

Globalization and Deindustrialization

The Modern Era has seen

- Dramatic rise in the price of financial assets
- American deindustrialization
- Earnings shift away from wage labor and toward capital rent
- A dramatic rise in health care and financial related costs
- Concentration of wealth in an ever smaller % of the population

In this presentation we will look at how this happened and what may happen in the future

Economic Concepts

- An economy can only grow by adding resources (people or materials) or using them more efficiently (scale of plant, technology, process)
 - Scale of plant applies mainly to microeconomics or developing small economies
 - Process is advocated by business consultants but had little impact (overrated)
 - Technology grows incrementally but useful technology grows in steps and has greatly slowed
 - Many things haven't been done because they can't be done – laws of the universe
 - Resource costs other than direct labor have steadily increased (land, taxes, finance)
- Economic Growth and Per Capita Growth (per person) are different things
 - Total growth benefits capital but only per capita growth benefits producers / labor
- Business and Finance interest will (and have) always favored mass immigration
 - Grows total economy but decreases per capita share of the economy
 - Puts downward pressure on wages
- Trade Deficits will always balance
 - Demand must be created for the weaker currency in order to do this
 - Non industrial demand typically takes the form of business debt (equities/stocks) government debt (treasury bonds) and assets of all types especially real estate creating false demand
- Classical Free Market Theory (Adam Smith, Hume, etc.) has always been based on currency backed by specie - fiat currency changes many things

Bretton Woods – Where the modern system began

- Conceived at a world economic conference at Bretton Woods in New Hampshire in 1944 and ratified by Congress in 1945
 - Created a sort of Gold Exchange as England tried to establish in the 1920's but the pound was replaced by the dollar
 - Countries could redeem dollars for gold but private individuals couldn't – US had huge gold reserves
 - Dollar became world reserve currency
- US and Britain embarked immediately on inflationary expansion
 - Other countries followed more of a hard money policy
 - US developed large consistent trade imbalances with Europe
 - Dollars become increasingly unwanted by the late 50's and early 60's
- European countries redeem dollars creating outflow of gold from US
 - US attempted to block central banks from buying gold and replace gold with new world currency
- Nixon takes US off of gold standard in 1971
 - But creates petro dollar system creating false demand for dollar
- Gold replaced by fluctuating fiat currencies
 - Western countries follow expansionary and inflationary policies – race to the bottom
- US policies create demand for US dollars through asset stripping this country
 - Creates ability to finance imports by printing money while other states must first earn the money
 - Allows for the export of inflation

The Process of Financialization

- England and the United States had from the beginning of industrialization sought to develop and protect their manufacturing industries and capabilities
 - By doing this and as the result of abundant natural resources America rose to be an industrial giant
 - Starting in the 1970's that all began to change as the country went down the path of Financialization where income became increasingly disassociated with productive enterprise and more linked to finance and asset ownership
- Historian Carroll Quigley addressed this transition from *Industrial Capitalism* to *Financial Capitalism* in *Tragedy and Hope*
 - Observed that this process was repetitive throughout history
 - England started down this path in the era between the wars but it is neither unavoidable nor natural
- Financial Capitalism and Industrial Capitalism are so dissimilar they would almost seem to be the antithesis of each other yet one springs from the other
- One creates industry and the other consumes it

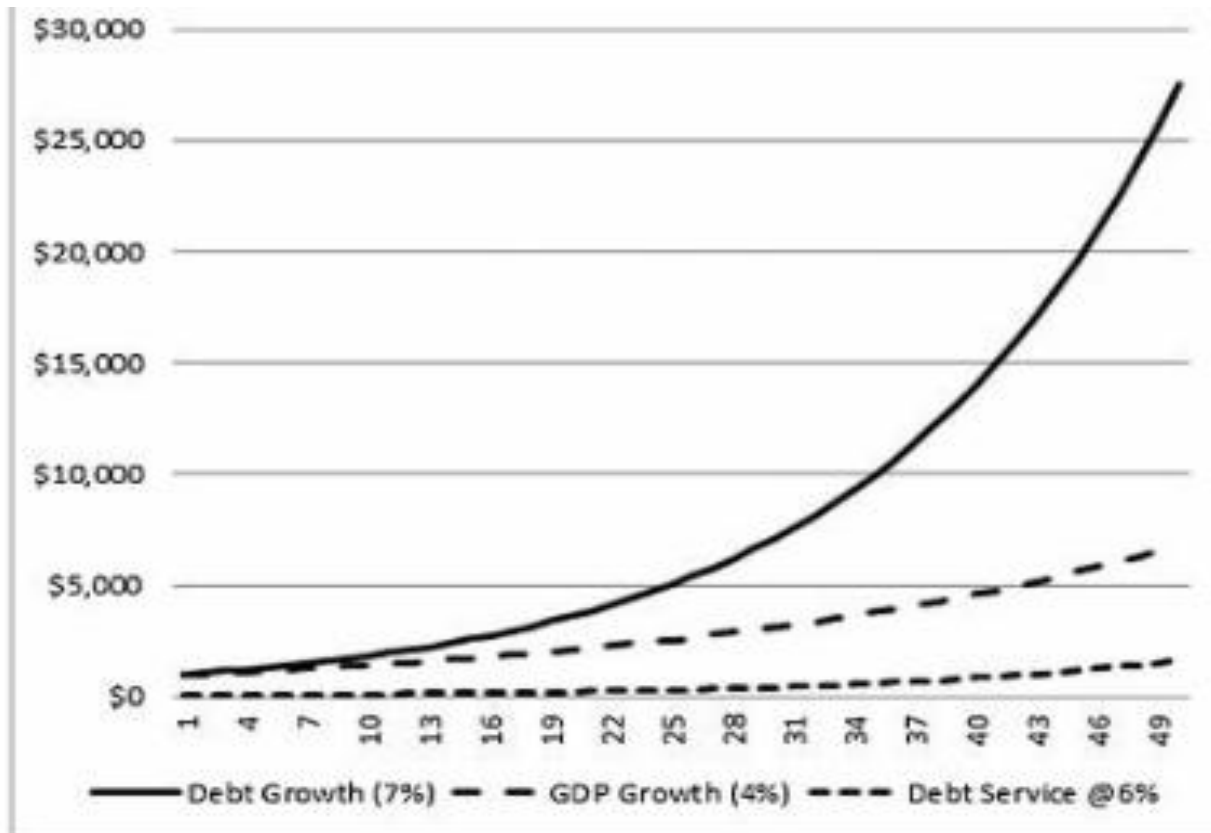
Comparison of Industrial vs. Financial Capitalism

Industrial Capitalism's Aims	Financial Capitalism's Aims
Make profits by producing products	Extract Economic rent and interest
Minimize the cost of living and prices	Add land and monopoly rent to prices
Provide public infrastructure at low cost	Privative infrastructure into monopolies to extract monopoly rent
Avoid military spending and wars that require running into foreign debt	Use international organizations (such as IMF or NATO) to force neoliberal policy
Concentrate monetary policy in the national treasury	Shift monetary policy to central banks representing private commercial banking interests
Bring prices in line with cost value	Maximize opportunities for rent seeking and land ownership, credit, and monopoly privileges
Banking should be industrialized to finance to finance tangible capital investment	Banks lend against collateral, bidding up asset prices, especially for rent yielding assets
Recycle corporate revenue into capital investment in new means of production	Pay out revenue as dividends or use it for stock buybacks to increase stock price gains

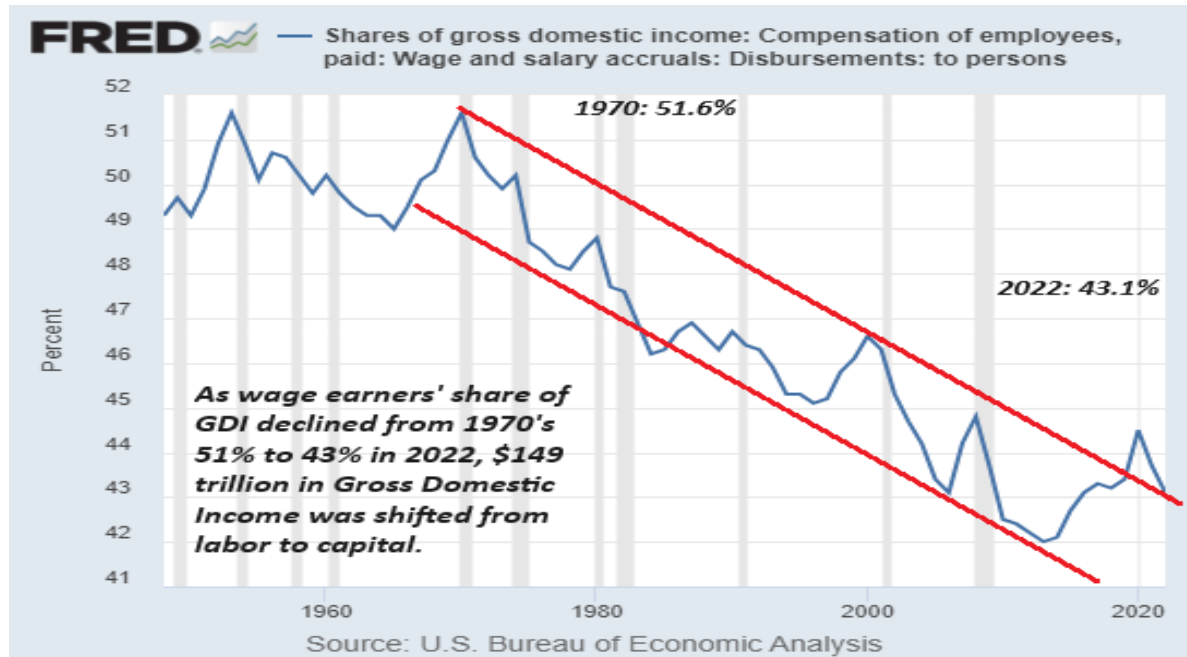
Accrued Interest

- The process by which financialization occurs is tied specifically to the concept of accrued interest
 - exponential growth function
 - This is a mathematical function that has no relation to the economy's ability to pay for it
 - No economy can grow fast enough to support this even with the best of supporting circumstances
- The expansion requires a matching exponential growth of new credit to carry the debt burden and this typically takes the form of financial rent producing assets (stocks, bonds, real estate) driving up asset prices
- Banks try to avoid insolvency by lending creditors enough new credit to pay interest charges but this can't be sustained indefinitely and eventually the cycle breaks
 - resulting in a wave of foreclosures and repossessions
- More favorable tax treatment of capital and capital gains is intended to extend or preserve the cycle
- Problem seems manageable at first but quickly becomes uncontrollable

Growth and Debt (with interest subtracted)



Transfer of Wealth from Labor to Capital



*notes added by Charles Hugh Smith www.oftwominds.com May 2024
calculation of \$149 trillion derived from FRED data series A4102E1A156NBEA*

Even the 8.5% shift in income to capital and away from industry and labor, which is very large, understates the issue when workforce participation is considered over the same period. The percentages of people in the work force increased by about 4% from 1970 to 2020 however the 2020 value is down over 3% from the peak. This means that there is a larger portion of the population working to make the smaller percentage of GDI. Further the percentage of men in the workplace has dramatically declined (see chart below) and these jobs in 1970 tended to represent higher wage positions that could support a family.

The Role of the Central Bank

- Prior to the era of the central bank the boom and bust process would naturally burn itself out in small and rapid boom and bust cycles
 - would impact some but not all banks depending on how they were managed allowing for the mal-investments to be cleared as inflated asset prices return to natural sustainable levels
- With the central bank, however, interest rates and money supply could be used to avoid realizing those losses
- From the 1990's through 2020 this was done by driving interest rates continually lower which drove asset prices, most notably real estate, ever higher
- This failed in 2008 but after that the asset bubbles was re-inflated through very aggressive government fiscal and monetary intervention
 - Initially (1920) the Fed was somewhat reluctant to use these powers but during the era of financialization this would become something of a science but there is a hidden impact to the goods producing economy
- It diverts income from being spent on domestic industrial products which shrinks markets and products and, as a result, stock prices
 - While ever lower interest rates may support the stock price, the other factors impacting the market and the manufacturers remain unchanged
 - Key element of this is low interest rates enabling stock buy backs

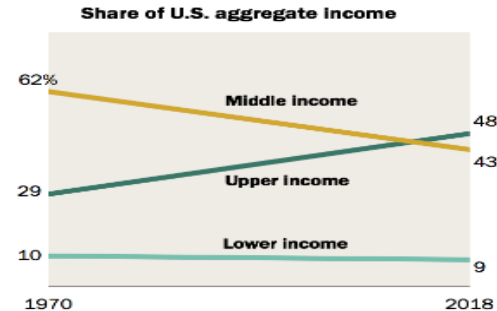
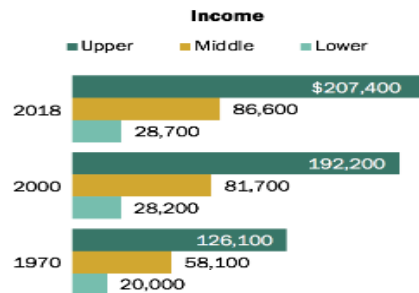
Political and Technological Factors (Perfect Storm)

- Technological developments automated a significant percentage of the jobs including relatively high paying and high skilled manufacturing jobs
- The Immigration Act of 1964 opened up mass foreign immigration again
 - Mass illegal immigration also increased the supply of labor dramatically as demand gradually shrank
- Foreign countries with developing manufacturing capability were willing to run long term trade surpluses – bought US treasuries, equities, resources
- Reserve Currency status and Petro Dollar
- Class divisions in society were replaced with racial divisions
 - Privilege was no longer associated with class but simply with being “white”
- As interest rates were driven lower and lower, retirement fund investments were driven into equities
 - This along with real estate inflation gave average workers an equity interest in asset price inflation making it more accepted and even expected
- Because of the increasing weakness of the labor market the “wage push” inflation of the 1960’s and early 70’s became less and less

Changes In Income and Wealth Distribution

The gaps in income between upper-income and middle- and lower-income households are rising, and the share held by middle-income households is falling

Median household income, in 2018 dollars, and share of U.S. aggregate household income, by income tier

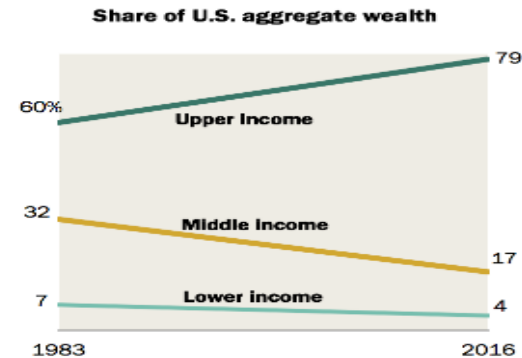
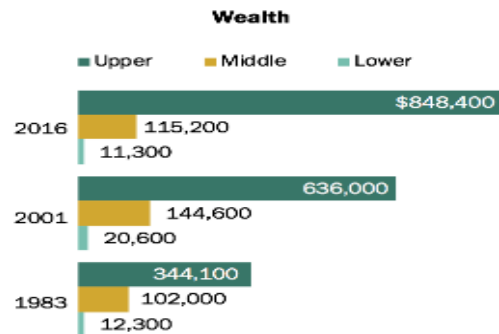


Note: Households are assigned to income tiers based on their size-adjusted income. Incomes are scaled to reflect a three-person household. Revisions to the Current Population Survey affect the comparison of income data from 2014 onwards. See Methodology for details.
Source: Pew Research Center analysis of the Current Population Survey, Annual Social and Economic Supplements (IPUMS).
Most Americans Say There Is Too Much Economic Inequality in the U.S., but Fewer Than Half Call It a Top Priority

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The gaps in wealth between upper-income and middle- and lower-income families are rising, and the share held by middle-income families is falling

Median family wealth, in 2018 dollars, and share of U.S. aggregate family wealth, by income tier

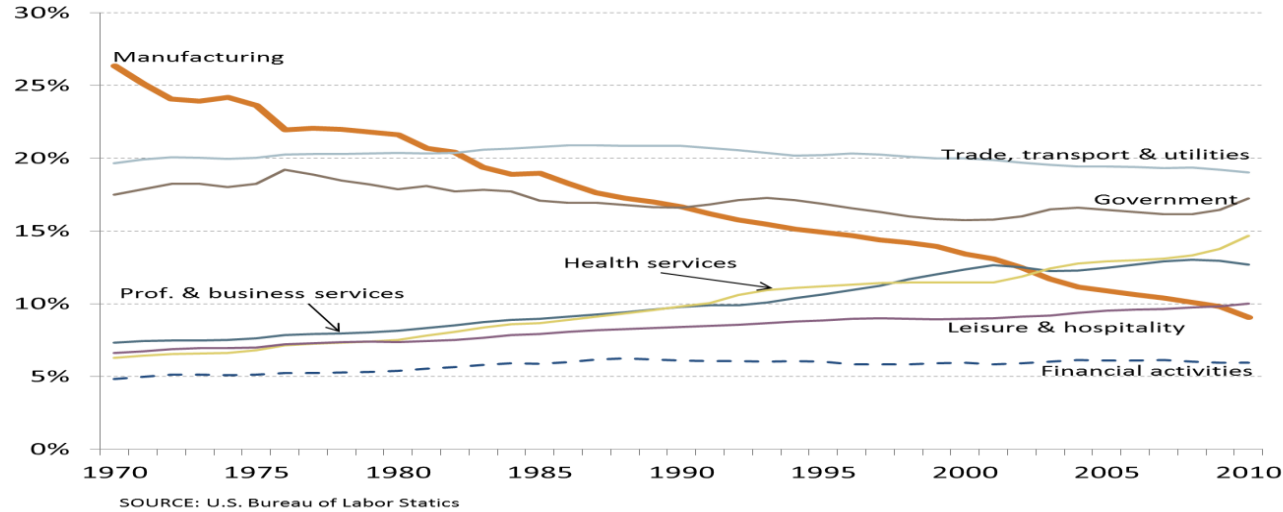


Note: Families are assigned to income tiers based on their size-adjusted income.
Source: Pew Research Center analysis of the Survey of Consumer Finances.
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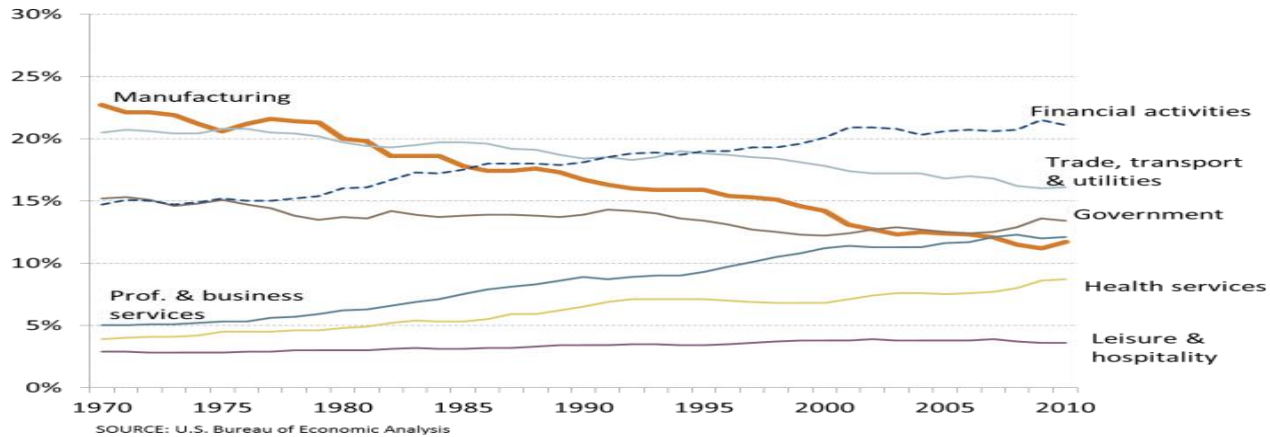
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Changes in Employment and Output

INDUSTRY SHARE OF TOTAL US NONFARM EMPLOYMENT, 1970-2010



INDUSTRY SHARE OF TOTAL US GDP, 1970-2010



The Political Timeline

- 1945 – 1955: Public debt gradually grows as the result of continued military mobilization and New Deal programs that weren't stopped or scaled back (public generally ignorant)
- 1955 – 1965: Increased growth in US military and other foreign spending
- 1964/5 -1970: Further large increases in Social Spending related to Great Society
- 1972-74: Viet Nam war ends in dramatic US defeat – public support for further military adventures near zero but policies don't change
- 1970 – 75: Deindustrialization starts and continues to accelerate - ALL economic growth past this point is tied directly to expansion in debt
- 1978-88: Conservative awakening resulting in general awareness of dangerous debt levels but this is associated almost entirely with social spending and not with military and foreign spending - labor unions come to be seen very unfavorably
- 1990 – Rapid victory in 1st Gulf War creates faith in neoconservative vision and belief in military invincibility making military spending difficult to address even after fall of Soviet Union (no “peace dividend”)
- 1990 – 95 Tech bubble blooms and pops – is passed to Real Estate. Private sectors unions are virtually dead and not a political force, Interest rates start to be continually driven down to near zero over next 30 years
- 2001: War on Terror begins leading to massive expenditures in Afghanistan, Iraq, etc
- 2007: Real Estate Bubble pops leading to massive bail outs that eventually re-inflates RE prices and creates an “everything bubble”
- 2020: Covid fiscal measures and Ukrainian and Israeli Wars


Statistics – Fun with Numbers

- Most believe that the economic statistics reported today have remained consistent throughout time – NOTHING COULD BE FURTHER FROM THE TRUTH
 - These statistics have been continually redefined to give more favorable results
- The largest changes were under the Clinton administration
 - Both parties collaborated in doing this along with three letter agencies
 - Major changes are as follows:
- Unemployment calculation dramatically altered to exclude hard core unemployed
 - Reduces reporting in minority areas in particular
 - Mathematically if the statistic isn't getting worse it is getting better
- Inflation redefined to be well less than half of the old calculation
 - Somewhat subjective based on definition of a “basket of good”
 - Justified by concept of “replaceability” (hamburger for steak)
 - Isolated financial asset price increase and related effect from the statistic
- The Inflation adjustment in the GDP and other statistics isn't exactly the same but by understating it, contraction can easily be reported as growth
- Adjustments commonly used to hide immediate political consequences

Calculating GDP without post 1990 Revisions

Alternate Gross Domestic Product Chart

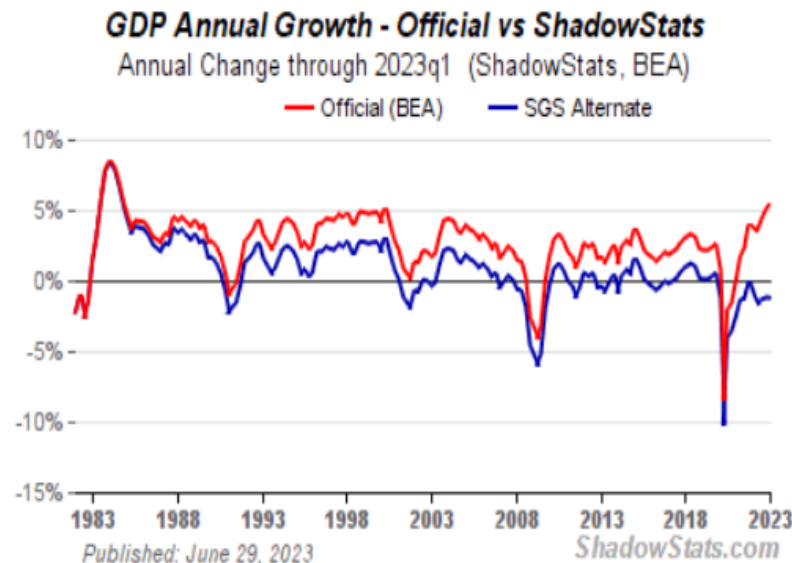
The SGS-Alternate GDP reflects the inflation-adjusted, or real, year-to-year GDP change, adjusted for distortions in government inflation usage and methodological changes that have resulted in a built-in upside bias to official reporting.

Alternate GDP Data Series  (Subscription required.) [View](#) [Download Excel CSV File](#) Last Updated: January 1st, 1970

Annual Growth (Year-to-Year Percent Change) in GDP is shown in the chart on the right. This is not the annualized quarterly rate of change that serves as the headline number for the series.

Note: The GDP headline number refers to the most-recent quarter's annualized quarter-to-quarter rate of change (what that quarter's percent quarter-to-quarter change would translate into if compounded for four consecutive quarters).

This can mean that the latest quarter can be reported with a positive annualized growth rate, while the actual annual rate of change is negative. Such was the case for the 3rd quarter of 2009.



You Shall Own Nothing and Be Happy

- This is a quote attributed to Klaus Schwab and the IMF
- As technology has expanded an increasing number of people have become “useless eaters” (but useful voters)
- The statistic also hides a more fundamental philosophical question as to the real value of economic endeavors that don’t produce real goods or services
 - This specifically refers to finance and rentier income from property and financial assets
 - This prompted some of the rentier class to proclaim that the boom will never bust and the finance based reported growth can go on forever
- Mathematical functions that are tied to reality, however, always have constraints and tipping points
- Schemes that make some people far richer apart from what they are producing require an ever expanding pool of people to take from
- This explains both the domestic and global struggle against western neo-liberalism and globalism

Spiritual and Social Considerations

- Prior to Financialization the people had been separated from the land and from their communities through industrialization, migration, and suburbanization
- Debt and inflation drive need for two family incomes separating mothers / parents from their children
- The education of children is transferred from the family to the state and state run schools – parenting is outsourced
- Media and institutions increase and influence of family decreases
- Debt enslaved families no longer able to acquire wealth and provide for retirement
- Influence of Religion drops – most churches learn to be silent and compliant
- Cost shift from discretionary consumption to fixed costs (rent and finance)
- Birth rate drops and population is gradually demographically replaced
- Deindustrialization results in breakdown of social networks that were built around the workplace
- People learn to act solely as economic entities they respond only to economic motivations who can be easily controlled by debt