

## Reality Strikes Back

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It is not easy to detect a problem when you are living inside one, and officials are bombarding us with reports that use terms like 'robust', 'booming', 'over-heating', which are associated with '22 year peak in the S&P 500', and the 'longest bull market ever.' And we're not supposed to recognize that it's only the financial sector, not the real economy, that is over-heating, but only the bubble economy and the Earth in general. Which is why the majority of the peoples of world can't see a bright future as long as the political economy of the world as it's now constituted is charged with the task of solving a problem that is basically itself.

Lately we have been shown graphs indicating various types of inversions. The most common are bond yields that are lower for long term securities than they are for those with shorter terms. The bellwether bond is the 10 year treasury, and yields decline when demand for the bond rises. That means that big investors (much more is sunk in securities than in stocks) have fled to the securest investment just outside of the expected blast range.

Not only did such a securities inversion happen just before the Great Slump but last week the LIBOR (London Interbank Offering Rate) curve inverted for the first time since February 2008. August 9th, 2007 was the first time it did that in the last cycle which is why it has been marked as Day One of the slump.

But it seems that our economy is able to pass through a mine-field unscathed. Re-examining what precipitated past downturns indicates why the next one will be different and unresolvable without fundamental structural changes.

In the first war the major industrial powers of the world knocked each other out leaving the field clear for an American financial and industrial invasion. That led to the prosperous 20's which investors, drunk with speakeasy success, partied until tomorrow came. The fortuitous second war more or less demolished all of this country's major competitors leaving them, as well as the folks at home, in need of everything the US had to offer. Prosperity and a couple more relatively small wars led to 1973 when the economy as we knew it disappeared forever. Almost a whole decade of a battle between two apparent opposites, stagnation along with inflation. Stagnation means a weak economy, weak demand should mean a low inflation rate – instead it was high. It was blamed on the oil crisis and/or organized labor (more than twice the percentage of the labor force than today). It really came out of the disordered, irrational way capitalism does things, and it meant that the normal methods of stimulating the economy would worsen inflation, and capitalists hate inflation because it causes capital to melt.

A radical re-adjustment had to be made. First a serious depression was induced in 1980 to discipline the working class, and then came a model now known as neo-liberalism; a reduction in regulations and an opening of all areas of the economy to private for profit investment. Depositor owned savings banks became shareholder owned, and other forms of banking, like savings and loan, expanded. That led to a robust housing expansion and people living off their cashed-in equity. That went bust by 1990, but by then electronics, computers, phones, Internet, picked up the slack long enough for another housing boom and bust.

But this was the big one. It wasn't just a little indigestion, it was a full-fledged seizure of the living heart of capitalism. In their panic the bosses decided on masking a sick real economy with robust financial economy, after all, rising equity values have always reflected a strong real economy in the past.

Thus, we now have the worldwide rejection of historical norms, often in the electoral process, spreading throughout the world. The capitalists' cure led to a shrinkage of the neglected real economy. People were told that the unemployment rate was the lowest in 20 years yet good jobs were scarce and wage increases minimal.

Using a baseline 1965-2007 baseline growth real personal income to July 2018 (using 2012 dollars) is \$2.9 trillion less than where it would have been had it followed the growth of the previous 43 years, and that is largely due to having shrunk the labor force by 17.1 million, which happily generates a silly unemployment rate.

But don't expect the economy to die. As long as there are people there must be an economy. Normally the ruling class would induce some sort of crisis in order to obtain concessions from whose lives they have ruined. There is plenty of evidence indicating that would be a hard sell. The Plan B currently being initiated is to strengthen the apparatus of the police state. If all fails, there is still totalitarianism. Hopefully class war will remove the problem by removing the system.

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