ECONOMICS

Why Are Democrats Hurtling The United States Towards A Stock Market Crash?

BY: H.A. GOODMAN | OCTOBER 08, 2021 | 5 MIN READ

Since March 2020, $5.9 trillion in so-called relief spending authorized by Congress, as well as $3.3 trillion in quantitative easing from the Federal Reserve, has been pumped into the U.S. economy. America's pandemic response resulted in 22 million jobs lost in a matter of months, and we still have 10 million fewer jobs than before March of last year.

The fiscal and economic repercussions of going from stronger than expected job and wage growth in January 2020, with an unemployment rate of 3.6 percent nationally, to toilet paper shortages and monthly stimulus checks has created an unforeseen bubble of monumental proportions. Wall Street is dancing with moral hazard, with one out of every five dollars being "created" by the Federal Reserve in the past year leading to a record-high $822 billion in margin debt and margin debt as a percentage of gross domestic product (GDP) that surpasses 2000 and 2008. (Margin debt is when people invest borrowed money. It is a measure of how much of the stock market is inflated and sometimes leads to massive market declines.)

the $300 billion potential default by China's Evergrand might be a tiny glimpse of what lies ahead. Such market crashing would cause widespread panic, leading to "unprecedented" $30 billion margin calls in a largely unregulated $1 quadrillion global derivatives market, with banks that loaned the money used to purchase these derivatives contracts incurring losses in the hundreds of billions.

Despite recent hedge fund disasters and almost every economic indicator pointing to a potential stock crash, President Biden seems content with record highs in the market, and his administration has ignored a potential equities bubble. Also, one would think Biden and Democrats would take into account hundreds of container and cargo ships docked outside of ports in the United States and China, as well as labor shortages and rising inflation, yet Biden seems to be asleep at the wheel. The Evergrande debt crisis, combined with U.S. national debt surpassing GDP and Democrats attempting to push it even higher, are also reasons Biden should pay closer attention to the economic fallout of a market collapse.

Instead of focusing on enforcing the derivatives and short-selling regulations of Dodd-Frank (a 2010 law that *still* hasn't fully been implemented) that would have prevented $10 billion in bank losses from the Archegos collapse, or the $2.75 billion Reddit-inspired bailout of Melvin Capitol, Biden's main concerns are mandates and a controversial infrastructure bill.
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Even Sen. Bernie Sanders, Rep. Alexandria Ocasio-Cortez, and Sen. Elizabeth Warren have ignored the fact both the Financial Industry Regulatory

Authority and the Securities and Exchange Commission (SEC) haven't implemented Dodd-Frank laws on derivatives. As explained in a Financial Times article titled "US put off derivatives rules for a decade before Archegos blew up," financial regulators don't know the true exposure to debt held by hedge funds and large banks:

> *Crucial parts of the 2010 Dodd-Frank Act, an 848-page law that was meant to shore up big banks and temper excessive risk taking in the derivatives market, have been delayed again and again.*
>
> *...In particular, rules that would have governed the disclosure of Archegos's derivatives trades are still not in force, and neither are requirements for players like Hwang to post initial margin, payments meant to cover potential trading losses. Hwang was able to place more than $50bn of bets on the share prices of a handful of US and Chinese companies, and could not pay his counterparties when they started going against him.*

Adding to the risk embodied by trillions in volatile derivatives, unregulated by the SEC and other government regulators, recent stock market valuations don't reflect today's economic indicators. The Consumer Price Index, Producer Price Index, Baltic Dry Shipping Index, and overall inflation are all at highs not seen since 2008, while consumer sentiment is nearing a decade low and the dollar is decreasing in value.

If Biden is truly focused on protecting the United States from another financial catastrophe, he should begin addressing why the Buffett Indicator is at an all-time high, or why the Fed keeps prolonging the inevitable tapering. We've already witnessed historic margin calls and real estate debt destroy companies and the true amount of debt (in the form of risky derivatives contracts) is unknown to financial regulators. The time to act on such warnings of risk is overdue.

Rather than divide the nation further with ideological battles, Biden's administration should address substantiated fears of a market crash with a sober analysis of why valuations don't reflect today's economic indicators, and how this disconnect is resulting in hedge fund and real estate disasters. A true analysis of how much debt hedge funds and banks have hidden from regulators is needed sooner, rather than later.

H. A. Goodman is an author, columnist, and journalist published in The Hill, The Huffington Post, The Daily Caller, The Jerusalem Post, and other publications.

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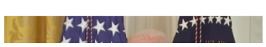
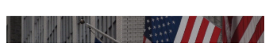


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