



Written by [Bob Adelman](#) on May 27, 2022

Musk Says “Rude Awakening” Coming for U.S. Economy

When one of Elon Musk’s Twitter followers asked him if he thought a recession was coming, [Musk responded](#):

Yes, but this is actually a good thing. It has been raining money on fools for too long.

Some bankruptcies need to happen. Also, all the Covid stay-at-home stuff has tricked people into thinking that you don’t actually need to work hard.

Rude awakening inbound.



AP Images
Elon Musk

Indeed, the government has been “raining money” on consumers and, thanks to the shutdown, their savings have reached record highs. In April, JP Morgan reported, after looking at credit- and debit-card transactions taking place in restaurants and big box stores, that consumers are now spending some of those savings.

As Beth Ann Bovino, chief U.S. economist for S&P Global Ratings, said, “Right now, people are still sitting on a nice bit of savings. And the reason why is that people spent so many months in quarantine, many people didn’t spend and go out.”

This spending has given the economy a boost, in spite of the report on Thursday from the U.S. Bureau of Economic Analysis (BEA) that the economy shrank by 1.5 percent in the first quarter of the year.

But that boost may not last, said Bovino: “That gives us some cushion this year, but eventually people are going to close their pocketbooks. That doesn’t bode well for the U.S. economy going forward.”

Indications that just such a “closing of pocketbooks” is likely to happen soon come from various sources. Bloomberg’s monthly survey of economists earlier this month showed that they boosted the chances of a recession happening this year, from 27.5 percent in April to 30 percent currently.

The head of Moody’s Analytics, Mark Zandi, told CNN earlier this week that “recession risks are uncomfortably high — and moving higher.” Goldman Sachs raised its chances of a recession over the next year is now 35 percent, or better than one chance in three.

Liz Ann Sonders, writing in an investors’ newsletter from Charles Schwab, said most people define a recession as two consecutive quarters of negative growth in the gross domestic product, or GDP:

Now is a good time to remind investors that a U.S. recession is not ... defined as two consecutive quarters of negative GDP growth....

The official arbiter of U.S. recessions is the National Bureau of Economic Research (NEBR),



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which defines a recession as “a significant decline in economic activity that is spread across the economy and that lasts more than a few months.”

The NEBR looks at real (after inflation) personal income, employment, wholesale and retail sales, and industrial production.

Sonders echoed Musk:

Recessions are not a matter of “if” but simply a matter of “when.” News media often portray them as a catastrophe, but the reality is every economic cycle ends in a recession, allowing any excesses to be wrung out and thus making way for the start of a new cycle.

So, when is a recession in the U.S. economy likely to occur? The Conference Board uses a number of key indicators to build its “leading” economic index: employment, stock prices, and consumer and business confidence, among others. On May 19, the board reported that its LEI (leading economic Index) fell slightly (0.3 percent) in April, after rising slightly (0.1 percent) in March.

There’s The Buffett Indicator — the ratio of the total U.S. stock market valuation to total U.S. economic output, or GDP — which recently touched an all-time high of 220. With the recent decline on Wall Street, that indicator has dropped to 169.

The one most commonly used indicator — the stock market itself — is predicting a recession within the next six months.

When asked how long the coming recession might last, Musk responded:

Based on past experience, about 12 to 18 months.

Companies that are inherently negative cash flow (i.e., value destroyers) need to die, so that they stop consuming resources.

This “destruction” inherent in the private capitalist system was put perhaps more gracefully by Austrian economist Joseph Schumpeter as the “process of ... mutation that continuously revolutionizes the economic structure from within, incessantly destroying the old one [while] incessantly creating a new one.”

Such “destruction” makes way for improvements. An example, from Investopedia, makes the point: “Netflix is a modern example of creative destruction, having overthrown disc rental and traditional media industries.”

Musk himself is an example: His SpaceX company with its reusable rockets, is replacing NASA; his Tesla car company is forcing traditional car makers to adopt, adapt, or disappear; his purchase of Twitter (if it takes place) will challenge the mainstream social-media companies to reopen themselves to free speech, or die.

Musk’s tweet responses come from an individual who is intimately familiar with that private capitalist system. His personal wealth, estimated at a quarter of a trillion dollars, is a measure of just how successful he has been in exploiting opportunities inherent in a system that is continually evolving and improving.



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