Wall Street Growth Masks a Deeper Problem

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BUENOS AIRES – We got into Buenos Aires at about 10 p.m.

We hadn't had dinner. So we walked out of the hotel hoping to find a restaurant that was still serving.

It was quiet in the Palermo Soho neighborhood. There were few people on the sidewalks. Even the cars bouncing over cobblestones made little noise.

But the weather was perfect: mid-70s… stars in the sky. So we sat outside at a corner eatery, feeling lucky to find a pla kitchen that was still open.

There were only a few people at the tables. We thought we had just caught the tail end of the dinner crowd. But then, g people kept coming.

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They sat down. They ordered drinks and then dinner.

The number of passersby, along with the noise level, also increased as the tables filled up.

Then we realized: We had not arrived at the end of the dinner service. It was just the beginning. This was Buenos Aires

"Deep Subprime"

Back on our beat…

Wall Street had a good day yesterday. News reports cited "positive data."

What we see are negative data.

Take what Morgan Stanley calls "deep subprime" auto loans. These make up about one-third of the subprime auto-loan

Borrowers are falling behind on repayments on most subprime auto loans. But "deep subprime" borrowers are falling be fastest.

These loans are "surging," according to Bloomberg.

Corporate defaults are spiking. And the last three months have seen bank lending shrink by more than 5% – the sharpe contraction in the "credit-money supply" since 2008.

Therein hangs a tale, as they say.

This is a system that depends on credit in place of real money. Over the last half-century or so, the credit-money supply has grown from $1 trillion to $66 trillion.

That was the source of much of the economy's "growth"… and most of the price increases on Wall Street.

There's no way to stand still in a system like this. Either the amount of new credit (debt) increases… or the old debt expires, reducing the money supply and causing a slump.

"Creditization"

Economist Richard Duncan, who keeps a keen eye on the "creditization" of the global economy, calculates that without at least 2% credit growth, recession is unavoidable.

Duncan says credit grew by 2.6% last year, enough to avoid a recession. This year, he says credit will increase no more than the 2% minimum, putting the economy in jeopardy.

For our part, we know that corrections happen – both in the stock market and the economy. We just don't know *when* they happen.

We know, too, that a tightening cycle (higher interest rates) almost always seems to presage a correction.

But the Fed will never voluntarily return to a "normal" market-discovered interest rate system.

The insiders who control the system depend on cheap credit; they won't give it up voluntarily.

Shared Secrets

We've lost track of where we were in our "campfire tales." [Catch up here and here.]

We were bringing new *Diary* readers up to speed by going back over our most important concepts… and sharing with them our "shared secrets."

For example, we've talked about how a "Deep State" runs the government. Voters don't decide the direction of the country; the insiders do.

This explains why so many things are done by the government that don't help most people… and why it's so hard to change the direction of the country in a major way.

There's one other important concept you should know about. It explains how real wealth is created.

There are two kinds of transactions.

There are win-win deals, where the two parties go into the deal voluntarily, hoping to come out a. And there are win-lose deals, where one party is forced into the deal by the other.

In neither case can we ever know in advance what the outcome will be; we can't predict the future. But we can know what kind of deal it is. And we know that only win-win deals add wealth.

All value (progress… wealth… satisfaction) depends on what people want. And a win-win deal is the only way to find out what that is.

You build a "spec" house. You invest $500,000 (including the cost of the money you borrowed). Then, the feds confiscate the house and give you $200,000 for your trouble.

How much is the house worth?

You don't know. Only if someone voluntarily pays for it can you find out. All you know from this transaction: not to do that again!

If you sell the house for $600,000, you know that you have increased the world's wealth by $100,000. The house is worth $100,000 more than the time and resources that went into building it.

If, on the other hand, potential buyers don't like the house… and you are forced to sell it for $400,000… you know that you have reduced the world's wealth by $100,000.

Either way, the transaction is still a win-win deal. The buyer believes he has a house at least worth – to him – $400,000. The seller (who had hoped for more) would still rather have the money than the house.

It is a win-win for the economy, too: It yields information that is valuable and honest.

Win-win deals are the *sine qua non* of a properly functioning economy. They're the only way to know if you're going forward or backward.

The Main Street economy does win-win deals.

One man wants bread. Another wants $3 so he can buy fuel. One wants someone to drive him to the train station. Another gladly gives up his time in exchange for $25.

But the government does only win-lose deals. One party is forced to do something it doesn't want to do. One wins; one loses.

Wars are the ultimate win-lose deals, for example.

Win-lose deals also distort the vital price signals that make it possible for an economy to function correctly and create additional wealth.

More to come…

Regards,

Bill