What To Do If The Stock Market Crashes?

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Abstract

If the Stock Market crashes, the Federal Reserve System (the Fed) ought to open the Discount Window to Main Street, by making 1. loans only for the creation of real wealth; 2. loans at cost; 3. loans to benefit as large a number of people as possible by issuing loans to individual entrepreneurs, cooperatives, corporations with ESOPs and/or CSOPs as well as to public agencies with taxing power to fund infrastructure projects.

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After examining a number of relevant papers, in a personal communication to the author, the Fed has expressed a readiness to adopt such rules, provided they are approved by "state and federal representatives."

There are warnings in the airwaves about a collapse of the Stock Market on March 15—or any time in the future.

What to do then?

There is a flip side to the set of considerations that I advanced a short time ago around the fact that there is almost no real wealth at all behind the three trillion of zeros accumulated in the Stock Market since the last election (1).

The flip side, the positive side, is this: No real wealth will be destroyed, if the Stock Market crashes. And the issue is not if, but when the Stock Market crashes.

When the stock market crashes is a question of great interest to individual players. Those who cash in in time will go home with a bundle.

Individual investors, who are determined to remain in the market until it might be too late, have some serious calculations to make: They have to determine what is the most they can lose without being utterly ruined.

Individual people can also find some sense of security if they—in time—make a run for gold. Since the price of gold has its own outstretched gyrations, what type of security is this? And there are many more objections to this false solution. First, what security is obtained if all other people around us are ruined. Then, what type of security is there when coming out of the bunkers one finds the entire structure of production and organization of society destroyed?

The individual alone can at best save himself. Real security, long term security, can be acquired only through the community as a whole. To adopt Benjamin Franklin's warning, "We must, indeed, all hang together or, most assuredly, we shall all hang separately."

There are two actions that the community, the community represented by—and led by—the Federal Reserve System (the Fed), can immediately take before the crash. Quite apart from doing what it is planning to do with interest rates, the first, most urgent deliberation is to shut the lending door down, to shut down all lending destined to purchase any form of financial assets.

This set of actions will not necessarily burst the bubble: The private money market might sustain the Stock Market to higher levels still. With the Fed stopping any lending that is not devoted to the creation of real wealth, the Fed will only put a stop to the waste of public financial resources. The Fed will no longer tolerate unjustifiable exposure of public money to risk of failure.

The second immediate decision that the Fed must take is to announce ahead of time that, the moment the Stock Market crashes, the Fed will open the Discount Window to fund individual entrepreneurs, cooperatives, corporations with ESOPs and/or CSOPs engaged in the production of real wealth, and public agencies with taxing power and shovel ready infrastructure projects.

The Fed will have to make it clear that the Discount Window is open only to fund operations devoted to the creation of real wealth of table and chairs and services.

The Fed will issue such loans at cost.

The Fed is legally empowered, today, to implement these measures, because these measures would undoubtedly sustain growing levels of employment, and reduce the rate of deflation that eventually follows from a Stock Market crash.

Once national and international behemoths of finance collapse because of a crash in the Stock Market, if the proposed measures are in place, even the people in them will emerge unscathed (2). Being highly skilled technicians, they will be coveted employees of entities that devote energies to the creation of real wealth.

They might themselves bring to life projects they had dreamed to start and were incongruously thwarted from carrying them out while working within the current organization of the market.

Some of these financiers, having adequate financial resources, might even opt to retire.

Undoubtedly, pursuing any of these solutions will do much to reduce the harm caused by a crash in the Stock Market.

The Fed can, therefore, oversee the working out of the rules of the market with great poise and equanimity. If the market makes the behemoths of finance crash, it is because they are not viable business enterprises, they are not sustainable. To resuscitate them by injecting into them inordinate sums of either taxpayers' money or bank depositors' money, as we have repeatedly done in the past, is a supreme act of legalized thievery whereby money is transferred from the many to the few. To what purpose? To let the behemoths of finance create more illusory wealth, more zeros? And then eventually see them crash again to the ground under unsustainable burdens of debt?

We have repeatedly done that in the past and we have reaped not too many advantages. The overall economic condition of the world, beyond the glitter dispersed by the glitterati, has been covered with incredible levels of blood, sweat, and tears for the many. As Einstein warned us, to take the same action over and over again, and expect different results, is insanity.

We have repeatedly done it in the past, because, with the collapse of the behemoths traditional channels of credit were frozen—and activities in the business world were subsequently frozen. This is a condition that the state cannot tolerate for long. But all this insanity was justified under the regimen of mainstream economics (3). The ultimate gift of Concordian economics is precisely that (4). The gift to mankind is to free ourselves of the vile (remember Adam Smith?) (5) strictures of the past. Rather than passing our national credit through the "primary dealers," the behemoths of finance, we can use viable channels of credit by creating a direct link from the Fed to the local banks and local business operators (6). Let fear disappear from the market; let sanity reassert itself; let the free market rule.

The Fed surely prefers to have an authorization to perform the proposed new functions by more people than a few of us. All are welcome to join in. That was the original intent of the two petitions posted on the Internet after all. The first petition to MEND THE FED (do not attempt to End the Fed; if you destroy it, you have to rebuild it) can be found at http://petitions.moveon.org/sign/a-patriotic-petition-1?source=c.em&r_by=2016207; the second petition to DEFUSE THE BOMB of the next financial collapse can be found at http://petitions.moveon.org/sign/the-jubilee-solution.

To defuse the bomb of the next financial crash, we ought to be brave. As recently suggested, creditors ought to become alive to the ancient wisdom of the Israelites (7) (8). Every seven years they canceled all unpayable debts. Unpayable debts create only tragedies. To wipe the slate clean and start again anew, is to show great faith in the creative abilities of free people. Everyone benefits.

Do study these petitions; if you agree with their spirit sign them; encourage your friends to study and to sign them. Above all, do participate in the political discourse of the moment by getting away from titillating gossip (remember Brandeis?) and concentrating the mind on essential social, economic, and political issues.

As suggested by the Fed in a personal communication, we ought to encourage “our state and federal representatives” to write the proposed rules into the law of the land (9).

Notes

(1) See Gorga, C. 2017a, at http://www.talkmarkets.com/content/economics--politics/it-is-the-economics-o-america?post=124056.

(2) See Gorga, C. 2016, at https://onedrive.live.com/view.aspx?resid=5638E6900617101!1308&ithint=file%2cdocx&app=Word&authkey=!AKPNa0yLlX-obWI

(3) See Gorga, C. 2017b, at https://mpra.ub.uni-muenchen.de/77498/1/MPRA_paper_77498.pdf.

(4) See Gorga, C. 2017C, at http://econintersect.com/a/blogs/blog1.php/concordian-economics-an-overall-view.

(5) Smith, A. 1776. *Wealth of Nations,* B. III, Ch. 4.10.

(6) Note 2 above.

(7) Gorga, C. 2017d, at http://www.talkmarkets.com/content/us-markets/three-trillion-worth-of-zeros?post=124215.

(8) Gorga, C. 2015, at http://www.pelicanweb.org/solisustv11n04page3.html.

(9) Durr, J. 2016, at https://1drv.ms/w/s!AgFxYQBpjmMFijasaIauiBRkLFql.

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