

Greece or the EU – Who Will Kick the Can?

6-19-15

Bernard Condon of the Associated Press reports on a study conducted by S&P Capital IQ for the AP. The gap between “adjusted” profits and real earnings is growing among the companies that make up the S&P 500. In 21% of the companies the profit gap was more than 50% higher than real earnings. A fair number of companies said to be profitable are actually losing money. It's quite normal for companies to use creative accounting to fake their profit reports. Typically it's done by designating ordinary expenses as “ex-items” – as if they were anomalies. 72% of the company's adjusted profits so high they were more than net income – that's about the same as in 2000. After that collapse the government enacted legislation calling for stricter accounting practices. Clearly, it hasn't worked. The gap for this first quarter was 16% – five years earlier it was 9% The gap year to year over 5 years concluding at the end of last year went from 13% to 21%. Another sign that the “recovery” is petering out – More lying is required in order to make things look decent. Expecting capitalism to control the doings of capitalists is like pushing on a string to move a mountain.

Yellen expressed concern that young couple are postponing marriage until they can afford to buy a home. Home ownership is down to about 63% – The lowest level since 1989. It's especially notable that this is so even though interest rates have also been at their lowest point in many years – and have maintained that low level for many more. Yellen implied that the cause was stricter banking requirements – in fact, the real reason is the lack of recovery in real income for those who must work for a living.

Congress is putting on a show that it might finally end one of this country's many welfare for capitalism programs. The Export-Import Bank is up for renewal and with the country in the midst of austerity measures it doesn't look good to cut poor people's food stamps while doling out billions to immensely rich corporations. The Ex-Im Bank provides them with cheap loans or loan guarantees, and insurance. Immelt of General Electric testified today saying that, if you don't give us the money, we will move jobs abroad and thousands of American unionized workers will lose theirs. Immelt – A model citizen from the standpoint of capitalism.

A California court ruled that (at least in the case of a single worker) drivers working for Uber are employees and not independent contractors. Uber drivers have given the jobs reports a huge boost, and the beauty of it is that they are counted going in and are forgotten going out. A discharged Uber driver cannot file for unemployment compensation. Its yet to be seen if this ruling will be nationalized.

The vile mainstream news cretins that place the blame for Greece's problems on the fancy living of the Greek people often cite that country's pension program. They pretend to forget that Greek pensioners took a huge cut to pay for the 2012

bailout (virtually all of the money going to bankers). The average Greek pension is 833 Euros (it was 1350 in 2009), that is slightly above the poverty rate of 665 Euros.

May “core” inflation rate was 0.4%. One should always remember that our Orwellian official economists regard the more marginal components in the price inflation basket as the core – what's left after the real core (food and energy) has been extracted. Including everything, inflation has been 0% for the last 12 months. Their “core” is 1.7% annualized.

Fast track trade without worker job protection has been approved by the House and now goes back to the Senate. That moves the process closer to approval of the Trans Pacific Partnership with 11 Asian countries.

NASDAQ hit a new high on Thursday despite Oracle issuing a negative earnings report and the Greek crisis. Officially it's said the markets were cheered by the FED report of the previous day that a rate rise may be moved back further – and in any case, when it comes, not to expect the next one right away. It's more likely American markets had their best week since April for the same reason other markets have been booming --- it's the effect of a liquidity induced bubble.

Chinese markets have been booming more than any others the last six months but this week the Shanghai composite suffered a 13% decline – worse since 2008. The Cause – investors have \$1.1 trillion tied up in upcoming IPO subscriptions, and concern that the government may tighten margin financing.

And then we have Greece again. The Thursday meeting was a total flop. A last-ditch meeting is planned for Monday but Merkel wants an agreement over the weekend so that it can be voted upon Monday. Meanwhile, on Friday the ECB continued to fund Greek banks in order to keep them afloat. If SYRIZA is serious about holding to its initial promises it should be preparing the country for a total break from the EU and Nato. Today Tsipras had another meeting with Putin. Russia says it will loan Greece money if requested. Putin is hopping mad that Belgium today seized Russian state assets based on a lawsuit filed by the notorious robber baron Khodorkovsky. Similar lawsuits are underway in other nations. France has also seized some Russian assets. It's clear that the tough-talking Troika gang would love to come up with a paper solution that will kick the can down the road until it runs into the next crisis. It will be interesting to see if Russia and Greece can manage to find a way to thumb their noses at the bad guys. In any case it's clear that Greece cannot pay its bailout debt at the end of the month. If the EU state banks agree to take a haircut, that will transfer the additional austerity intended for Greece to the taxpayers of the main countries backing Greek bonds – Germany, Italy and Spain. What effect that will have on the rest of the EU and the world economy is a mystery yet to be revealed. The IMF is still granting loans to Ukraine even though it is in default – but then Ukraine has US and EU guarantors.

But here's a fair warning – the really exciting financial disasters never happen when you expect them. The libertarian loonies spoil the fun by predicting the next

one for the following day. So everyone should relax and calmly expect the powers that be to magically produce the solution they've hiding up their sleeves just to see what they could get out of Greece. Be like Krugman who has not written a column on Greece for three weeks.

<http://www.unrealeconomy.org>