

Markets Need To Clear copyright ©

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Fantasy Free Economics The world is not coming to an end. It is only changing. Markets always clear but government interference makes the process difficult.

Currently there is a huge supply of houses hanging over the real estate market. Without government interference the housing market would clear in a month or two. Even on local levels every effort is made to make sure foreclosures trickle onto the market. Information relevant to buyers is withheld. Every asset will sell at the right price. Houses are no exception. An economic recession will end only when markets are cleared of excesses. Real estate prices still have a long way to fall.

Over the past several decades the financial sector has gained enormous political power. As a result, government policy has promoted the growth of large banks, hedge funds, brokerage houses and anything else related to assets and money. The financial sector has become so powerful that government is now a tool to be used for enhancing the value of financial assets beyond any levels that would occur in a free market setting.

Like any sector that has had government assistance, the bloated financial sector has become an inefficient use of resources. In a free market setting such a situation would never occur. Wall Street is so bloated that it is self destructive. The financial sector must be cleared of excesses before an economic recovery can begin.

Economic recessions occur naturally as resources are shifted out of poor performing areas into more productive uses. Economic depressions occur because government intervenes and tries to prolong the status quo. Every effort is made to keep markets from clearing. Nothing good happens until the old is allowed to disappear and the new takes over.

In a free market, the good outweighs the bad but only the bad is easily

visible. Hence there is a natural tendency to see failing industries without seeing emerging growth opportunities. In the 70s and 80s, it was easy enough to see the declines in the rust belt and labor intensive industries. The emerging opportunities in the computer industry were not all that visible. There is a natural tendency to try to save what is failing but the efforts always prolong economic hardships.

To experience an economic turnaround markets must clear. Government is prolonging the process.