

## Beneath the Spreading Obtuseness

5-01-15

In an earlier article I wrote of the war between the Keynesians as represented by Krugman and the free marketers whose leader seems to be Stockman. I called it the war between the half smart and the all stupid with K. making slightly more sense than S. Of course, neither of these gentlemen is at all stupid, and it's a sign of the utterly degraded times that we live in that these two intelligent persons can hold, and make a living on, such utterly false and stupid arguments for their relative positions.

Recently the *Guardian* UK newspaper published a long piece by Krugman arguing against the British, and general Eurozone policy, of including austerity (drive toward a balanced budget) as a way to revive a sick economy. K. has bragged about how well the US had done compared to the Eurozone because it jumped into mass liquidity and easy credit immediately after the slump. The UK followed that part of American policy in almost equal measure. It could do so because it is not trapped withing the Euro of the Eurozone. The ECB followed a similar easing policy that was not as extensive because of Euro limitations, but when that failed it jumped into the same QE policy that the US completed at the end of October 2014, and is due to churn out \$2 trillion of liquidity before it ends in 2016.

So what we have here is that the entire top level section of world capitalism (China and Japan included) followed the same easing policy as did the US. What of austerity? According to K. the UK and the Eurozone included austerity measures and that explains why they have experienced a weaker recovery (actually the UK's "recovery" is on par with the US's according to standard measures). As for the US, K. says the idea was bandied about in 2011 and dismissed. Wait a second! 2011 was the year of the sequestration and the Budget Control Act that mandated a \$1.2 trillion cut in expenditures from fiscal 2013 through fiscal 2021. That is being implemented as we speak with the outrageous cuts in the food stamp program that may total \$134 billion. In addition, the Bush tax cut was allowed to expire in 2012. Thus, *the US implemented an austerity program much like that of the UK and Europe*. K. was required to lie by omission in order to create a phony basis for his argument. Furthermore, the austerity business is nothing new. It goes back at least to the early years of the 20<sup>th</sup> century when austerity was considered a good way to restore confidence in a financial crisis.

That leads us to Stockman. The term "Market" as in "Market Economy" informs us that this particular system produces goods and services primarily for sale and not for use. Of course, most of what is sold must have a use, but it is critical to understand that "sale" always precedes "use" in a market economy. If instead an economy in a free society were based on use, it would be self-limiting because no one in their right mind would produce more than anyone could use – people would obviously prefer to enjoy free time rather than produce for waste. But capitalism is a system that is never in its right mind. It produces for sale and loves

waste because it clears the way for more production for sale. "Market" is also a stand-in for "unregulated." The capitalist economies churn out much more goods than people can buy and it can't just give away the excess because in doing so it loses a potential buyer. So the way they keep what would be excess (and lost profit) moving is to extend much credit to both business and consumer purchases. National economies also strive to dominate external markets at all levels – consumers (buyers), producers (cheap labor), and raw materials. This leads to competitive strife among blocks of capitalists nations and wars, or in the case of Korea and Vietnam, the need to open up those areas to capitalist profit. What does Stockman say to this? --- That all economic downturns from 1950 on were caused by Washington enabling the buildup of excess debt and inventory and not through any inherent tendencies of market capitalism.

Could Stockman be so grossly stupid that he believes the Fed and Washington does these things just for the hell of it? Of course not. In the most minimal way possible he acknowledges the fluctuations of a market economy – note how I politely wrote fluctuations rather than failures. But he will not admit the clear historic evidence that unregulated capitalism with its production for sale has generated economic crises throughout its existence and that the cause is inherent due to unregulated overproduction/underconsumption. Probably the most disgusting aspect of Stockman and the other free marketer arguments is that they never have much to say about the suffering of the majority population as they struggle to survive another capitalist collapse – imagine how much longer that would be if under the Stockmanites we have to wait until it "self-regulates" itself. At least Keynes and Krugman accepted the fact that capitalism has a structural sickness that needs medicinal intervention at all times. Some may think the Stockman type are preferable in power because, while they wait for the system to heal itself, it just may die and then can be thrown on the scrap of history. But these guys aren't stupid, they are followers of Mises and Hayek. Mises praised Mussolini for suppressing worker discontent during a capitalist crisis and Hayek gave the same support to Pinochet. They support a special kind of fascist "free" state – One that would permit pure freedom (actually license) to the superior set – people like them.

The Stockmanites, unlike Krugman, think debt is a big problem. They favor austerity, and one can see how it may help restore confidence after capitalism's inherent drive toward debt generates a collapse. It's a like a drunk reinforcing his promise never to go off the wagon again by destroying all the booze in the house. But the massive collapse of the 30's could have led to the worldwide overthrow of the capitalist system had there been an opposition appropriate for the task. The collapse we are now experiencing seems to be leading toward a second phase once the easing policies complete their failure. Krugman's program is to throw everything into the breach – not just easing but an increase in budgetary real economy spending (he even recommended increasing Social Security benefits while both political sides talk of cuts). These are desperate times and only an economy that's on a permanent drunk can create enough delirium to dupe people into a sense of hopefulness.

**Interesting items of the week.** Apple had a plus \$12 billion in net earnings the

first quarter mainly due to the iPhone with China surpassing the US for sales -- the iPad was off 26%. Apple announced a major return to investors by way of a huge stock buyback.

Announced stock buybacks for this calendar year are nearing the \$1 trillion mark according to Goldman. Last years repurchases were \$269 billion. So brick and mortar companies make money either by selling a product or selling stock that has increased in value. Then you buy more stock, and since that is by far the easiest and quickest way to a profit you switch more of your focus to it, even if you are supposed to be a producer of something worthwhile.

----- Japan retail sales were down 9.7% in March from the March a year earlier. Fitch lowered its credit rating from from A+ to A. The economy continues to sink and the country is close to resuming a deflationary spiral rather than reach its goal of 2% inflation. According to Bloomberg's Pesek, Kuroda and Company have no other choice than to increase the equities and securities purchases by another \$100-\$200 billion. Japan has the highest public debt to GDP ratio of any developed country at about 250%. Government bond yield is currently 0.28%. A rise to 1% may trigger a collapse. So Government of Japan, keep buying Government of Japan until further notice.

----- US 1st quarter GDP growth is only 0.2% annualized down from 2.2% last quarter. Except for the large inventory buildup it would have been -0.3%. Real Final Sales were down 0.5%. Markets only minimally upset.

----- Bloomberg reported that the commodity price index was the lowest since 2001. Low commodity prices usually augur low inflation or perhaps deflation. The traditional solution is to lower base interest rates as a financial stimulant. Oops! – already the lowest. Will have to live with whatever happens.

----- Brazil raised interest rates to combat inflation even as their economy sinks into recession.

-----The Eurozone exited 4 months of deflation the 0% mark.

-----Japanese capitalists so pleased that inflation rose to 2.2%. Japanese people not so pleased that they have to pay more while household income fell 10.6% YtoY.

----- On Friday American markets recovered most of the losses from the previous session. The usual buy on the dip. But the volume was much lower, probably because brokers had May Day on their minds.

<http://www.unrealeconomy.org>