Discussion of recession is fluff: This is a depression

by Chris White

With the mid-term election over in the United States, it is certain, that the discussion which has been going on since August over whether or not the U.S. is in a "recession" or is sliding into one, is also going to come to an end.

That discussion will fairly shortly be finished off as the windbaggery it was.

The United States is and has been in depression. Now that the elections are over, that reality will rapidly become politically determining, as developments wipe away the patina of public relations which helps to maintain the fragmentation and atomization that have been brainwashing just about everyone into believing that their own predicament is somehow different from that of the country as a whole.

This month the automobile industry will begin its biggest round of plant closings and layoffs since the so-called "Volcker recession" of 1981-82. More than 50,000 auto workers, and therefore, three times that number in auto supply industries, will be shown the door as plants are shut down—they say temporarily—over the next months.

By the end of November, the city of Philadelphia, where some offices can no longer afford note-paper, photocopy paper, or facsimile supplies, will have run out of funding to maintain its current operations.

The Commonwealth of Massachusetts, under its new Governor William Weld, will be in the initial throes of implementing cutbacks in the order of 20-25% in public services.

New York City will not be far behind. And there will be more, as the month will also see the beginning effects of settlement of corporate and other oil accounts, swollen by the increase in oil prices that occurred after Aug. 2.

And this will be only the beginning.

'Wizards' determine official recession

When the pundits talk about a "recession," they mean something like economic downturn or slowdown. They have the formulas ready to declare the recession to be official. And they have procedures for doing so. This is apparently the responsibility of a private agency called the National Bureau of Economic Research. At the point that some collection of official economic indicators, such as the index of leading economic indicators or the Commerce Department's series on the Gross National Product, show three months, in the first case, or two quarters, in the second, of so-called negative growth, the case is referred to the wizards at the National Bureau. They, bearing "other factors" in mind, are supposed to make the fateful pronouncement.

By the end of November, the index of leading economic indicators, which are supposed to represent where the economy is heading before it gets there, will have registered their third month of decline. So then, presumably, the wizards will be called into action.

It might be more useful to go down to the local Chinese restaurant and read the fortune cookie at the end of the meal. Take the last Gross National Product numbers in the preliminary report on the third quarter, released in the final week of October. They showed a 1.8% increase. The bulk of the increase was accounted for by a $23 billion surge in personal consumption expenditures. Seventy-five percent of the $23 billion was made up of "personal consumption service expenditures." This is households' spending on maintenance for automobiles, housing, and things of that sort.

So now we are expected to believe that each and every American, spending about $700 in the months of July, August, and September to fix up their car or house, made the Gross National Product grow by the major part of 1.8%. This is about one-half of one month's earnings for the Commerce Department's average non-farm employee, or about one-sixth of total earnings over the three months. During the same three-month period that the Commerce Department was claiming we Americans each spent the cited $700, the New York-based Conference Board was reporting a 40% drop in their index of so-called consumer confidence. Reports from retailers around the country conform to the Conference Board's report. People aren't spending because they don't have the money to spend.

If the wizards at the National Bureau of Economic Research rely on the government's data to trigger their sibylline session we might be waiting quite a long time. And anyway, a depression is quite a different animal than the recession which the economics think-tankers like the Chimerines and the Kudlows are debating.

First they're looking at the process going on inside the heads of whichever department of the U.S. government, and assuming that process has something to do with the real world. The claimed $700 per capita increase in consumption service expenditure says again it does not.

This is a depression, not a recession

The economy entered a depression during what the Data Resources Institute and Chase Econometrics and Wharton School economists now call the "recession" of 1981 and 1982. At the time they didn't call it anything of the sort. At the time—that is, from the end of 1979 when Paul Volcker began to implement his high interest rate policy—they insisted that the policies which triggered the depression were the only way to get the economy back to health by defeating inflation.

They and their co-thinkers in the government disguised the depression through increasing the loot extracted from America's trading partners and allies, in the form of so-called "cheap" imports which replaced destroyed domestic production capacity and employment, to the tune of about 25% of total throughput, and by building the biggest debt- and speculation-based bubble the world has ever seen.

In September and October 1989, this process began to collapse on itself in a self-feeding deflationary spiral, in which speculative assets began to be liquidated to finance debt charges accumulated on the back of the depression-collapsed economy. Since then, the Bush crowd and their friends in the financial community have been desperately trying to manage and control the spiraling collapse. And in so doing they have turned what was already shaping up as a disaster on the scale of history, into an unparalleled catastrophe.

The debt and speculation bubble was collateralized against speculatively valued real estate. The demands for continued debt payment, to service more than $12 trillion in debt, and maintain so-called earnings on another $10 trillion or so of speculative investments, forced shutdowns of capacity, and liquidation, but the liquidated assets cannot be sold at their nominal price. Last year the triggers were the so-called "leveraged buyouts" and the savings and loan institutions. Now they are the banking system as a whole, and the price structure which underlies all $20 trillion and more of U.S. assets.

And now, with the idiotic discussion of whether there is a recession or not, there goes the demand that Federal Reserve Chairman Alan Greenspan should lower interest rates to protect the banks, should raise interest rates to protect the dollar and keep foreign funds inside the United States. But as things stand, with present policy outlooks, neither the banks nor the dollar are defensible, and if they were, it would only make everything much worse.

What is wealth?

The debt bubble and global looting regime that financed what Bush and his economic team still call the longest sustained period of economic growth in American history, assumed that wealth is created in sales transactions, the free market of "buy cheap and sell dear," or in speculative real estate valuations which permit banks to lend against the collateral of the real estate, and so on. They ignored the lessons their parents and grandparents had learned during the Depression of the 1930s and which is proven out of human history. It is increases in the productive powers of human labor which uniquely generate increases in wealth. If that weren't so, the roughly 5 billion of us now on the face of the Earth would still be running around in a baboon-like mode of existence, hunting and gathering for our subsistence, which the anthropologists consider to be the starting point of human existence. But we are not. Unlike the baboons, and lower species, we improved our scientific knowledge, and developed the technology which permitted us to transform our conditions of existence, through increasing the productive powers of human labor.

In the 1940s mobilization for war, and briefly in the early 1960s, methods which flow from that approach were unleashed to organize economic upsurges. Building infrastructure, fostering employment in production of useful goods and services, encouraging through tax policy, like President John Kennedy's investment tax credit, the promotion of productive enterprise, to create wealth.

And now, the chickens are about to come home to roost, and the next few short months will show that. Maybe at some point in the process, the oracles at the National Bureau of Economic Research will be called on to make their pronouncements. It is, however, already past the point of no return.