

Benign Neglect of the Real Economy

3-27-15

There is a tendency to believe that there is something novel in current attempts to revive the economy. In fact there is little difference between the policies of today and those of the Hoover administration except for the volume of liquidity thrown into the breach. Hoover also lowered interest rates. The Hoover Fed also bought government bonds to increase liquidity. Hoover created the Reconstruction Finance Corporation to bail out failing industries (Incidentally, much that is written about the RFC, including reputable published books, credit FDR for its founding because it seemed so New Dealish -- Not really as much difference in thinking and planning between the Dems and the GOP as many people believe). An example of how the same old crap is endlessly used -- during the so-called "Savings and Loan" crisis (actually, the entire banking system was in the process of failing) the first Bush administration set up the Resolution Trust Corporation to bail them out. The "fiscally responsible" Republicans created this institution solely for the purpose of keeping the bailout cost off the books even though doing so cost taxpayers \$10 billion more than if it was part of the budget.

One difference between then and now is Smoot-Hawley. This act was intended to restrict imports for the purpose of boosting American industry. Much too crude and an insult to allies. The modern method of "free trade" agreements amounts to the same thing. The powerful nations achieve their goal getting all they want while hiding behind the word "free." Smaller economies are wrecked as thoroughly as if they were embargoed.

All Hoover achieved by his efforts was to help bring down the entire world banking system. Germany was importing more than exporting because of the war and reparations, and was covering its debts through foreign investments and its shipping services. When those sources began to weaken it tried to form a customs union with Austria. France said nothing doing. That caused French banks to pull back on loans to Austria. That caused the Creditanstalt to fail in May 1931. All together put great pressure on the British financial system because it was making heavy short term loans to Germany. That caused France to cash in on its investments in Britain. Altogether it forced the UK and its colonies off the gold standard which then spread everywhere. And that led to a depression which only was brought to an end by the destruction of war.

So where are we now? Back in the 20's commodity prices were kept relatively stable by increasing or withdrawing liquidity. Deflation could be forestalled by increasing liquidity. Well, commodity prices are weak everywhere but the liquidity option has been used up. All failures of Hoover have run the same losing course during the current scheme and only succeeded in creating a financial bubble that will create effects worst than the last one when it finally bursts. Then I guess it will be a new version of the New Deal which will try to make enough work to forestall a revolution.

The clear solution is to allow financial institutions to fail -- instead of liquidity we need liquidation. Then build up the real economy by shifting more of national wealth to the working class who have the need and the right to it. But it's not in the nature of capitalism to do such things.

Auto negotiations are underway. Workers want to get rid of the two tier system where the first get a maximum of \$28 an hour while the second gets from \$14-\$19 an hour (Imagine! unionized auto workers making \$14 an hour -- the minimum wage in England is the equivalent of \$10). The auto companies want to add a third even lower tier. Workers led by boss loving union leaders have had no raise in 9 years. The GM/government deal required that the unions accept no raises for 6 years. Auto makers are now hugely profitable after billions of taxpayer assistance -- \$10 billion of which will never be paid back. Auto parts supplier Lear agreed to the first contract (pay for auto parts assemblers are 21% below where they were 10 years ago). The UAW bragged about getting rid of the two tier system. And it did. The Lear plant in Hammond IN now only has one wage rate -- that's because the second one was shipped off to another plant in Portage where the pay is a measly \$12-\$15.25.

Meanwhile the slow slide continues. The market was mostly down (DJIA lost all its gains for the year). Japan, the nation with the craziest liquidity program, has lost all of its artificially created inflation and is now back to zero. Brazil had a booming 0.1% growth last year. American corporate profits had their worst year since the recession officially ended. And Greece seemed to be prepared to end it all. Like the 149 people that found themselves in an unhappy relationship with Andreas Lubitz, world capitalist leaders may regret not recognizing the sickness that it has created in Greece and many other lands.

<http://www.unrealeconomy.org>