Economic Briefs

House Hearing on 'Equity Finance': SEC Discovers Derivatives Plague Is 'Green'

May 5—The new Securities and Exchange Commission (SEC) Commissioner, Gary Gensler, will testify May 6 before the House Financial Services Committee (a committee rather notoriously targeted by aggressive corruption efforts from Wall Street) about what is being called "equity finance," the use of derivatives on short-term stock moves. This was the practice, using huge amounts of leverage provided by the biggest European, Wall Street, and Japanese banks, which brought on the implosion and liquidation of the Archegos hedge fund in April, with bank losses in its train that may be in the vicinity of $100 billion.

Gensler is reportedly going to promise the House that the SEC will introduce new measures to require large investors, like such hedge funds, to disclose their short positions and their use of such derivatives to the SEC.

One type of derivative Archegos used, called contracts for differences (CFD), is also used by banks, pension funds, and large investors under European Union schemes to force the introduction of "renewable" (interruptible) energy sources, electric vehicles, "carbon farming," etc.

CFDs in Archegos' case allowed it to place very large, entirely leveraged bets on the difference between opening and closing prices of stocks on given days, without any form of ownership of the stocks. But over a much longer period, say 10 years, contracts for differences are part of "carbon-offset market" schemes. They allow a large investor in, for example, an offshore wind farm, to buy derivatives contracts to "insure" the difference between the value of that investment today, and its projected or modeled value a decade from now, say, because of increased prices of electricity in the meantime. The purpose of these derivatives is to allow such "green finance" investments to be given a higher value than they actually have—just as is the case with "equity finance" on Wall Street.

Gensler's promises to Congress could be trouble for Wall Street's big banks.

China and the United States Both Need More People!

May 5—Despite vastly different population densities, both China and the United States are suffering imminent negative population growth, although for very different reasons.

The number of births in the United States fell by 4% in 2020, to 3.61 million, the lowest number since 1979 and continuing a seven-year fall, according to a Bloomberg News report May 5. This will be above the number of deaths, but by only 200,000 or less. Fertility rates fell for women in every single age group from 15 to 54 years. The drop in births ranged from 3% for Hispanic women, to 8% for non-Hispanic Asian women.

There is one survey by Ovia Health, a women's health technology firm, which concludes that anxiety about the lack of employment and lack of economic wherewithal to raise children, and fears of mother and/or baby contracting COVID during pregnancy or childbirth in a hospital, were major factors in the birth decline—but again, this trend has been underway for nearly a decade, and merely accelerated in 2020. Clearly the economic conditions for family formation were already collapsing before the pandemic.

There are some reports that China's population actually declined in 2020, although they come from sources of very hostile publications such as the London *Financial Times*. But already in 2019, the number of births in China fell by 580,000 to 14.65 million—still three and one-half times the number in the United States. China's census data completed in December 2020 have not yet been released, so the idea of an absolute population decline can't be confirmed.

The problem in China, despite strong physical-economic growth and—until 2020—plentiful jobs growth, is the long-term effect of the one-child, then two-child limit on children per couple over a period of decades, clearly being lifted now with childbearing being encouraged and incentivized. Because of the previous limits, the number of women-of child-bearing age is now very low.

Both nations' labor forces are growing at slower and slower rates, with China's being near zero growth and the United States at about 0.5%/year, according to the United Nations. A separate People's Bank of China report estimated China's GDP growth could drop to 5.1% per year by 2025 from this cause.

Yellen Makes a Fed-ian Slip

May 5—U.S. Treasury Secretary Janet Yellen tried, but could not really take back her comments in an interview May 4, when she suggested Federal Reserve rate increases might be coming soon, due to that phenomenon that is not really occurring to any great degree, and in any case

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only temporarily, of course—inflation. In one brief comment, Yellen both gave away that she knows the Biden Administration is unleashing powerful inflation pressure through vast amounts of non-productive spending and Fed money-printing; and that in this administration, the "independent" Federal Reserve and the White House are conspiring to flood markets with new money for new, "green" purposes.

Yellen said, "It may be that interest rates will have to rise somewhat [from the question, this year] to make sure that our economy doesn't overheat, even though the additional spending is relatively small relative to the size of the economy."

Later in the day Yellen was speaking at a *Wall Street Journal* CEO Council event, and was asked if she, the Treasury Secretary, was recommending a Fed rate hike, or predicting it. She had a "walk-back" answer immediately ready: "If anybody appreciates the independence of the Fed, I think that person is me.... I don't think there's going to be an inflationary problem. But if there is the Fed will be counted on to address them."

Though this attempt to take back her earlier comment was not very successful; no doubt that failure will be "temporary."

Biden's Use for Nuclear Is Just to Slow Expansion of Gas Turbine Power

May 6—Reuters first carried reports on May 4 that the Biden Administration was going to provide subsidies to keep existing nuclear power plants in the United States operating, "in order to meet climate change goals." On May 6 Energy Secretary Jennifer Granholm confirmed this, testifying to the House Appropriations Committee that the Administration is "eager" to work with Congress on subsidizing nuclear plants to keep them from being retired. Granholm said, "The DOE has not historically subsidized plants, but I this this is a moment to consider ... to make sure that we keep the current fleet active."

Thus, nuclear power is getting its nose under the climate-change tent. But Granholm made sure that is all it is; the use of nuclear power is not reliability, desalination, process heat, advanced propulsion for space rockets; it's simply to keep enough nuclear on the grid to hold down the need for proliferating gas turbine power plants as the "back-up" for unreliable wind and solar projects which are littering the landscape as the only power infrastructure being built in the United States. "We are not going to be able to achieve our climate goals if nuclear power plants shut down," Granholm to the Committee. "We have to find ways to keep them operating."

Granholm's promise of subsidies—probably in the form of tax credits for nuclear plants like those given to "renewables"—may also have been a gesture to Sen. Joe Manchin (D-WV), who has demanded the nuclear fleet be supported and without whose vote Biden's so-called "jobs and infrastructure" plan has no chance of passage in the Senate. But Manchin has also called for Granholm's Department of Energy to continue the aggressive support of more advanced, higher-temperature, and smaller nuclear fission reactor designs which came from President Trump's and Energy Secretary Rick Perry's DoE. There has been no sign of that from Granholm.

Fed's Financial Stability Report Shows Its Worry About a Crash

May 6—The U.S. Federal Reserve has released its 71-page annual *Financial Stability Report: 2021*. To see the degree to which the Fed's board of governors are worried about the approach of a financial crash centered in corporate stock and bond markets, listen to the statement released by the deputy chair of the Fed, economist Lael Brainard.

Significantly, Brainard points to the Fed's concern about the still-resounding failure and liquidation of the Archegos hedge fund, which involved liquidation of some $50 billion in stock values on international exchanges and has hit major banks with somewhere between $10 billion and $100 billion in losses.

"The combination of stretched valuations with very high levels of corporate indebtedness bear watching," she wrote, "because of the potential to amplify the effects of a repricing event. The *Financial Stability Report* describes the failure of Archegos Capital Management and the associated losses at a number of large banks. It highlights the potential for nonbank financial institutions such as hedge funds and other leveraged investors to generate large losses in the financial system. The Archegos event illustrates the limited visibility into hedge fund exposures and serves as a reminder that *available measures of hedge fund leverage may not be capturing important risks. The potential for material distress at hedge funds to affect broader financial conditions* underscores the importance of more granular, higher-frequency disclosures." [emphasis added].

The report itself says that "should risk appetite decline from elevated levels, a broad range of asset prices could be vulnerable to large and sudden declines, which can lead to broader stress to the financial system."