IS AMERICAN PROSPERITY JUST A BUBBLE?

So called experts have published inconsistent views as to the cause, existence and fate of America's current prosperity. In a recent issue, the influential *Economist magazine* named various factors which, it claims, created a "bubble economy" in America, due to eventually burst. It points to an over-priced stock market, unwise mergers, and then states, "In 1997, commercial rents rose around 20% or more in San Francisco, Boston and Dallas. In New York, bidders recently offered the equivalent of $180 per buildable square foot, twice the price paid for a comparable site six months ago, for a pair of development sites near Times Square. House prices are rising rapidly in many cities, fueled by lower mortgage rates.

The *Economist* states, as its fourth dangerous factor, a "rampant monetary growth."

"The fizziness of America's bubble economy suggests, therefore, that the Federal Reserve needs to tighten the monetary screws. That, however, may be harder than it seems. The Fed's ability to raise interest rates to dampen speculative excesses is constrained. It has a legal mandate only to curb consumer-price inflation, which has been falling, not rising. • • • • • • • • ☞ And pricking a financial bubble is a risky business, hard to do with delicacy.

This is why it would have been better if the Fed had raised interest rates sooner to prevent a bubble in the first place. But one thing is sure: the longer America's party is allowed to continue, the worse the eventual hangover will be."

The highly respectable Robert J. Samuelson, nationally syndicated MIT, writing in the Washington Post of April 24 took a different tack, though noting that *The Economist* described the real estate boom as a "runaway market." Samuelson displays the establishment economic confusion by equating stocks with "wealth." In fact, stocks are not wealth, but merely an indicia of ownership. He writes, "stock wealth has soared and ownership has spread. It is creeping down from its bastion among the rich and upper middle class. Among families with incomes between $10,000 and $25,000, stock ownership rose from 13 to 25% between 1989 and 1995, reports the Federal Reserve. For families with incomes between $25,000 and $50,000, ownership went from 33 to 48 percent. And wealth effects are huge. In 1990, households' real estate wealth (mainly homes) totaled $6.6 trillion, more than twice stock wealth.
By 1997, stock wealth was about 30% more than real estate wealth." . . . . . ☞

The depression occurred because the Federal Reserve didn't do its job:

> It allowed 11,000 banks to become insolvent by 1933, and it permitted the money supply to drop by a third.

In fact, simply inflating the money supply does not multiply the real underlying wealth. Nor is inflated stock price an indication of real underlying wealth.

Samuelson joins other establishment economists, including devotees of John Maynard Keynes and Milton Friedman in this distorted conclusion that depressions are caused by the Federal Reserve System not spurring more and more loans based inflated land prices, in short, giving us many more hairs of the dog that bit us. The establishment "economists" should be informed that we had depressions a hundred years before the Federal Reserve System came into existence, and that, on each occasion, a blown-up speculation bubble burst, which led to depressions or recessions until land prices were so reduced as to allow capital and labor to resume normal operation.

Unfortunately, the funny money people who dominate our universities blame business cycles on the F.R.S.' declining to support further speculation in land and stocks. They have fallaciously rewritten economic history. • • • •