Capitalism: Myth, Ritual and Reality

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When the Supreme Court in 1886 (solidified in 1888) declared the Southern Pacific Railroad Corporation to be a person under the 14th Amendment's equal protection of the law provision, the rituals that grouped investors go through in the formation of a joint stock corporation were elevated to the status of a myth. Prior to that decision real persons were responsible for debts incurred by the corporate entity they created -- now financial liability was contained within the paper-person brought to life through judicial sorcery.

Many thought the declaration little more than state sanctioned theft -- those in control of the corporation were able to retain earnings derived from it even when it was bankrupt and unable to reimburse investors and suppliers from available corporate assets. Certainly it was a kind of theft but there is no denying that the new business practice served to advance capitalist development through the encouragement of massed capital investments. The same mix of ritual and myth has since become embedded in the interstices of what constitutes the market management of the capitalist system.

The entire image of the system as presented to those consigned to live under it is a false one, but here we are only interested in the ways it touches up the x-rays depicting its economic health. This week the Institute for Supply Management showed that when the real economy has nothing going for it -- stagnant housing, retail and consumer spending -- no new product that may catch fire like radio, autos, TV, Internet and high tech -- then you might as well just throw the whole bucket at the problem. It presented staggeringly high reports on both manufacturing and non-manufacturing growth, the latter being the highest since 2005 when there actually was a fairly strong real economy. The hacks and shills whooped it up even through there is absolutely no data behind it. Numbers are computed on the basis of four words: better, worse, the same. The purchasing managers can easily obtain and compile real data that all corporations must have regarding new orders, output, employment, inventory, etc. but that would make it impossible to sustain the myth that behind unequaled financial "health" there is a real economy that is just a step behind it when in fact it hasn't even been able to get off the floor

The Bureau of Labor Statistics issued a revealing report (via Bloomberg) on the 11 business cycles since 1949. In the first sixty months of recovery the average in real hourly wage growth has been 9%. Where are we in this "recovery"? Since June 2009 real hourly wage growth has totaled the grand figure of 0.5%. The expectations for August jobs averaged 230,000. Instead it came in at 142,000. There were zero added manufacturing jobs. Note how well this report backs up the ISM reports! The labor force participation rate remains at 1978 level. Those on the outs hit a new high of 92,268,000. A freelancer organization and Elance / O Desk reported that 53 million of those employed (34%) are either temps, contract workers or the like. No matter -- the ritualized presentation of self-contradictory statistical crap is only there to cue in the market speculators. At least that has useful predictive value as long as one can afford to be a player.

Meanwhile, on the European front, Draghi of the European Central Bank lowered interest rate to 0.05% (a bad move if only because the number looks silly) and promised another round of asset purchases. He is holding off on the purchase of government bonds so that he has at least one more dud round to fire at the alien beast gnawing the innards of what's left of capitalism. The $900 billion of asset purchases should put the ECB balance sheet above its old record of $2.7 trillion. Draghi let is slide to $2 trillion when he thought a recovery had finally taken hold, but the only thing that had taken hold was the illusion created by the stimulus. In the 12 months ending in June foreigners purchased $416 billion of US government debt -- the Fed purchased $464 billion. Has the QE tapering had the same effect? Stay tuned -- reality is the best myth-buster.

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