

## Scylla and Charybdis

1-2-15

The Placebo is the most effective medicine when the full range of illnesses is factored in. Only the final stages of the actual malady, should it exist, reveals the mock medicine for what it is. Much the same remedy is used as a cure for the maladies of capitalism. The Fed doles out the equivalent of sugar pills, the BLS, ISM and other outfits distribute as much placebo data as they can get away with, and those that persist in saying that the system is really quite sick are said to be suffering from imaginary invalidism.

Fortunately, in the last days of 2014, the factors that have brought this phase of capitalism to its terminal stage were revealed. The Fed's extension of postponements of measures in the Dodd-Frank financial reform act of 2010 that would deny taxpayer backing for risky financial investments, and the congressional repeal of a provision along the same lines, all so they can create mock securities for sham investments, demonstrates conclusively that systemic bankruptcy is preceding the real thing. They have no solution other than to repeat the known failures.

Greenspan put the icing on the cake in a sort of summing up of the financial year. Now at 88 years he wishes to be remembered for something other than the second biggest financial catastrophe in this country's history and his notorious love of gobbledegook. He said that the so-called economic recovery is a weak one, citing the lack of any sustained increase in the purchase of capital goods by corporations -- i.e., investment in developing the business for which they were created.

Paul Krugman preferred to brag rather than scold. He is oh so full of himself citing his brilliance in promoting the Fed asset bubble as a remedy for the depression, yet is still unable to speak from less than two sides of his mouth. Yes things have worked beautifully with the financial measures, but the "recovery" is largely non-existent in real terms because the vast debt increase by the Fed was not mirrored by a similarly vast increase in governmental debt in order to stimulate the real economy which would then presumably bring about a real recovery.

Thus we have the worst of two worlds being trundled out as a solution. The asset bubble will burst unless the economy (the real one) gains traction, and that cannot happen because the asset bubble subverts the need for real companies to bother with developing that which brought them into existence. As for the capitalist state - it can hardly open wide the spigots when it has an \$18 trillion debt thanks to wars and welfare for the rich-- one can get away with giant numbers when a nation is doing well compared to its competitors, but the moment any weakness is detected, the figure gains meaning.

A few end-notes on the year. The S&P gained over the previous year for the 6th

year in a row. Curiously, The UK's FTSE100 was down 2.7% from 2013. The UK mimicked American financial policy, in fact seemingly doing better in most categories. It actually had a revival in housing, for example, yet its prime market didn't do as well. Apparently British reserve applies also to speculative mania.

Japan had about a million births in 2014 - and 1.3 million deaths. Population dropped to 97 million. Given its insane xenophobia it will continue to fade away unless its special brand of reactionary capitalism is not given a forceful kick into the past.

On Friday oil was down to \$52 a barrel. Draghi announced that the ECB will prepare the technical basis for a future implementation of QE -- Some expect the next CPI figure will reflect deflation. The Euro is at it's lowest level to the dollar since 2010 (1.20). The dollar is the strongest its been in 11 years when compared to the usual basket of currencies. And even though I have no faith in PMI numbers, the announcement that American factory orders for December were down 8.9% did give some pause. On Monday we will learn if it was a pause that refreshes, or whether the first full week of 2015 will presage a year in which we discover what capitalism does when all else fails.

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