

The Emperor has no Economy

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Corporate profits are up, real incomes down

The Associated Press' Paul Wiseman had one of the snappier headlines last week: "The Economic Recovery Turns Two - Feel Better?"

"After previous recessions, people in all income groups tended to benefit," Wiseman wrote. "This time, ordinary Americans are struggling with job insecurity, too much debt, and pay raises that haven't kept up with prices at the grocery store and gas station. The economy's meager gains are going mostly to the wealthiest...A big chunk of the economy's gains has gone to investors in the form of higher corporate profits."

Wiseman quoted David Rosenberg, chief economist at Gluskin Sheff and Associates in Toronto: "The spoils have really gone to capital, to the shareholders."

Choose a narrative

More than at any previous time in their lives, Americans looking for answers and facts are forced to read between the lines of press and broadcast accounts that bear little resemblance to the reality "on the ground", as they say on cable news. Truth, when it can be coaxed out of propaganda so patently ridiculous that it has become indiscernible from the standard-issue "everything is great, our leaders know best" nonsense of the world's autocracies, is revealed in sloppy contradictions. Wiseman, though flying on the side of the agenda-busting angels, is no exception: is the US economy generating "meager gains" or "spoils"?

On its face the official narrative is false to a laughably Orwellian extreme. The recession is over; the recovery is well underway, they say. However, as The Wall Street Journal reports, the recovery is slow and mainly benefiting big business. "While the US economy staggers through one of its slowest recoveries since the Great Recession," the paper wrote July 5th, "American companies are poised to report strong earnings for the second quarter - exposing a dichotomy between corporate performance and the overall health of the economy."

The same "dichotomy" afflicts every industrialized nation except for Germany and Luxembourg, both of which have seen unemployment return to the levels before the global fiscal crisis that began in September 2008.

Logical holes in the argument gape so wide you could drive a truck through it - if it was worth putting it out on the road without goods to fill it with, or consumers to buy them.

First, high bottom lines don't necessarily reflect healthy companies. A company can suffer declining sales and market share yet still increase profits by laying off workers, thus reducing payroll expenses. For example, the Internet search giant Yahoo! saw revenues decline 12 per cent in late 2010 yet doubled its profits. How'd they do it? They fired one percent of their workforce. If Yahoo! were to continue this trend, it would soon cease to exist.

Second, First World economies are two-thirds reliant on consumer spending. Consumers in the United States, as well as those throughout the world, are in big trouble. The official US unemployment rate is 9.1 percent but the "real rate" - the one calculated the way most other countries do theirs, which includes people whose unemployment benefits have lapsed - is closer to 20 per cent, higher than those of Tunisia and Egypt at the start of the Arab Spring. People who still have jobs have suffered pay cuts both visible and invisible, the latter from galloping inflation in fuel and other costs that government agencies intentionally omit from calculations of consumer price indices.

Can an economy "recover" without its people?

Airports and shopping malls throughout the United States are empty. Advertising space on billboards and newspapers go begging. Storefronts from Fifth Avenue in New York to the Las Vegas Strip to small towns in the Midwest are boarded up. The price of homes, which for middle-class Americans are often their sole substantial form of savings, continues to decline after the real estate bubble burst in 2008. Consumer confidence, the measure of people's willingness to part with cash to buy goods and services, is in the tank.

When 60 percent of Americans rate the economy as poor, don't count on them to buy stuff.

They're not.

"Workers' wages and benefits [now] make up 57.5 percent of the economy, an all-time low," wrote the AP's Wiseman. "Until the mid-2000s, that figure had been remarkably stable - about 64 percent through boom and bust alike."

Corporate CEOs may be whistling past the graveyard, raking in huge bonuses and pay raises approved by compliant boards of directors, but the overall state of the economy is a disaster. Recovery? Forget it - there isn't one. Are we still in a recession? That would be an improvement. By most measures - unemployment, collapsing gross domestic product, falling incomes - this is a global depression. But the government won't even admit that there's a problem - except for unemployment and falling wages.

"Who are you going to believe?" the comedian Groucho Marx asked. " Me, or your lying eyes?"

In the role of Mr. Marx is one Barack Obama. Like his outgoing predecessor George W. Bush, Obama's response to the 2008 meltdown was to transfer trillions of dollars out of the US treasury into the portfolios of investment banks, insurance companies, airlines and automobile manufacturers, no questions asked. This corporate-based approach relied upon Reagan-style trickle-down economics, the repeatedly failed theory that wealth transferred to the highest echelons of the ruling classes eventually "trickles down" in the form of increased spending, economic activity and hiring to the middle- and working classes. Not surprisingly, this non-response response succeeded in one area: increasing the salaries and perks of corporate executives. Job growth has been non-existent.

When Bush's invading armies failed to find weapons of mass destruction in Iraq, his administration's answer was to claim that, in fact, they had. Obama's economic strategy takes the same tack, repeatedly "talking up" the economy despite the hard evidence right before his listeners - in their paychecks or lack thereof - that there is little to brag about. Back in April 2009, Obama claimed that his pseudo-stimulus banker-enrichment program was "starting to generate signs of economic progress."

The president stayed the course in 2010: "Make no mistake, we are headed in the right direction", Obama said in July, while allowing: "We are not headed there fast enough for a lot of Americans. We're not headed there fast enough for me either."

January 2011: "We know these numbers can bounce around from month to month, but the trend is clear...The economy added 1.3 million jobs last year, and each quarter was stronger than the previous quarter, which means that the pace of hiring is beginning to pick up."

Obama omitted the fact that the US economy must add a net of 1.2 million jobs annually just to keep up with the increasing size of the labor force due to immigration and population growth.

June 2011: "There will be bumps on the road to recovery."

Convincing the masses?

Either Obama's powers of persuasion are lacking or the American people have wised up. Whatever the reason, they don't believe him. According to the Gallup poll, which asks whether respondents think the economy is improving or getting worse, the mood has become increasingly pessimistic along the bumpy road to recovery.

The Department of Labour announced this week that the US economy had added a mere 18,000 jobs in June, a net loss of 82,000. Eight million jobs were lost during the 2008-09 debacle; some two to three million more since the "recovery" began.

The respected website Shadow Government Statistics currently places the real unemployment rate at 22.8 per cent - equivalent to the worst months of the Great Depression of the 1930s.

With nearly one out of four Americans jobless and countless more underemployed, tensions are emerging between classes in this traditionally "classless" society in which both the rich and poor identify themselves as "middle class". Though the wealthy always do better during tough times (well, during any times!), the gap is widening at an astonishing rate. "US workers averaged \$46,742 in 2010, up 2.6 percent from 2009," according to USA Today. Bear in mind, with a real inflation rate (calculated the same way as inflation is calculated by other Western countries) of 11.2 percent, these workers are losing ground. Meanwhile, the paper noted, "average compensation among S&P 500 CEOs rose to \$12 million in 2010, up 18 percent from 2009 - and that's not counting the potential multimillion-dollar value of stock or stock options, which are granted at set prices and provide holders profits as stock values rise."

The numbers are jaw-dropping. John Hammergren, CEO of the McKesson healthcare services firm, received \$150.7 million in 2010. Fashion maven Ralph Lauren paid himself \$75.2 million. "Some of the gains are humongous", said Paul Hodgson of GovernanceMetrics.

To the citizens of countries for whom \$46,000 a year would seem like a king's ransom, Americans' resentment of CEOs who receive annual salaries on par with the gross domestic products of some nations no doubt seems petty, if not a little silly. Yet they (and the CEOs) should ignore the prosperity chasm at their own peril. American politics, already more divisive as seen through such phenomena as the nativist Tea Party movement on the far right and the anarcho-libertarians of the left, will fracture further until the center (what center?) no longer holds.

Americans may be better off than most people on the planet. But they don't feel like it. Perception becomes reality when people are scared.

The world cannot feel safe when its sole remaining superpower is falling apart at the seams. If patriotism is the last refuge of the scoundrel, militarism is the desperate last act of an oppressive government in a state of economic collapse.

Real economic indicators

At the core of the when-is-a-recovery-not-a-recovery question is vocabulary. What is a recession? How do we know when it's over?

Beginning in the 1970s American economists began to define recession as being in effect when GDP falls during two consecutive fiscal quarters.

One result of this definition is that a recession is often not officially "declared" by mainstream economists until it is over - i.e., when GDP begins to rise again. This contributes to a strange reality gap: We are not in a recession until we are in a recovery. Effectively, then, it is rare for the American news media to state at any given time that the US economy is then in a recession. Naturally, this contributes to the perception that newspapers and TV stations lie to them, and that they do so on behalf of an uncaring regime.

The 2008 collapse was exceptionally long. Nevertheless, this rule of the undeclared recession held. On December 1, 2008 the National Bureau of Economic Research declared that a recession had begun on December 1, 2007. They later declared it over as of June 2009. Thus a recession that had lasted one and a half years was only officially acknowledged for six months.

Moreover, the definition of recession is obviously faulty.

For most ordinary people, unemployment is the leading economic indicator. A secondary indicator is income.

Do I have a job?

Can I find a job?

How much can I earn?

The answers to those questions provide the most accurate indicators of economic health. When two-thirds of the economy (or 59 percent now) relies on consumer spending, who gives two figs about whether GDP goes up or down during two consecutive quarters? The fact that the press takes this non-people-based definition of recession seriously provides strong insight into its mindset: People are irrelevant.

"The average American does not view the economy through the prism of GDP or unemployment rates or even monthly jobs numbers," top presidential advisor David Plouffe says, nearly sounding human. "People won't vote based on the unemployment rate. They're going to vote based on: 'How do I feel about my own situation? Do I believe the president makes decisions based on me and my family?'"

Based on that assessment, Obama should start packing. He has not done anything that might have helped the unemployed: extending jobless benefits, forcing banks to renegotiate mortgages for homeowners, imposing national commercial and residential rent control, substantial tax credits for the poor and working class. And it shows: the consumer who lays the golden egg has no money to

spend - and economic activity has all but ceased.

People are furious. But they are angrier at the thought that the rich are getting richer and that the president isn't actively searching for solutions than they are about the fact that they can't pay their bills.

Two years into Obama's presidency "we are still treading water at the bottom of a deep hole," summarizes economist Heidi Shierholz.

In the not-so-long run, however, things could get a lot uglier than the Democrats taking a beating in America's November 2012 elections. The R-word - not recession, but revolution - could be in the offing.

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