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Almost Everyone and Everything Has Gone Crazy

An old saying sums it up: “All the world is crazy save thee and me, and even thou art a little crazy”. Attributed to Robert Owen in 1828. However, I recall learning it in Latin when in high school.

Veterans in both the financial and political markets are astounded by the excesses. Somewhat over a year ago, financial markets plunged straight down in the Wuhan Flu selling panic. And some 16 months later, straight up to unprecedented excitement and valuations.

The greatest “La La Land” in history.

At the time, it was recognized that the massive hit to employment is one of the greatest policy blunders in history. The Left is insane to deliberately destroy freedom that has provided the greatest prosperity and longevity in history. However, COVID unemployment did not materially change the decade of inflation in financial assets that typically follows a decade of inflation in tangible assets. Inflation in commodities reached important peaks in 2008 and in 2011 and as that action faded it set up another “New Financial Era”.

Typically, these have run for a decade completing with a raging mania in financial assets. The greatest in history is being accomplished now. This is the sixth example, 1929 was the fifth.

Financial madness seems contagious.

In the COVID Crash, the contract for crude oil traded at a negative 30 dollars. In all of commercial history a commodity has never plunged to a negative price. Recently at plus 68.

In 2020, the German Ten-Year yield plunged to minus 0.85%. In all of financial history, nominal yields for any bond had never been in minus territory.

In December 2007, a leading Harvard economist boasted that nothing could go wrong. The Fed had a “dream team” of economist. That recession started in that month. Fateful, because it was the worst financial and economic calamity since the dreadful 1930s.

The blundering Harvard economist gets his economics text book on the curricula for economics courses and sells over a million copies. At some $280 *per* copy, netting to him some $40 *per*. Times a million – go figure.

And now in a world of even greater financial speculation, the establishment is again boasting that nothing can go wrong. Citing the same old losing theories about the infallibility of the Federal Reserve System.

Which was used by John Moody late in the 1929 Bubble, when he had boasted that nothing could go wrong. Because the Fed was “new” and “scientific”.

That new financial era was described in real time as the “Roaring Twenties”.

When the Fed was formed in 1913, the tout was that the “System” would prevent recessions. Which even today is still an appealing concept. But with 18 cyclical recessions since the Fed opened its doors, the theory definitely does not work.

And unlikely to ever work. The contrast between economic theories and reality has provided some of the greatest ironies in history. There is the boast of 2007 and then the example from 1929. There is one from the great financial bubble that peaked in September 1873. Mark Twain identified the marvels as the “Gilded Age”.

As the latter was enjoying a wonderful fury of excitement credit markets began to show the typical strain. With this, the New York Herald editorialized that nothing could go wrong. Because America did *not* have a central bank constrained by a gold standard:

> *"True, some great event may prick the commercial bubble, and create convulsions; but while the Secretary of the Treasury plays the role of the banker for the entire United States, it is difficult to conceive of any condition of circumstances which he cannot control. Power has been centralized in him to an extent not enjoyed by the Governor of the Bank of England. He can issue the paper representative of gold to the amount of scores of millions."*

Sadly, the Gilded Age ended as the global financial boom was followed by another post-bubble contraction. England was the senior economy and economic weakness into the early 1880s prompted economists to describe it as the “Great Depression”.

Which lasted until 1895, providing another irony. As late as 1939, economists were still writing about how the “Great Depression” could have been prevented or ameliorated. One of the economists was W. W. Rostow and he was focused upon the one that prevailed from 1873 to 1895.

Then, a generation or so earlier there was another new financial era. In America it was called the “Era of Good Feelings” that ran from 1815 to 1825. Why called “Good Feelings”? Because the preceding decade of prices increasing faster than wages was distressful to most. The end of rampant inflation and war eased the distress and the arrival of a great bull market for stocks led to a magnificent financial party.

England hosted the senior economy and naturally suffered the discomforts of rising prices. As calculated by The Economist, the high was reached in 1813. Influenced by the War of 1812 and the Napoleonic Wars that culminated with the Battle of Waterloo in 1815. With consequent price weakness and recession into 1822 when the financial party began to fly.

The usual post-war recession afflicted the US. With Murray Rothbard’s “The Panic of 1819” providing a scholarly account of America’s experience.

Whatever, roughly a decade of inflation was followed by roughly a decade of rising financial assets that culminated in 1825. It is interesting that searching the subject “1825 Bubble” brings up many articles described as the “Panic of 1825”. For today’s researchers, the consequence was more important than the mania.

Which was followed by lengthy post-bubble contraction. The bottom of which can be determined by the low in prices in America and England. As well as by the low in long-dated interest rates in London. For the latter it was 1844. When the next long expansion began to get underway.

The contraction subsequent to the 1873 Bubble was called in real time the “Great Depression”. It lasted until 1895.

During the halcyon 1920s, the Fed was concerned about not enough “inflation” and kept an easy monetary policy. Not understanding what a decade of inflation in financial assets brings. The dreaded post-bubble contraction.

During our even more halcyon decade, the Fed is concerned about not enough inflation and is keeping credit extremely easy. Still not understanding the consequence of inflation in financial assets.

On the “thou art a little crazy”, the world of raw political ambition has gone totally bonkers. International Socialists have tasked Democrats to destroy the middle classes and the economy.

However, Democrat leaders are rapidly losing followers. CNN, the Voice of UnAmerica, is shedding viewers. Indeed, this week Politico headlined: “CNN Has One Of The Most Profound Ratings Drops In Television History”.

New Financial Eras are always followed by the same old severe contraction. Which will likely inspire another phase of the benign popular uprising. These have been prompted by the governing classes living and promising well, as ordinary folk suffer hardship.

Both financial and political crazies could soon be overwhelmed by fate. On the former, another post-bubble contraction. On the latter, the next stage of the “American Spring”, which this writer published on July 4, 2016.

https://www.dropbox.com/s/jaht5si3rbc9upb/160702%20American%20Spring.pdf?dl=0

It seems that the karma of the marketplace is about to overwhelm the dogma of radical central bankers and crazed politicians.