

Inscrutable China

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Krugman in a recent column says China calls itself communist yet the economy is crony capitalist. He then joins the chorus of condemnation of the governments announced manipulation of equities and currency values and says they have “no clue what they're doing”. Let's be clear – what China is doing is what they all have done or are doing. What China has to learn is to not make it so obvious – remember the invisible hand. Treat the investor as one who finds a coin in place of his tooth under his pillow. Make him believe that it's the strength of the base (real economy) that is being paid out in cash to its faithful supporters.

Then we have David Stockman --”the truth is that 25 years of growth boom in China is just a great credit driven Ponzi. Any fool can run a printing press until it grows white hot...they have not created any of the rudiments of viable capitalism.” This quote recalls an earlier article entitled *The Half Smart and the All Stupid*. Any fool should know that Ponzi was taking in investment money that was supposed to be used for a defined productive purpose and not his personal enrichment. Yet China has experienced astounding growth of its real economy – industrial enterprises, infrastructure, construction. That will all still be there even with a financial collapse. What's driving the foreign capitalists crazy is that they have become dependent on easy money derived from China, both as exporter and importer. If China does bring down the world economy it will be in the best position weather it with a newly created advanced industrial society and \$3.6 trillion in reserves. And if all else fails, Chinese workers, having finally learned to know capitalism, will opt for real communism rather than the crap they were founded on.

Here's a written example of Chinese inscrutability from Bloomberg:

“Loose links in public oversight and inadequate punishment are to blame for constant incidents in China,” said Lin Boqiang, a director of the Energy Economics Research Center at Xiamen University. “If a chemical accident like this happens in the U.S., the company responsible will go bankrupt overnight with overwhelming government fines and civil suits. Yet in China we don’t always hear about aftermath punishment for responsible parties.”

When milk was adulterated with melamine the perpetrators were arrested and jailed, and some may have been executed. In this country a peanut farmer knowingly sold contaminated peanuts that killed even more people – and nothing happened to him, though no doubt it hurt his business. How about Bhopal where tens of thousands were killed with no punishment other than Union Carbide merging with Dow? But then Lin may be all too easy to understand. He is just channeling Stockman – there are no crimes committed by capitalists that cannot be excised from the system with fines and bankruptcy.

World markets boomed on Monday because the world economy is sinking so rapidly that China, after reporting an 8.3% decline in exports, would be forced to

lower the value of the yuan. Later that day they did so, by 1.9%.

On Tuesday the world markets gave it all back and more as the yuan continued to decline. It's now about 6.1 yuan to the dollar. Reflecting a manufacturing decline, Chinese producer prices fell 5.47% year to year – a 6 year low.

Meanwhile in the US the ratio between wholesale inventory to sales rose to 1.3, that's the highest since the 1.4 peak just before the 2008 crash. The peak was 1.35 just before the 2001. The ratio during the two best years of this recovery 2010-2011 was between 1/1.10 - 1.15.

Wednesday the floor dropped out of American markets early with Nasdaq falling beneath 5000 and the S&P below 2000 before a recovery that was likely the result of Chinese government slightly reversing the slide of the yuan. Another factor – world economic weakness may mean another Fed postponement of an interest rate hike.

With recovery jobs being inferior to real jobs it's more accurate to determine real job growth based on hours worked rather than number of jobs. The total non-farm labor hours worked from the last quarter of 2000 to the second quarter of 2015 has grown by a total of 1.7%. Not much considering 15 years of population growth..

According to the Wall Street Examiner every month this year has shown more layoffs than the corresponding months last year.

Harvard Business Review 8/12/15 by William Lazonick. Almost of all the wealth created by the equity boom during the current recovery has gone to the top 0.1% of income recipients. A sector dominated by business executives who obtain much of their income from company stock options and stock awards. The SEC enacted Rule 10b-18 in 1982 that essentially allowed company executives to manipulate stock buybacks for their own enrichment. From 2003 to 2012 the 449 publicly listed companies in the S&P 500 during that period used 54% of their total earnings (\$2.7 trillion) for stock buybacks; another 37% was paid out in dividends. Clearly this is at the expense of research and development, and new jobs. Maintaining shareholder value unto death is the mantra of late capitalism.

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