

From Low Rates to High Bubble

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To perhaps the greatest bust ever. But it's one thing that such a thing *will* happen, but quite another that everyone knows that it *must* happen. The term 'must' is used advisedly. Surely something that is entirely 'man-made' can be controlled by the humans that made it, and it can, but not within the confines of a stupidly irrational system like capitalism.

The Great Bust of 2008 has proven to be worse in strictly economic terms than the 1929 Great Depression with total GDP growth between 1929-1939 being slightly more than total GDP growth between 2009-2019. Only the existence of superior social services now compared to then has made this slump more tolerable by the underclass. The other main difference is how each apparently recovered from it.

That's what makes this one unique. Roosevelt thought he had a recovery in 1937 and began cutting back on stimulus and restoring a normal economic order. That was a false dawn and the economy began another slump until WW2 effectively bailed the economy out with massive death and destruction, and with the additional blessing that it happened to people, industry and resources abroad.

World wars are no longer feasible because Mutually Assured Destruction results in no world to recover from. The previous two downturns were ameliorated by artificially induced housing booms. Reagan had depositor owned savings banks converted to shareholder owned banks. Depositors are pleased with safety, small loans and a little interest. Shareholder investors want to make big money fast, which they did by selling mortgages to persons who wouldn't be able to make payments if there was a lasting slump in the real economy.

After the late 80's early 90's bank crash they had to invent a new means for a housing boom. Now they were going to make housing mortgages more safe by diffusing the risk. Mortgages were packaged in specialized securities (Mortgaged Backed Securities) with a mix of high to low creditworthiness combined in one financial entity. Furthermore there were other financial instruments, like Credit Default Swaps, to back them up. But the end state of capitalist money making irrationality is Greed and eventually economic disaster. Which is what we had in 2008.

Two housing busts over such a short time made housing out of bounds for the next artificial stimulation of an economy that can no longer recover from recession and stagnation because of a moribund real economy. A major rise in Fixed Asset Investment would likely develop into a profitable real economy. But the making of real stuff is a very competitive and risky way to get rich. It also takes time. So like people hooked on drugs who only want money so they can get more drugs, the dominant strain in today's capitalism is to make money by buying and selling fictitious assets – stocks, bonds, high quality corporate debt and the like.

To do that profitably they need very cheap credit which is what the central banks around the world are providing. From the standpoint of the capitalist state, if the only way they can provide an illusion of prosperity is with the making of a Potemkin prosperity, than that's what they will try to get away with.

So investors use the ultra cheap credit to purchase stocks and securities. The high demand for them drives up their value and investors use some of that for more investments and so on. That's how we have new market records while the real economy GDP is \$5 trillion lower than it would be if it had really recovered measured by the 1992-2005 baseline. The unemployment rate is so low only because the real economy has shrunk.

According to Cap Gemini's World Wealth Report, high net worth individuals (those with at least a \$1 million of investible assets) increased their wealth from \$32.8 trillion in 2008 to \$70.2 trillion in 2017. An 114% increase in 10 years while total GDP only increased 27%. This is clearly a sign of the hollow expansion of the economy. The way to release some of the air from the bubble before it bursts would be to raise interest rates. But instead of reducing the financial side of the economy to a rational level, it would just as likely torpedo the only thing capitalism can flog as a sign of good times.

Everyone has the sense that the rich are getting richer and the rest are either just holding their own or by comparison getting poorer. In the mid 1980's the richest 0.1% of Americans held about 10% of US net wealth. The lowest 90% held about 35%. In 2013 both the 0.1% and the 90% held about 22.5% of net wealth, and, of course, most of the rest was held by the 0.9% that would bring the total at the top to 1% of Americans.

A single example of the absurdity of our time is that this week it was announced that the market value for Tesla topped \$100 billion surpassing VW's market value. VW sold 11 million vehicles last year. Tesla sold all of 367,000 cars. That's something like a toy car maker being valued higher than the world's largest maker of practical vehicles.

Economic Info

-- The IMF this week lowered its global real GDP growth forecast to 2.9% for 2019. That would make it the lowest annual growth since 2009, the first year following the depth of the slump. At the beginning of 2019 it forecast 4% growth which was lowered in April to 3.6%. Always milk the optimism as much as possible for as long as possible and then hope for the best.

-- Japan is the world's third largest economy. Industrial production fell – 7.7% in October and another – 8.2% in November. The 6 month average is – 3.7%. The final rise in the VAT tax cannot be blamed for all of this, especially since the 6 month average for exports was down – 6.7% and that can't reflect a national sales tax. Imports were down 14.7% and 15.7% respectively for October and November year to year.

-- China is regarded as the real driver of the world economy because of its vast purchase of commodities and huge foreign trade. Presently, just as the Chinese

people were preparing to celebrate their new year – their most festive annual event – a new and currently untreatable viral infection is rapidly spreading from its origin in Wuhan. More than 40 million people are effectively quarantined and many holiday events have been canceled so that all efforts can be made to push back the epidemic. After the end of the so-called trade wars optimism prevailed only to be infected and stifled by the emergency.

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