

Farewell Scandinavian Dream

6-20-14

Liberals frequently cite Scandinavia as proof that a capitalism with a human face is possible. But the developing financial crisis in Sweden, the big fish in the small pond, proves that the appearance of humanism can only deceive under optimal conditions.

The Liberals' favorite economist Paul Krugman recently disturbed the placid Swedish countenance by harshly criticizing the conservative government for risking a deflationary spiral by not lowering interest rates.

Why the great fear of deflation when it's something that increases the purchasing power of everyone, most significantly the low income sector that is in greatest need of improvement in their standard of living and quality of life? Yes, with deflation there is a profit squeeze, but surely the wealthy elite is at no risk of having to go busking or stemming in order to make ends meet. And that is why loss of profits is left unstated; instead we have the mystical mythical deflationary spiral which claims that with prices dropping everyone will just sit on their wallets today because they expect lower prices tomorrow, and so on, and so on, until companies go bankrupt because masses of humanity have been hypnotized into starvation and death while waiting for prices to bottom out.

Pure rubbish. The typical wage earner lives paycheck to paycheck purchasing the necessities of life, and usually running short. They can't wait, and if they do, it's only for things they don't need. The real economy has it's own way to fix a profit squeeze by eliminating the least efficient among them and reducing demand. 'Deflationary Spiral' is a smokescreen designed to fix the *unreal* economy by lowering interest rates. It's a deflationary spiral in the value of equities and other securities that they fear, thus they must lower rates so that 'assets' can be created by debt rather than what is known as 'work' in real life.

So what's the problem in Sweden? Mortgage debt is 370% of disposable income -- the highest ever. Total consumer debt is 174% of disposable income. Why would anyone in their right mind want to make it easier to worsen that ratio? What Krugman is really saying is: Do you want an economic collapse now, or would you prefer postponing it until later when you can have a much more serious one? But hold on -- the International Monetary Fund is in full accord with the current economic policies Sweden is following. It is saying: Lower interest rates will induce the current bubble to burst sooner while the current approach only causes a slow-acting movement toward decrepitude and misery. That slowness is a blessing. It is a lot like aging; once you've noticed what you have lost, you've already gotten used to it. Would you prefer to go out with a bang or a whimper? Unfortunately Dr. Kevorkian is no longer available to assist.

Meanwhile, a clearer picture of where the American economy is heading was revealed in the recent meeting of the Federal Open Market Committee. To use a term that I hate, the GDP is 'trending' downward, while the economy is

"rebounding". Using the highest and lowest estimates from March up to now, GDP for the second quarter will be 2.1% instead of 3%. Evidence that the economy really is rebounding was demonstrated when the markets hit new record highs based on this wonderful news, oh, and also because Yellen said interest rates will remain low regardless of what she said earlier about 2% inflation being the limit.

Spring is boom time for the construction industry; making up for all the down time caused by the harsh winter. Housing starts in May were down 70,000 from April. Housing permits down 6.4%. Multiple family unit construction down 19.56%. Single family home construction down 5.9%. The Mortgage Banker Association reports that both new and existing home sales are expected to fall for the first time in four years. Oh, and mortgage refinancing is down 7%. Refinancing is a significant way Americans gather spending money, especially since real hourly wages have dropped year to year. Retail sales are also much lower than expectations. That is the real trending.

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