

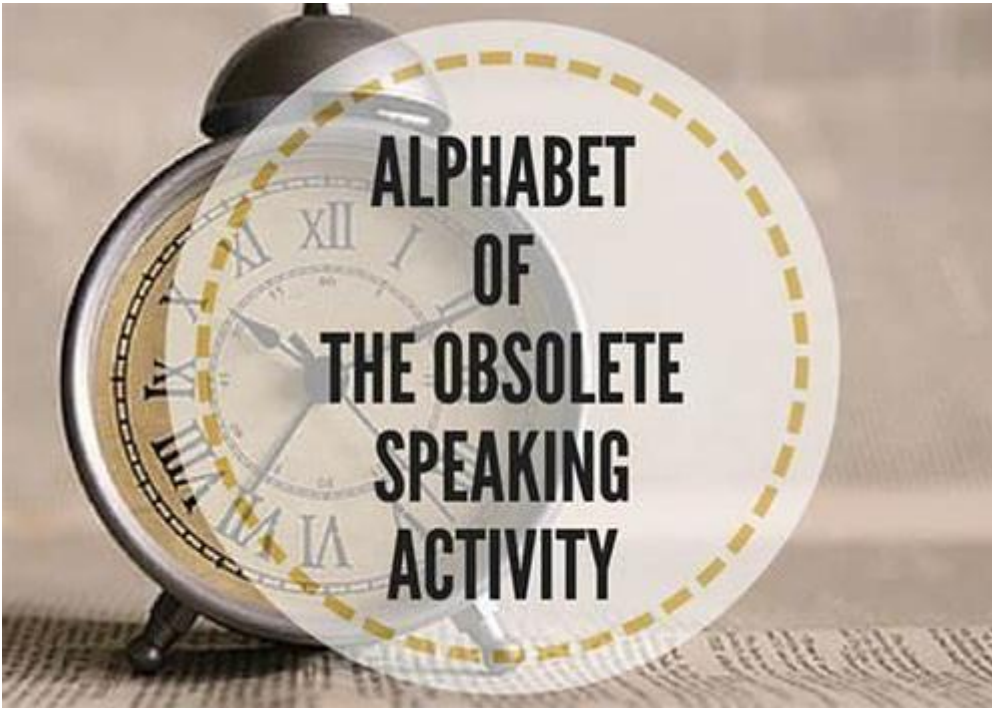


Our Current “Fiancial Culture” Has Evolved In A Way That “Simply No Longer Works”

## Description

# Economic Evolution Turns Many Comparisons Obsolete

**The financial system has entered uncharted waters and it would be wise to take nothing for granted.** To assume the economy will move forward without a glitch in such an environment is extremely optimistic. With time, things change and evolve, this transformation can be seen in both society and the economy. We are constantly bombarded with charts showing where things are going based on historical references but a question we must ask is just how relevant today’s comparisons are with prior economic cycles?



Over the decades we have moved from an agricultural-based society to an industrial-centered economy where manufacturing and services have become the dominant way of making a living. Now, we are rapidly moving in the direction of technology becoming the main driver of the economy and it is creating a huge cultural change. The economy is again undergoing a metamorphosis. Over time, we tend to forget or minimize in our minds that throughout history the growing pains flowing from such a change tend to batter society from every direction. These transformations also create a great deal of noise making it difficult to understand what is happening.

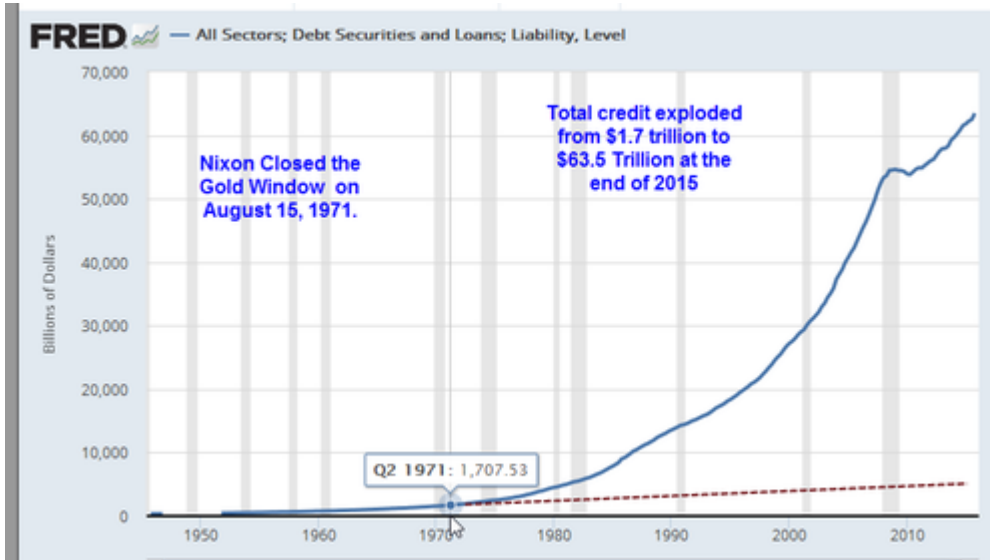
**Please consider the possibility the important adjustments the economy must make are lagging far behind our current “financial culture” or that the economy has evolved in a way that simply no longer works.** Much of this has yet to become apparent to the masses and is masked by institutions papering over problems. A tradition of optimism has served mankind well, however, it has become clear something seems to be broken or out of kilter. It does not help that things like stock buybacks and outright fraud are creating a situation that could at any minute spin out of control. Making matters worse is that the general population is oblivious to this, and conditioned to accept whatever they are told. To many people, this is the new normal.



### **The Titanic Was Herald As “Unsinkable”**

**When we look behind the curtain it is difficult to ignore the numbers simply do not work going forward.** Ignoring the warning signs on the horizon can only delay the inevitable for so long. Many of the comments I read concerning the current stock market and companies such as Tesla and Amazon remind me of the following statement, “Not even God himself could sink this ship,” that an employee of the White Star Line made during the launch of the Titanicon May 31, 1911. **The truth is as we move forward we are in uncharted waters and at any time a surprise event might shock us into reality.**

Much of the economic distortions we are experiencing today harken back to President Richard Nixon’s decision on August 15, 1971, to close the gold window. It is a factor that changed everything. While US citizens had been forbidden from owning gold or from redeeming their gold certificates for gold coins since the early 1930s, foreign governments still had the privilege of redeeming their dollars for gold. Nixon’s decision untethering the dollar from gold and releasing it from the promise dollars could be redeemed in gold, this resulted in opening the floodgates and allowed credit to explode from \$1.7 trillion to \$65.5 trillion at the end of 2015.



### ***Exploding Credit Will Have Massive Ramifications***

More recently due to Covid-19, we have built on breaking the financial system's ties with the past by casting away all budgetary and money supply restraints. **A question we must ask is just how relevant today's comparisons are with prior economic cycles? The situation today is in many ways "historically unique" due to the rampant expansion of credit in recent decades.** How do you even begin to compare or factor in the amount of stimulus America's "trillion-dollar-plus" deficits have added to the economy? These amounts boggle the mind and are hundreds of times larger than what we were seeing before 2008.

It could be argued that much of what we are witnessing today is rooted in Nixon's decision to close the gold window. That move unleashed many forces that are greatly responsible for the rising income inequality that has occurred in recent decades. After inflation soared in the late 70s America found the cost inflation in goods could be reduced by buying these things from low-cost producers located in other countries. This means imports soared. IT has not helped that America has adopted a de facto policy of placing no restraints on trade deficits.

Nixon's actions coupled with America's decision decades ago to make China into a formidable ally that would act as a counterbalance against Russia and the Kremlin have shaped the world. Back then, we offered economic incentives to help China's economy, looking back this was a watershed event that changed the way American companies conducted business. It has resulted in American companies outsourcing production and the mass exodus of manufacturing jobs from America to distant lands where labor was both cheap and abundant.

Our free trade policy was sold to America's middle-class as a "win-win situation" and we were told the American worker would move up the economic food chain towards better-paying jobs that would be more fulfilling and require less toil. This did not happen, the large companies that shape legislation have indeed benefited to a great extent while the average American has not.



### *Many Comparisons With The Past Now Obsolete*

Returning to the main theme of this article, the massive expansion of the financial system has rendered many comparisons with the past obsolete. It has also resulted in the economy embarking on a roller-coaster-like experience where it encountered a series of events such as the dot-com bubble, which burst in 2001. In reaction, the Greenspan Fed stepped on the gas blowing the biggest housing bubble on record. In response to that asset bubble popping, we saw the Fed bail out the banks, the asset holders, and the wealthy.

The sorry fact is that in the end, this chain of events left the average American worse off than before. During all this time debt has grown, and to service that growing pile of debt the Fed had to keep slashing interest rates. This means that **instead of allowing consumers to benefit from technological advances that tend to be inherently deflationary, the Fed has sought to increase inflation by declaring inflation in the range of 2% to be in our best interest. This has benefited the banks and those already wealthy while at the same time massively increased inequality.**

## Global debt to hit record \$277 trillion by year end on pandemic spending splurge: IIF



NOVEMBER 18, 2020 / 10:05 AM / UPDATED A DAY AGO

NEW YORK (Reuters) - Global debt is expected to soar to a record \$277 trillion by the end of the year as governments and companies continue to spend in response to the COVID-19 pandemic, the Institute of International Finance said in a report on Wednesday.

### ***Today Is “Historically Unique”***

The situation today is in many ways “historically unique” due to the rampant expansion of credit in recent decades and just over the last 16 months due to the pandemic. Recently I found myself pondering the line, “outwit and outlast” that is often used during the popular hit television show Survivor. It occurred to me the winners in both life and investing often reflect these qualities and that this game is far from over.

While investors are often urged to be cautious the excesses of today are in many ways not as “sector” oriented as those experienced during certain periods we have seen in the past and this makes staying anchored more difficult. It seems everything is encouraging and causing both savers and investors to take far more risk than they should in the quest for higher returns and yields. The “fear of missing” out is again running rampant and with the strategy of buying the dip having proven successful over almost a decade investors have become complacent to the risk they face.

*by Bruce Wilds*

### **Date Created**

06/23/2021