Funding the Future

This is not a 'buyer's strike'. This is recession

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Rana Foroohar argues in the FT this morning that because the cost of food, fuel and housing has been climbing so dramatically in the US afirm called Currency Research Associates has identified strong anecdotal evidence that a “global ‘buying strike’ is emerging”. The argument is that "consumers around the world begin to cut back their spending on anything they don’t absolutely need".

What fascinates me about this piece is it’s framing. As Foroohar goes on to note:

Currency Research Associates says investors would be wise to look at what happened in another period of declining income and production growth, between September 1937 and June 1938. Back then, after hitting a couple of peaks, equity prices plunged by 40 per cent in three months.

This typifies the piece. That fact that people are in poverty, or that they cannot feed their children is nit if apparent concern. What matters is the impact on share prices.

It so happens that I agree that a stock market downturn is very likely as result of the recession I see coming. I should have thought that obvious. As Danny Blanchflower and I explained in The Mirror on Saturday, if people stop spending then other people lose their jobs, and a vicious downward spiral in incomes results. Of course that will impact share prices, just as it can also create a banking crisis due to bad debts.

But stock market and banking crises are the consequences of people not being able to meet their basis needs. Those crises are in that case not the issue of primary concern. And nor is there a ‘buyer’s strike’. This is not voluntary. People are only spending on essential items out of necessity. And that suggests we are heading for recession.

Sure, share prices might fall in a recession. But the FT really should be talking about how people can make ends meet, and not the consequences for the wealthy of the inability of so many to now do so through no fault of their own.