

## Italy Descends into the (Vulgar) Abyss

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Recapitulating the fall of Rome, the current commanders of its afterbirth have devised a peaceful surrender to the Vandals, Goths and Huns of the bourgeoisie. For a mere 100,000 euro flat-rate tax they can reside in what remains of beautiful Italy and hopefully hand out millions in tips to numerous hat-in-hand Italians. Fabrizio Pagani head of the office of the Minister of Economy and Finance says 150 of the world's fabulously wealthy have made serious inquiries. Banana republics with nice weather and little else have used such schemes to make running a dictatorship worthwhile. Italy, with its wealth of attractive ruins, both people and structures, will at least be able to make its past a performance on the world stage of life until capitalism exits – stage oblivion.

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Bill Ackman of Pershing Square Capital Management has decided to end his entertaining bid to run Herbalife off the earth in the interest of humanity while at the same gaining a billion dollars by shorting its stock. Ackman declared the company to be a pyramid scheme then strived to get the government to agree with him and do the dirty work. But the government only found some infractions for which Herbalife paid \$200 million along with altering its business model. But the stock didn't collapse thanks to large contributions from Carl Icahn and huge stock buybacks. Pershing will lose a few hundred million, nowhere near the \$4 billion Valeant fiasco. It's hard to imagine the type of person who would get satisfaction from such a life, especially since he dedicated five years of it to killing Herbalife.

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Harvard's money managers were paid 242 million dollars from 2010 through 2014 to get the most from its 37 billion dollar endowment fund. Their average annual earnings on investments over the past 10 years came to 4.4%. Had they included in the job description of one of their custodians that on every other trash day a defined chunk of the donor provided endowment rubbish must be thrown into a 60/40, stocks/bonds, market tracking index fund, they would have earned 6.4% per year. Next up is replacing all the Harvard educated 'best minds' running the country with dependable hard working custodians.

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In 2006, the year before the crash, the Chinese party congress declared that they will create an harmonious society by no later than 2020. The central components of that societal remake would be democracy and equality. Regarding the latter, China has a rich/poor gap as great as any major capitalist nation. As for

democracy, Xi as president, party head and military chief will rule the nation as long as he cares to retain any one of the positions. What happened is that the mutually beneficial developmental experience between China and the rest of the capitalist world is over, probably for good now that the rest state of capitalism is closer to death than health. Under those conditions the new capitalist rulers view a harmonious society as one where they gently command and the working class cheerfully obeys.

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According to an economist with the Kansas City Fed the decline in the prime aged (25 to 54) sector of the labor force will never be reversed. After WW2 97% of that age group were in the labor force, now it's only 89%. It's called 'job polarization' – demand is still strong for highly skilled and low skilled, it's those in the middle that have been cast away for one reason or another. Without that polarization there would be 1.9 million more workers in the labor force.

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China has seized control of the giant Anbang insurance (and a myriad of other lines of investment) company and arrested its chief Wu Xiaohui. The firm apparently violated the command of the authorities to not invest in very risky enterprises. The cleanup is expected to last a year when it will then return to private enterprise. Wu married the granddaughter of Deng Xiaoping, the party leader who got the ball rolling toward a vigorous capitalist transition. Wu, having married into party royalty, will not likely be harshly treated.

Some key stats for January now that the hurricane season has passed and the Dow and S&P500 in February had their first losing month after 10 winners:

- New home sales from prior 643k – 593k, well below consensus range.
- Durable goods orders yr to yr from 11.3% to 6.8%.
  - Ex Trans from 8.4% to 6.9%
- Core capital goods yr to yr from 8% to 6.3%
- International trade -72.3 billion to -74.4 billion
- Retail inventory from 0.3% to 0.8%
- Wholesale inventories 0.3% to 0.7%
- Redbook same store sales yr to yr 3.7% to 3.3%
- Second reading of 4Q GDP Q to Q from 2.6% to 2.5%
- GDP price index Q to Q 2.4% to 2.3%
- Real consumer spending remained at 3.8%
- Pending home sales for January, December revised down to 0.0%
  - January -4.7%

The markets for the week were up big one day, down big for 3 days, an mixed on Friday.

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