

Three Quarters Down

September 30, 2022

Three Quarters Down, that's the state of the economy as reflected by the Markets, but with the Fed relentlessly chasing runaway inflation, Down reflects the state of the entire economy. Adding fuel to the downward momentum were the 'mini' budgetary actions of the new post-Johnson UK regime which included a tax cut. Because of the Nato caused war in Ukraine heating and fuel related costs went through the roof and that cut into retail sales. A tax cut would provide some relief for those having to decide between either hunger or freezing. Not included among the common folk were investors demanding high returns on their bond investments. Bonds were unloaded sending yields through the roof. That forced the bank of England to announce a bond purchase of \$65 billion over the next two weeks, and that gave the markets the only positive trading day. The week and the quarter were down, the latter for the third consecutive time.

The pound sterling briefly hit a \$1.03 all time low before recovering to \$1.08. What worsened the effect of the tax cut announcement was that such actions are normally reviewed by the Office of Budget Responsibility which then provides a forecast. Not running it through the OBR provoked a fright in bond investors that perhaps conditions were so serious there was no time for a review, or alternatively, that they have an altogether inept government in charge at this critical historical period. An additional point of concern is that the 45 billion pound tax cut will be funded by borrowing rather than from revenue.

China News

There is concern that the government forcing a halt in borrowing for already over leveraged property developers may lead to something like the 'lost decade' (1989-2000) in Japan when its government put a lid on borrowing. Cheap credit had forced property valuations to astronomical heights. In fact, that's the norm for many of the recent financial crises. Many wonder why does this keep happening. Cheap money investing in increasingly risky assets because they are the easiest and fastest way to get rich as long as one gets out in time. Japan, the US 15 years ago, Europe 10 years ago.

But the US had an advantage over other nations in that it is immune from dangerous political reaction in that there is no alternative to present day duopoly rule. Thus they were able to ignore popular disgust with the bailing out of greedy bankers and save the system from a complete bust. The program was called TARP (Troubled Assets Relief Program) and best described as an example of *capitalism on the way up and socialism on the way down*. For China such a policy may be viable by distributing some of the 50 million empty flats at low cost to the working poor.

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