From Cyclical to Paradigm Shift

06-03-16

This August the world economic slump will be entering its 10th year with as yet no recovery in sight. Jeffrey Snider of Alhambra Investments presented numerical evidence of the synchronic decline of world capitalism. Using global trade as a monetary substitute for GDP, according to OECD between 1990 and 2008 it grew at an average annual rate of 6.83%. Recovery would mean that rate plus the loss incurred during the depths of the downturn. In 2015 global trade totaled $22.4 trillion, $7.7 trillion less than the pre-crisis annual average. Global trade in 2017 should be $34.3 trillion but is projected to be $23.6 trillion, $10.7 trillion less. Solid evidence that recovery is a fiction. According to Snider the reason why all of the central banks' efforts have failed is that they stubbornly think the slump is just a severe occurrence of a common economic cycle and that traditional financial pump priming efforts should speed up its recovery. It's precisely because it is not a cyclical phenomenon that none of the remedies have worked. He feels that there has been a fundamental break in the financial basis of capitalism. Rather than cycling within the norm we have experienced a paradigm shift -- a permanent departure from the norm -- a reorientation of the system in its entirety. The typical term used to describe such a shift in a social system is revolutionary change. That the crisis phenomenon occurred worldwide simultaneously should have made all aware that it wasn't the typical minor downturn. If it is a paradigm shift, there never will be a return to conditions of recent past good times. A positive revolutionary change would be an improvement, but there is another synchronous political pattern that has been spreading worldwide -- the whittling away of basic personal rights to make way for a developing police state. Behind the optimistic front, the rulers know the rulers know that the only solution for the present is the creation of a bunker state.

Additional evidence for the above came in the form of the May jobs number -- 38,000, the lowest since September 2010 -- 77,000 if the striking Verizon workers are included. April numbers were cut to 123,000. 36,000 jobs were lost in the good producing area (mining and manufacturing). The one seemingly positive sector of the economy was the string of 200,000 jobs per month. Four of the last five months now below 190,000. The last six months averaged 170,000. With such bad news coming from the Establishment Survey, it was somewhat surprising that the unemployment rate fell to 4.7% (from 5.0%). But that was almost entirely due to 600,000 people leaving the work force last month -- 820,000 the past two months. One might have expected the Dow to have fallen many hundreds of points with other indexes declining in proportion. But no, after a slide there was a significant recovery. Analysts quickly determined that a Fed rate hike for June is now dead. So the speculators were cheered by the bad news -- like the fellow on his death bed who is thrilled that he won't have to get up in the morning.

With Yellen and Obama frequently bragging that they have created 14 million jobs during the recovery, it's important to recognize the difference between creating and recycling. In February 2008 the BLS announced there 138.5 million non farm jobs. In April 2016 it said there were now 143.9 million non farm jobs. That is a net increase of 5.6 million jobs the rest being the refilling of the old, and the total heavily weighted toward low paying leisure and entertainment jobs because of the disappearance of well paid goods producing jobs. It takes an actual improvement in the real economy to generate those. So the creation of new jobs over the last eight years has averaged 56,000 per month. Much less than the puffed up figures. More jobs info -- The prime working age (25-54) population increased by 5 million from 2000 to a total of 126. About 71 million have full time jobs, 1.2 million less than in 2000. Average real hourly wages for production non-supervisory workers fell 7%. Yet for all that real consumption expenses rose 38% from 2000. There is your stimulus. Transfer payments rose to 33.2% of wage and salary earnings from 21.5%. This reflects primarily an increase in social security payments. An increase in personal debt accounts for the rest.

Japan announced that the big sales tax high scheduled for early next year has been pushed back if not canceled, this even though Abe had announced that nothing but an earthquake or another Lehman would prevent him from jacking up the tax. Contributing to the decision was a 0.4% drop in household spending in April.

After scarcely any rise in the first quarter, American consumer prices rose 1% in April. The annual core rate (excludes food and energy) in 1.6%.

OPEC had another meeting which broke up with no agreement on limiting production. That had no effect on American markets purportedly because a drop in American reserves was announced at the same time.

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