The Story So Far

1-16-15

It began with the collapse of a securities concoction that were timed to fail. The cause: under freewheeling, freebooting, capitalism money simply makes more money without the nuisance of having to provide a useful product or service at some point in the process. And with this happening under a system where the crooks are responsible for their own regulation, there was no stopping the most picturesque financial failure since the 30's.

Since this was the third financial collapse in 17 years, many thought that the systems' bureaucratic overlords would stem the glut of catastrophes by allowing its progenitors to flush themselves. A state entity could easily have been created to absorb the securities of failed financial institutions and hold them until they were dissipated along with their creators. The denial of bailouts, the reduction in the number of firms that caused the disaster, and the fear generated in survivors would serve to limit the chances of a recurrence. Even better, ending corporate limited liability for financial institutions -- making shareholders personally responsible for investment losses, would be a powerful defense measure, especially if it were extended to non-financial corporations -- they would lose the same protective status if they engaged in stock buybacks for any other purpose than making their public company private.

But none of this happened because the tail has long been wagging the dog -- with a satiated real economy, a financial shell game is the only way to make it seem alive. We had three QE's and near zero interest rates. Other countries did much the same except the Eurozone. It's central bank made asset purchases and lowered the interest rate, but because 19 countries are involved, it has as yet not tried the direct purchase of government securities. That will probably be announced on the 22nd as the region is on the verge of returning to recession.

All these measures are now showing clear signs of failure. They are like an antibiotic that has been conquered by the bacteria it was designed to destroy. Will they come up with a new treatment or will the capitalists hunker down in their bunkers while the disease infects everyone but themselves?

Not a thing of a positive nature happened this week, that is, if you accept that lower energy costs are a bad thing because it leads to lower prices, and that could generate one of those horrid deflationary spirals and then we will be lost forever, like Japan. Well, oil kept falling and the December CPI fell 0.4%, the biggest drop since Dec. 2008 -- this on top of a 0.3% fall the previous month. Retail sales fell a whopping 0.9% in December - most since 2009. Eurozone inflation is approaching negative territory with several countries already there. Even in the relatively robust UK, a country that implemented the same economic measures as the US, inflation has fallen to 0.5%. US industrial production fell 0.1%.

An example of how calculating calculations can be. According to David

Stockman, total reported profits of S&P 500 companies from 2007-2010 were $2.42 trillion, but if one removes the "earnings ex-items" factor (non-recurring expenses) it's only $1.87 trillion, that's $550 billion or 23% less. Quite a useful accounting gimmick. Here's another one -- unadjusted retail sales for 2014 were up 4.0% over the previous year, but 58% of that figure were new and used autos and sales in restaurants and bars. Only 28% of those categories constituted 2013 retail sales. Then, when you consider that $86 billion of the $210 billion total were car sales, and that $89 billion in auto loans were issued that year, one can see the shallowness of such sales since most involve a small down payment with the rest borrowed and in many cases never to be repaid. As for the increase in restaurant and bar sales, given the poor showing of McDonald's and other fast food joints, you can be sure most of that good eating and drinking were by the speculators giving back some of their loot to the community.

The most exciting event of the week was the Swiss National Bank suddenly deciding that it will no longer peg the Franc to the Euro at 1.20. Since they had promised to hold to that policy indefinitely many currency speculators invested in the easy profit only to suddenly lose vast sums. The policy was implemented because of the weakening Euro many speculators preferred the much more stable Franc, thus rising its value and making Swiss exports increasingly less competitive. The SNB also increased their negative deposit interest rate to 0.75. The most likely explanation for the quick change in policy is that the bank had purchased a huge quantity of ever weakening Euros and this was becoming ever more unpopular. Euro is now $1.15 to the dollar. The Franc immediately jumped in value, and with much of Swiss consumption imported, now even they will have to worry about that deflationary spiral.

The Swiss and other actions are clear signs that panic is on the horizon. When that takes hold, then it will be everybody for themselves.

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