How Not to Shrink a Wealth Gap

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According to the Boston Consulting Group global personal wealth grew a mere 1.6% in 2018. That's compared to 7.5% the previous year, and a consolidated 6.2% from 2013 up to 2017. Factor in the rising dollar and personal wealth declined 1.6%. That's so sad, but we are still blessed with having the number of millionaires growing by 2.1% in 2018 bringing the total to a formidable 22.1 million millionaires.

From all that we hear and read we are certain that the wealth gap between rich and poor is growing, but that's just an illusion because because our faulty reasoning places absolute before relative value. That makes us disgusted with the plutocracy. Why should there be such obscene wealth among the few and so much poverty among the rest?

We would be much more accepting of the way things are if we adopted the official statistical model for determining a wealth gap. That means focusing on relative increases in rates of personal wealth rather than absolute amounts of wealth. That's how we get those bogus positive reports on national economies that attempt to show conditions improving because personal income of the poorest class has grown by 5% while the rate of growth of the richest was only 3%.

Many people who just give such figures a glance think if the rate remains higher for the poor they will someday catch up with the rich. But the rate of growth for the poor can be vastly higher and still take lifetimes to catch up because the starting point is a pittance which of the mountain of growing wealth at the top. In any cans it will never happen because those who possess most of the wealth also control most of the power.

Another defense of relative comparisons is that every dollar increase means more for the poor because it improves their quality of life while the rich already have all that they need and want. Thus we should only look to improved conditions for the poor and ignore the meaningless growth at the top.

And that's where a helpful relative comparison can be found. What should the poor and working classes that produce the wealth be in want while those that enrich themselves from the labor of others have all that they desire? A sound understanding of this comparison can lead to rapid improvement in the quality of life and it wouldn't begin with money. It would start with a relative adjustment of power that draws all of it from the rich and returns it along with their ill gotten gains to those that rightfully should have it.

Economic Info

-- A great week for the markets world wide thanks to the announced final convictions of central bankers that the world economy is in danger of slumping from its current stagnant state. Early in the week Draghi sadly announced that they will once again have to return to the flashing of stimulating gestures. Powell merely had to remove the word 'patience' that was used in the Feds previous report to make investors as excited as cats hearing the opening of a can of tuna. The S&P 500 set a new all time record.

-- The precipitous decline in the real economy is the real cause of all the concern which, of course, must be buried under reports of trade wars and possible real ones. Markit's composite PMI for June industrial production is 50.6. That indicates a steady slide from January when it was about 56. Markit's manufacturing PM is 50.1, the lowest since 2009. Both of these figures are now in the same territory as the two near recessions of 2012 and 2015-2016. And those came before trade wars.

-- Japan like Germany have economies that depend on a strong world economy that wants what they have to sell. Germany's economy is slowing at an increasingly faster tempo. As of June Japan is already in negative territory with the announcement of a 1% decline month over month. Markit came in at 49.5.

-- According to Marquette Associates total US consumer debt rose to $14 trillion in the first quarter of the year. That surpasses the $13 trillion of debt that collapsed the economy in 2008. About $1.5 trillion of that is student loan debt; almost three times the amount in 2008. On a per capital basis (327 million people) that is $41.77 -- 9 cents higher than 2008. The report tries to put some positive spin on the negative by comparing the GDP decline in 2008 to the current positive growth, but what caused the 2008 slump came in the immediate prior years which had vastly higher GDP growth than now. They also make good news out of far fewer mortgage defaults while ignoring the fact that our low grade depression has meant far fewer home sales -- new home sales being less than half the 2004 1.4 million record.

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