

Pity the guys who invest in stocks. One day they wake up and read that industrial production is up and so are car sales. As a result, the Dow Jones average goes up 400 points. The next day they read that unemployment is up. Down goes the Dow 300 or 400 points. What's going on?

What's going on is something that 95% of the Nobel prize winning economists don't seem to have a clue about. A combination of factors has produced a situation that does not seem to be curable or reversible.

[1] One factor is that [job elimination from automation, Internet sales and non-human communications](#) have finally caught up and surpassed the gains in productivity produced by automation, Internet sales and non-human communications. When automation was first introduced into the marketplace several decades ago, there were many dire predictions that jobs would be lost and there would be negative impacts. Actually, that did not occur because the gains in efficiency led to expansion of the economy, and the old jobs lost by automation were replaced by new jobs created by the expanding economy. However, that is no longer true. Corporations now find that they don't need as many employees as they used to. Internet sales are beginning to dominate. (I have bought about 90% of my purchases on the Internet over the past five years. I hardly ever go to a store except for a grocery.) Some day, even grocery shopping will be mainly done over the Internet. Corporate America used the recession of 2008 as an excuse to implement widespread layoffs that will never be reversed. Corporations don't want to discuss business with you. They will route you via "press one" and "press two" to a recorded message or a computer output. Many corporations (e.g. Amazon.com) provide no means for you to communicate with them except to select from a set of bullets on the Internet for a specific order. These cutbacks in employment are not temporary; they are permanent. The main weapon against job loss by the Obama administration is to cut interest rates. However, dropping interest rates to zero will not restore former jobs. We are now approaching a situation where we will

permanently have a lot more people of working age than we need to conduct the commerce of our nation. Thus, we will divide into three classes: the rich, the workers, and the out-of-workers. The rich and the workers will go on as usual and that part of the economy will not change; it will just be a decreasing percentage of the total. They will buy cars and other products, and provide economic data that is encouraging. The growing ranks of out-of-workers will remain outside this mainstream putting a growing drag on the economy.

[2] Since Reagan was elected in 1980, the Republican Party in the U.S. (with acquiescence of the Democrats) has enacted [tax policies that greatly favor the rich](#), that has led to an upward redistribution of assets in America, with an unprecedented number of very wealthy people sucking up the wealth of America, leaving the middle classes struggling to get by, and at the same time, removing funds from the marketplace into sequestered paper investments. This money is like a tide pool, surging in and out of asset markets, but it is insulated from consumer purchases, which are the backbone of our economy. It is like putting a dam on the river to restrict water flow. As can be seen in the graph below, since 1980, tax rates on the upper brackets have been the lowest in history except for the roaring 20s. It is interesting that taxes on capital gains (where the rich make most of their income) has always been much lower than earned income from wages. While the Republicans complain that the Democrats want to “redistribute wealth” by taxing the rich, the fact is that it is the Republicans who have done all the redistribution of the past three decades, and that redistribution was upward, not downward.

[3] The [policy of free trade has allowed transfer of many manufacturing facilities from the U. S. to overseas](#), particularly China, allowing them to produce cheaper goods with cheaper labor, which is a boon to those in America with jobs who can

purchase cheap products made in China, but at the same time causes a shrinkage of job availability in America. As a result, a growing fraction of the population cannot afford the cheaper goods from China. Related problems occur in the problem of balance between the poorer and richer countries within the European Common Market. American corporations are now making greater profits overseas than they are domestically, and they have huge reservoirs of cash overseas sitting fallow because they would be taxed in brought back to the U. S.

[4] Starting with the great stock bull market of 1982 to 1999, proceeding through the dot.com balloon, and thence to the housing bubble of 2002-2007, and finally the stock bull market of 2009-2011, [we have become too reliant on paper assets \(rather than earnings from work\) as a source of wealth](#). We keep bidding up paper assets (mainly real estate and stocks) to outrageous levels thinking that this is a real source of wealth – until they collapse of their own weight. This sawtooth pattern of overbuying and overselling leads to excessive spending during boom times and reluctance to pull back during slack times, further exacerbating the debt problem. The growth of stock prices has hugely outpaced the growth of productivity and production.

[5] All of the above factors are greatly amplified and exacerbated by our need to spend more than we earn at the international, federal, state, county, municipal and personal levels. At all of these levels, [people, organizations, institutions and governments have continued to spend beyond their means for decades](#) until finally, it seems to be coming home to roost with the growing realization that this is no longer viable. So, we find that at all levels (international, federal, state, county, municipal and personal) we are overspent with phantom money that exists only as loan balances on paper that will never, ever be paid back. And at all these levels, people have become used to a higher level of spending and resist strongly any proposed cutbacks in spending or increases in taxes to cover these excessive spending habits.

Back in 1983, when the U. S. federal debt was a mere \$1.4 trillion, a noted economist said: "The debt burden today is

awesome and its constrictiveness is permeating our economic life and suggested that a depression from a deflating debt bubble might be beyond the power of the authorities to counteract it." Today, the debt is ten times that amount. Some day, I don't know when, the world will realize that the U. S. Government budget is a Ponzi scheme. In a Ponzi scheme, you provide unsustainable returns to investors, using new money coming in to pay the old investors. As long as many of the old investors reinvest their paper earnings, and don't withdraw from the fund, it can keep going a long time. That is what Madoff did. He sent investors a monthly statement that said that their accounts went up. Seeing their accounts go up, investors kept most of their money in his fund and only made minor withdrawals. New money coming in covered the small withdrawals. Holders of U. S. bonds are the investors in the U. S. Government. The U. S. Government spends more than it takes in in taxes. To cover this shortfall, they borrow new money. With that new money, they pay interest on the old loans. The total deficit keeps growing. As long as new money keeps coming in, this process seems to be sustainable. However, no Ponzi scheme has ever lasted forever.

[6] Today, we hear a great deal about "job creation". From the Democrats' point of view, we are just in a temporary economic cyclic downturn, and if we can put enough band aids and bandages on the wound, we can cure the patient and go back to prosperity. The Democrats see borrowing and raising the debt limit as a temporary evil, necessary to combat this temporary disease of the economy. However, as we have seen above, there seems to be a permanent restructuring of the economy that is neither curable nor reversible. Furthermore, there is more to the issue than merely counting jobs. If someone who used to work in a factory at \$16/hr is now standing behind a fast food counter at minimum wage, he still has a job, but it is not the same. If the Government engages a worker to work on infrastructure using borrowed funds to pay him, that is not sustainable. If 200,000 bean counters monitor CO2 emissions, that contributes nothing toward our prosperity. When the Government adds more workers, that just adds to our debt burden. Corporations have

found a way to do well with less employees. That's the bottom line.



