

Stagflation -- Back to the Future

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Americans in the 1970's experienced the greatest decline in their standard of living and quality of life since the end of the war. Gone were the days when one member of the household could earn enough to support a family, a home, and even a not too fancy annual family vacation.

For a time it was closer to the bad old days when everyone in a working class family had to pitch in for survival. The good times following the war were largely the result of the US preeminence in the world and the recovery from demand destruction -- closing down of home consumer life as all was shifted to a war economy -- the return to normal conditions led to what can be said to be the peak of American capitalism insofar as it affected the quality of life for the average American.

The eighties brought a new scam in the form of the conversion of depositor owned savings banks to shareholder owned. Capitalists love to play with other peoples money which in this case was used to create a housing boom and bust into the nineties. Fortunately in that last decade of the century computers and the Internet became an outlandish source of no-profit millions thanks to the market insanity -- which came to an end as the dot.com burst. And finally, the average American's desire to own a home, brought a new scam to finance and make that dream a pseudo reality. Thus we had Collateralize Debt Obligations and Credit Default Swaps, and other such fancy junk. But this was the most complex highly evolved scam in recent history, and a collapse so all consuming in the financial system and society at large that we have yet to experience a recovery. The ongoing slump lasted so long that another crime of capitalism came to the surface in the form of a pandemic that has kept the world in disease crisis thanks to the system's rape of the ecosphere.

Today the markets had a second day of a major downturn. Nasdaq is 29.3% off its high (bear market). The S&P 500 was in the same but escaped (probably by the Fed buying) down to 18.7% - and the Dow (30 big companies) is down 15%. More exciting is the Bond/Notes market which have yields the highest since 2008 (30 year bond 3.196, 7 year note 3.267). And then there is inflation which rose 8.6% in

May. The major effect was in energy -- thanks to the war mongers running Nato -- costs up more than 34% -- and groceries up almost 12%.

What's worth watching with respect to inflation is that the Fed has been working hard to bring it down by raising interest rates and reducing its balance sheet. All to no avail because it's not due to an increase in demand but rather due to a decrease (demand destruction) caused by a cold rather than a hot economy. Besides the loss of stimulus payments there has been the pandemic, a generalized breakdown in functionality – like transporting goods from where they were made to where they are to be sold – and a large escape from the workforce by many who are just plain sick of the system.

It's the middle class that is the main driver of the economy – those with sufficient earnings to make substantial market investments. The dot.com bust wiped out \$8.6 trillion of their investments. The 2008 financial crash took with it \$11 trillion middle class investment. From Q4 2019 to Q4 2021 the market value of corporate equity held by American households and non profits rose from \$54 trillion to \$80 trillion. It's likely that more than half of that \$25 trillion has been lost in recent weeks.

The Fed buys securities in various forms to stimulate the economy. In May 2008 the Fed balance sheet held \$880 billion of those purchases. Fourteen years later it holds \$8.9 trillion. Eventually everyone's budget and expenditures have to be equalized to roughly the same incoming and outgoing. Neither the Fed, nor this country, can do any such thing without inducing an economic catastrophe.

What makes the immediate future worth watching very closely is that the US and its Nato allies created a proxy war with Russia by engineering the 2014 overthrow of the elected government in Ukraine. They must have expected a quick surrender by Russia after sanctions and the war destroyed its economy. So far Russia has succeeded in securing everything that has been traditionally theirs in Ukraine and has done a better job in adjusting its economy to changing conditions than has the West. One must be alert to what a country with a collapsing economy and brain dead leadership will do when its driven into a corner. How will it react?