

Stocksplosion

by Jim Kunstler via rialator - ICH *Wednesday, Apr 25 2007, 10:27pm*

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Whenever somebody complains about "the lies that George Bush & Co. told to get us into the Iraq war" (as Frank Rich did in *The New York Times* on Sunday), I wonder how those lies compare to the lies that the American public tells itself every day -- for example, that we could run America without oil from the Middle East, or that hybrid cars will save Happy Motoring, or that we can have an economy without producing anything of value.

Meanwhile, the Dow Jones index went up over a hundred points the same day that 32 people were massacred on a university campus. And bear in mind that the massacre did not occur late in the day but literally around the same time that the New York Stock Exchange rang its opening bell -- so that as the body counts mounted through mid-day, the stock markets only went higher! They must have liked what they saw. Then, the rest of the week, while the cable news Mommy-Daddies went through the familiar rituals of bewildered hand-wringing, and NBC released the trove of farewell videos sent in by shooter Seung-Hui Cho between killings, the Dow piled on another 250 points to close at an all-time record high just under 13,000.

Could the financial markets be more detached from reality, from life on the ground (or in a free-fire-zone classroom) in this nation?

Doug Noland over at Prudent Bear.com is right: we've entered a euphoric phase of financial arbitrage capitalism with extreme Ponzi overtones, a pyramid scheme of revolving credit rackets and percentage spread plays completely abstracted from any reality of fruitful activity. The reason we don't even call "money" by its former name anymore is precisely because we realize at some semi-conscious level that "liquidity" is not really money. Liquidity is a flow of hallucinated surplus wealth. As long as it flows in one direction, into financial markets, valve-keepers along the pipeline, like Goldman Sachs, Citibank, or the hedge funds, can siphon off billions of buckets of liquidity. The trouble will come when the flow stops -- or reverses! That will be the point where we will rediscover that liquidity really is different from money, and if we are really unlucky we'll discover that our money (the US dollar) is actually different from real wealth.

Noland and others recognize the severe distortions in the finance sector, and they are surely correct to flag the implied dangers. But even these clear-eyed observers survey the disturbing finance scene without factoring the global energy situation. In a nutshell: world oil production seems to have peaked about 10 months ago. Being just past peak, there is still a huge amount of oil going into world economies. But being just past peak we are now seeing how complex systems proceed toward instability and breakdown when the underlying energy flow turns toward contraction.

The situation in finance is particularly sensitive and acute because an overall contraction in available energy means the end of industrial expansion (a.k.a. "growth") at "normal" rates of three to seven percent annually. More to the point, it means that certificates, contracts, deals, plays, and rackets pegged to the expectation of growth will lose their legitimacy. Meaning, stocks, bonds, collateralized debt obligations, hedges -- anything that represents the hope and expectation for more-of-everything -- will no longer be understood to represent real value.

The current euphoric hysteria should therefore be viewed as a form of disorder in its own right. The players in the markets are making their moves based on misunderstood signals. They think the world is awash in energy and prosperity. They believe Cambridge Energy Research Associates (CERA) and the Chairman of the Federal Reserve. They believe that the mortgage fiasco and the associated imploding housing bubble are just a couple of temporary zits on the handsome WASPy face that Wall Street presents to the world. In the background, though, feedback loops are aligning to rock the systems we depend on for daily life in the real world. Capital will become unavailable. Food will grow scarce. Trade will be interrupted. Mobility will be constrained. And an awful lot of pissed-off people will be poised to fight over the table scraps of industrial civilization.

<http://www.informationclearinghouse.info/article17586.htm>

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