

Slush Fund Exhaustion

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The markets had their worse week since March. Having gone through much of the trillions in stimulus, losing the promise of having more on the books before the election, and then the return of Covid as virulent as at inception, the only winners were the cash rich of the upper-upper crust. They buy equities after major declines in a process known as the centralization of capital. The rich dominate the poor, and the obscenely rich love to screw the losers of their own class.

Thanks to the stimulus the economy grew 7.4% in the third quarter (33.1% annualized) -- the most in the post WW2 era. This received lots of positive reporting. *Light at the end of the tunnel -- Our perpetually dim future has added a few joules per second to temper the gloom.* But the reality of it is that the economy with all the pump priming still hasn't recovered to pre-Covid level because the economy declined 31.4% in the second quarter and 4.9% in the first quarter.

Growth has stalled and without more stimulus or a real recovery the economy will remain in official recession in February for months to come. February also marked the longest expansion (128 months) since 1854 when business cycles began being calculated. The old record was 120 months (1991 - 2001). Per capita GDP growth in 2012 dollars averaged 2.1% from 1970 - 2007. Since then it only managed 2.1% growth in 2019, but even that kept it 13% below trend (1.6% annually). If these figures were adjusted to exclude the positive oriented distortions incorporated in them, there would be essentially no growth, and with little or no growth comes little or no hope for a better future.

On Friday the EU reported 12.1% growth for the EU and 12.7% for the Eurozone in the third quarter. Yet both are still about percentage short on recovering from the Covid slump. The US and many countries today reported record high infection rates. The hope that China having recovered from Covid earlier and with less harm to the economy would somehow use its healthy economy to cure the ills of the rest of the world. That's not going to happen. It's initial burst of growth is already slowing and it learned from its huge waste on fiscal stimulus following onset of the slump that more of that may lead to an endless Japanese-style debt burden slump.

The ruling classes will out of habit be skirting disaster for themselves. They have incurred a huge debt which they may try to pay off by

making cuts in social services in the like; services already trimmed to the bone by earlier reductions. That could bring riotous results in the current state of affairs. It's hard to imagine Biden any more than Trump imposing a tax on the wealthy. But there is a precedent. Two British research groups made a proposal similar to what FDR tried to enact in the 30's -- put a cap on annual earnings that amounts to a quarter of a million dollars. In the UK corporate executives earn 126 times the pay of the average worker. In the US it's 320 times. In 1978 it was only 31.4 thanks to the presence of an existing 'communist' competitor making evil capitalism buff up its image.

Income limits have been proposed in the past. In 1942 FDR wanted a 100% tax on income above \$25,000 (about \$400,000 today). He didn't get it even though the country was in a world war. But Congress did enact a 94% rate on income above \$200,000. There are some similar proposals being currently considered but don't hold your breath.

There is a greater gap between the classes in terms of earnings. In the 1990 recession there was only a small gap in the various earnings levels as to how long it took to regain the earning level they had prior to the recession. Later recessions (2001, 2008) the gaps widened with the length of time expanding the most in the poorest class of earners. In the Covid recession the highest earners recovered in full by the summer while middle earners were 10% below and lowest 20%.

In addition to personal and national debt many countries have a heavy foreign debt burden. The Jubilee Debt Campaign presented an interesting proposal to the IMF: sell 7% of the gold that it holds. That would earn \$12 billion, enough to settle the debts of 73 of the poorest nations until the end of next year. After a respite the IMF will certainly demand something in return that will insure no nation will ever ask for such assistance again.

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