

## Money, Macro & Markets

You may have noticed that those worthy souls at the Bureau of Economic Analysis are currently engaged in a Herculean effort to revise and refine their picture of the US economy, an endeavour which promises to rewrite the history of nothing less than the last eighty years (*sic*). Quite how they intend to redefine the hedonistic adjustments pertaining to ladies' corsetry in the Jazz Age, or how they work out the substitution effects related to the use of gravy browning to mimic the look of nylon stockings during wartime rationing one can only wonder. One is left to point out that this very exercise – by highlighting the imperfect and, indeed, subjective nature of the data on which they perform work – should be a caution to the crude, inductive empiricists who dominate the profession today and who, trusting wholly to the blind computational power at their disposal, deride any attempts at *a priori* reasoning or at undertaking any qualitative form of analysis instead.

Though the revision is far from complete – and though the first guess at QII's numbers will no doubt suffer meaningful alteration over the course of the next two iterations – nonetheless, the release provides an opportune moment to take a more considered look at the state of the nation. One immediate observation is that the new numbers have made the peak of the recent boom even loftier and have therefore served to magnify the magnitude of the slump as well. To show this best, rather than taking GDP (actually, for the purposes of this exercise, GNP), as presented, allow us to

perform a few manipulations first. To begin with, let us discard the government portion since the economic worth of this is not only highly contentious – being priced at cost, being involuntary in its provision, and arguably being composed of as many negative 'bads' as positive goods – but is also moot because it can only represent a forced redistribution of wealth already created elsewhere, in the private sector. Next, let us deduct capital consumption – since the act of rebuilding a fence which has blown down is not an increase, but merely a restoration of wealth once possessed, but since destroyed. Thirdly, let us compare what we have left to the number of mouths over which it must stretch on the basis that two pints of beer shared between three men satisfies less of the thirst of each than does a single pint given to one of them alone. Finally, in the attempt to make a fair comparison across an era of a chronic erosion of the value of the unit of account – and cognisant of all the inherent distortions involved therein – we will deflate the result using the median CPI index. What this leaves us with may be rather a mouthful – being a measure of real, private, net national product per capita – but it is also a reasonable first estimate of the effective income flow experienced by the average person.

The results – especially with the incorporation of this month's revision – are salutary indeed. rPNNPpc (as we will call it) stood just short of \$23,780 dollars (of year 2000 vintage) in June, at which level they had fallen no less than 15% from the Dec'07 high, sliding in the process to a mark initially hit way back in the first quarter of 1997.

Thus, not only has the whole gain recorded during the CDO-LBO bubble been wiped out, but also the whole of that registered during the Tech bubble which preceded it (and which was its antecedent cause, thanks to the efforts of Mssrs Greenspan, George and Duisenberg – and their deputies, Mssrs King, Bernanke, and Trichet – in trying to counter the Bust of that earlier folly). In fact, what has here been expunged is the whole illusory boost of the 'forced' globalization episode of falsified exchange rates and suppressed bond yields which ensued from the Asian Contagion. To get some sense of the scale of the collapse, the fall to date has been half as big again – and more than twice as rapid in its progression – as that suffered around the second oil shock of 1979-82, otherwise the worst since WWII.

US Real Private Net National Product per capita - the Lost Decade of Boom & Bust  
(in blns of 2000\$)

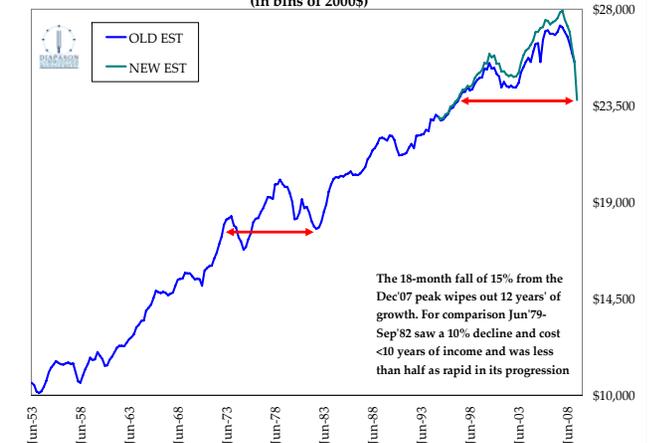


Figure 1: US Real Private NNP per capita

So much for current income, but what about the groundwork being laid so that income can be expanded in future? Here we need to look at net

private investment per capita, since it is only through the provision of more useful capital goods to each worker that any sustainable increase in real incomes can be achieved. As you might expect, this picture is also rather bleak. For the first time in a sample stretching to nearly six decades, total net private investment has fallen almost to zero – far below the ~6% average of GDP which has been the past two decades' norm. In per capita real terms, the fixed total has also plunged to less than a third of, or 3.5 sigmas below, its 4-decade norm. **In today's money, the average American has spent the first half of 2009 making a net fixed investment of just \$2 a day as provision for the better standard of living he hopes is to come.**

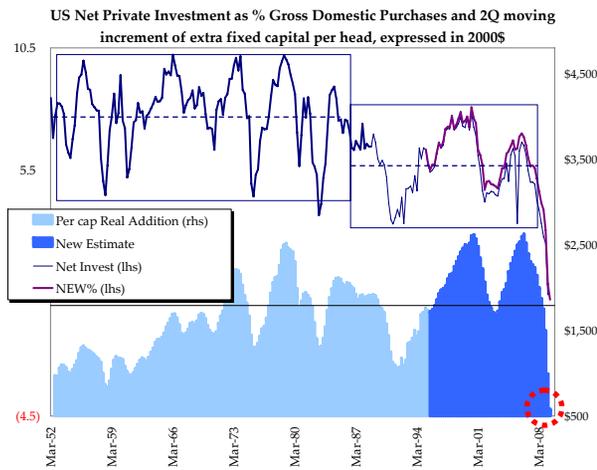


Figure 2: US Net investment

As a result of all this, we still have too much government, too much militarisation, and too big a financial system. With the MFC so firmly ensconced in power, meaningful reform of the political and

**Material Evidence**

economic structure – and hence an increase in the common weal – is doomed to be but a pipe dream.

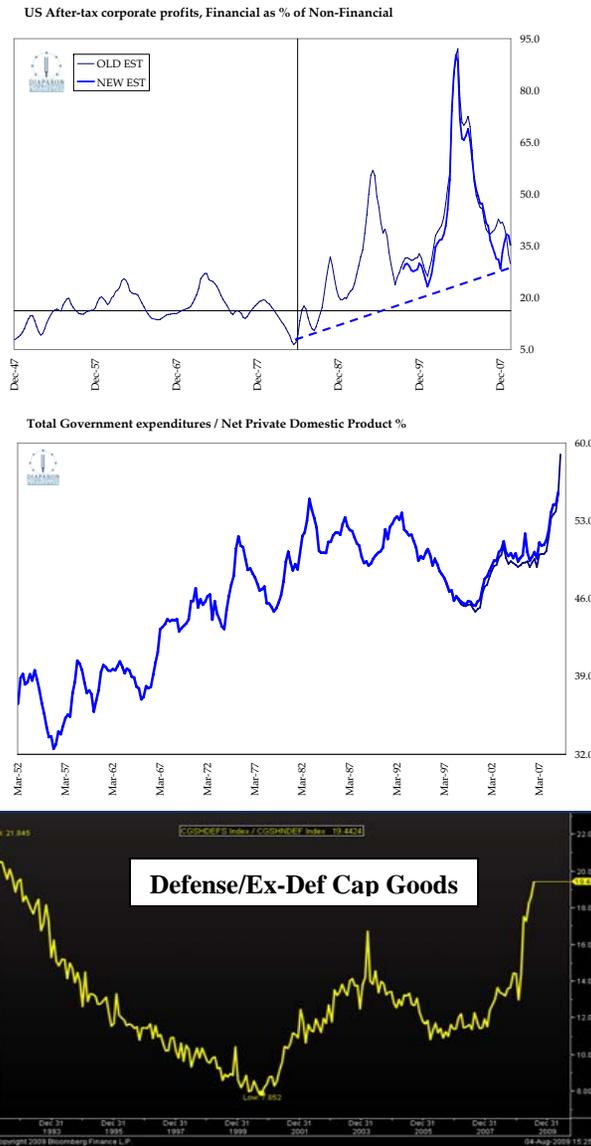


Fig 3-5: The Military-Financial-Congressional Complex

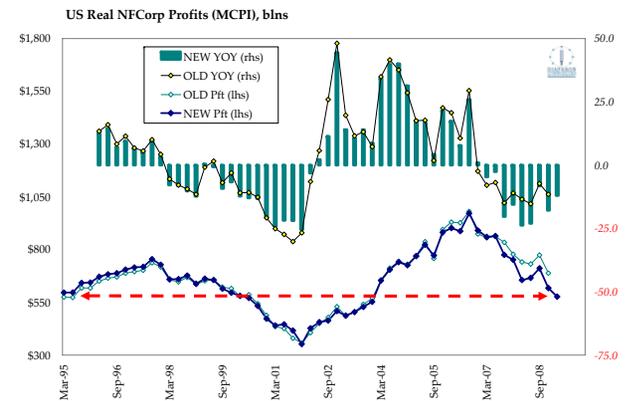
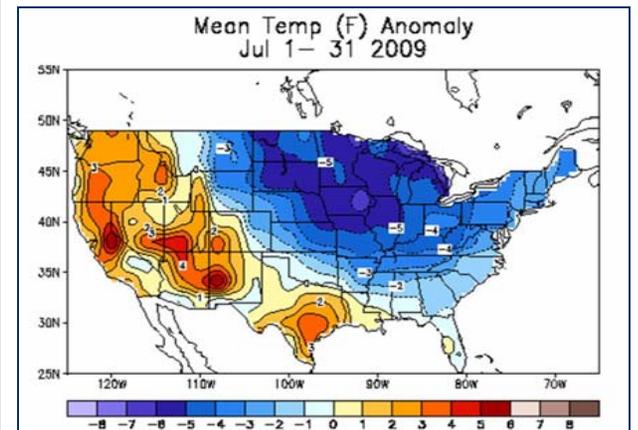


Fig 6: The Hamiltonian Heritage

**Commodity Corner**



After a late start to planting, given the anomalously cold summer being shivered through since, and with wheat, corn, and oats near their cheapest in gold ounces since at least 1914, it might just be time to position oneself to make money out of the possible, imminent discomfiture of the Obadiah Slope of venal Carbophobia, Albert Arnold Gore.

Corn & Wheat v Gold (In scale)

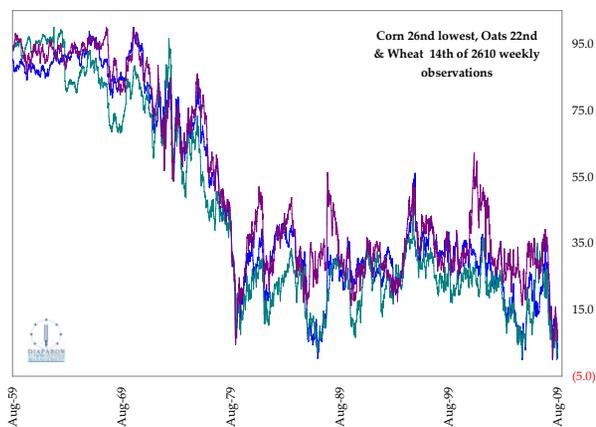


Fig 7: The Golden Inconstant

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