the dilemma. Fiscal policy like the greatly reduced infrastructure measure is what improves the real economy and the lives of the common folk and is much disliked by the stingy capitalist ruling class. They are above the potholes and lousy public transportation; they have a very fine personal health care system, in fact, they have all the real world stuff that they could possibly need or desire. The only thing they require is an endless supply of monetary instruments for their limitless capitalist expansion.

Fiscal expenditures have to make it through a very conservative pro-business congress. Meanwhile monetary instruments amount to something like a guarantee for the real thing, and they are made and distributed by the Federal Reserve Banking System which is owned and run by the big banks of America. To be sure there is token

government representation, but nothing that impedes banker freedom unless it runs the economy into the toilet, which, unfortunately, may be flushed at any moment.

The last two economic dives has made us all aware of Fed bailouts of troubled financial institution which mainly means exchanging good federally guaranteed credits for more or less junk financial assets. From 1984 through 2000, securities held by the Fed went from \$167.6 billion to \$511.8 billion. But from 2001 through 2020, holdings of securities by the Fed grew astronomically from \$551.69 billion to \$6.7 *trillion* – an increase of 1,114%.

The Fed is still buying something like \$80 billion of this stuff per month, but in recent months/years it's been hinting at tapering off the buying and maybe even clearing off their balance sheet a lot of this junk. But \$6.7 trillion suggests a point of no return; that the Fed itself may need a bailout. American taxpayers are the official responsible party of last resort for 98% of that balance sheet. So start putting aside some pocket change in case you are called upon to do your duty to save the system.

More evidence of the brain-dead state of the investment class occurred on Friday. The University of Michigan's Surveys of Consumers for August was expected to be near the same as the 81.2 for July. Instead it came in at 70.2 which is even lower than the 71.8 at the lowest point of last year's recession. The report clearly indicates a loss of misplaced optimism regarding the end of the pandemic, and also an understanding that stimulus has largely failed.

The CDC has approved a third mRNA injection for immunocompromised patients receiving certain medical treatments. Unlike Israel which has proven to its satisfaction the declining efficacy, now only 40%, of the Pfizer and has instructed all who received two shots to now receive a third, the US prefers to deny reality for the sake of the economy. It still has the Pfizer at about 91% even though both countries began the inoculations at about the same time. Covid-19 will make the final judgement.

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