Pragmatic Stimulus ?

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What is American business afraid of?

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excerpts

What are businesses afraid of? Perhaps they suspect that asset values may continue to drop a lot more or for a longer time than experts predict. This scenario implies a difficult period of indeterminate length for businesses – i.e., employers – and for stock and credit markets. The medicine for this? – to make sure nothing prolongs the agony, that is, to let the free market work.

But a look at certain facts implies there is more to fear than just adapting to lower asset values.

Fact # 1: The Federal government and the Federal Reserve appear determined to use all their power to prevent the downward adjustment of asset values, that is, to prevent price changes that must take place prior to recovery. For example, to the extent they are successful in propping up or, God forbid, reestablishing status quo ante housing prices, real estate markets could be frozen indefinitely. Many buyers, certainly, might avoid the housing market for this reason and any other market they saw as artificially propped up by government. A new round in the effort to prop up the real estate market began Tuesday with the Fed's promise to "provide support."

Fact # 3: The Federal government and the Federal Reserve have not admitted their roles in producing the economic crisis, much less the implications of such an admission. The theory of

Congress and the bureaucracy, it appears, is that "the free market" was to blame for the crisis and that the existing vast reach of business regulation must therefore be increased. This will not encourage recovery. It merely frightens businesses and investors-again, read employers if you are concerned with the unemployment rate. Then there is the Federal government's impressive avoidance of admitting blame for having encouraged the sub-prime mortgage fiasco and the real estate boom in general. But the most amazing evasion of responsibility, surely, is that of the Federal Reserve System, whose provision of the necessary and sufficient conditions for the asset bubble will be studied for decades. The academic debate may eventually be: Was it Fed policy of the last few years only which caused it, or the many decades of easy money that never once allowed the money and credit system to regain a sound footing?

The Fed's attempt to reinflate the economy may "succeed," i.e., it may overwhelm fear with a new round of delusion by providing us with a fresh array of high asset valuations. If it does, we can then wonder about the next frightening downward adjustment. Or perhaps we are now beginning a prolonged economic depression, like the last one impervious to "pragmatic" governmental "stimulus"-macabre government-orchestrated parodies of free market activity.