The Wheezing Pump

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We have now reached the point where the financial bubble has not only pushed itself into everyone's face, but is now laughing at us. First quarter GDP dropped at an annualized 1%. The markets loved it, the touts saying it was only because inventories were drained rather then refilled. Forgotten is that major portion of recent increases in the GDP were the result of inventory build-up in the expectations of an improving economy. Now that it's clear the economy is, if anything, failing, the excess inventory is being sold off. The day after that report economists were surprised to learn that consumer spending fell 0.1% after rising 1% in March. Meaning: the dead cat bounce is dissipating after a single month. Consumer spending is now at the lowest level since September 2009. Existing housing sales rose only 0.4%, down 9.4% Y to Y, after a 3.4% rise in March. Capital investment down 1.2%. Business investment down 2.8%. Market volume is so low that traders expect a 20-25% decline in revenue. The UMich consumer confidence index fell to 81.9 from 84.1 (a few days earlier the utterly worthless "five question" Conference Board index showed an improvement). Meanwhile, the S&P and Dow continue to hit new highs.

Two months into perfect business weather shows scarcely any improvement in the business climate. It's impossible to tell when enough is enough; when it sinks in that this farcical monetary escapade has been a resounding flop. The low volume is a symptom of a move away from the fall -- the slowing down before going into reverse. After the next collapse we may learn why most of our personal civil rights have been vaporized -- possibly because the powers that be have run out of any solution that will continue to permit their looting of the nations' wealth.

It's clear that world economic crises are now a structural component of the system. It has completed its historic mission. We have created the means to provide what the people of the world need to live if only that had the means to purchase it. And since commodities aren't produced to satisfy needs but to generate profits, a portion of which in the form of capital is used to produce more profits, that capital must find a profitable home or the system will fail.

The fundamental dynamics of the system must be altered, and a clue as to what that should be were the only actions that did show an improvement in the economy; the temporary reduction of the payroll tax and extension of unemployment benefits. Both increased or maintained the purchasing power of the average American, but that was nowhere near enough because the crisis is centered in the "unreal" financial sector of the economy. That sector once existed to support the real economy. It now dominates the entire economy. The solution is to cut it down to a fraction of what it is today.

The first action following the next collapse should be the liquidation of all failed financial institutions. Their assets to be housed in a temporary public entity until they are settled. Legislation would be enacted to eliminate corporate limited liability for all financial institutions (as hedge funds were until 1970). Any real economy corporation that engages in purely financial transactions for profit, like stock buy backs and currency speculation, will also lose their corporation status.

Massive unemployment for a period can be expected until former employees of financial institutions and others can be retrained. When the small businessman goes bust he often drops back down into the working class. Many capitalists will be dropping down at least one notch.

To provide employment in what would now be mostly a real economy that can readily supply what everyone needs, the workweek should be cut in half while maintaining the same level of wages and salaries. Just a few modest proposals.

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