

## 'One-Point-One Percent!'

by [Bill Bonner](#)

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Dr. Kurt Richebächer slammed his hand down on the table. Not many people got excited by Friday's U.S. GDP growth figure; Dr. Richebächer was the exception. We met with him in Paris after our radio show. Even before the coffee came, he had enquired about the GDP number. We checked our usual sources. Then, when the news came to him he said, "I knew it. They cheat...they rig up the calculations and still they can't come up with a decent number. The recovery has totally failed. This latest number is just more evidence."

The recovery is as phony as the slump that came before it. During the recession, Americans refused to cut back. Now, they have nothing to recover from.

But they have nothing to recover with, either. No savings, and no new income. Unlike previous recoveries, this one saw few new jobs added. And those that have been added, have brought little to consumers' incomes. The typical household has less money to spend now than it did two years ago.

"The whole thing is incredible," said Dr. Richebächer. "I mean the 'savings glut,' and nonsense like that. It's the kind of thing you'd expect from a Third World country, but not from America.

"You know what amazes me most is that Americans have come to believe that consequences no longer exist. They think they can do whatever they want for as long as they want...and nothing will ever go wrong."

This is probably the first generation of Americans to believe that savings

don't matter. It is also the first generation to believe that America doesn't really need to make anything; it can buy what it needs from abroad. But where will it get the money?

"That's the thing," Dr. Richebächer went on. "They think the bubble economy will never end, but bubbles always end. This one will end, too. And there will be consequences, and not very pleasant ones. This is not something the Fed can manage.

"And nowhere in America do you hear any serious discussion of the real problems involved. When I first started talking to American economists, it was back in the 1960s. We had problems back then. We thought we had problems, at least. But when I look back I realize that we had no problems that come anywhere close to the problems we face today. These problems, on an international scale, never existed before – at least not in this size. And no one talks about them. "

Somehow, the economics profession seems to have taken leave of its senses.

We had just had an illustration earlier in the day. The two economists confronting us at Radio BFN were sure that "international cooperation" would surmount any difficulties.

"The fact is, the world's central banks coordinate much better today than they used to," said one, gravely. "We can be sure that this international cooperation will continue and will help us overcome any rough patches we may hit."

We could barely contain ourselves:

"What has international cooperation got to do with it? The problem lies at the heart of the U.S. economy, where people spend more than they earn. Someday, perhaps soon, they will be forced to spend less. Then what? The monetary authorities can cooperate all they want. What are they going to do...reduce the price of gasoline? Cut U.S. taxes? Stop the war in Iraq? All they can do is the very thing that will do the most damage...they can conspire to give the American consumer what he needs least: more credit."

"Yeah...it is unbelievable," said the Good Doctor. "This kind of international cooperation is going to ruin everybody."

According to Dr. Richebächer, our nation's "recovery" is largely a matter of the short-term transference of money from people's home equity, secured and unsecured loans and credit cards into consumer-level retail purchases – into the hands of financial institutions or the risky realm of speculative investment.

- We appreciate irony... paradox... it's what makes the study of modern economics so appealing. Two exhibits come from Addison in Baltimore this morning:

"Next door to our *Daily Reckoning* offices on St. Paul Street sits Red Emma's, a coffee shop run by an anarchist collective. This morning, we went to the bookstore for a fresh batch of Mexican 'fair trade' coffees. On the way back, we saw the gentleman who served us the brew – a bespectacled mid-fiftyish would-be revolutionary who sports a beard in the style of Lenin – get behind the wheel of a 500 series Mercedes... the big one that looks like it should be on a battlefield."

- And this:

"Joe Scarborough, from MSNBC's Scarborough Country, was overheard this weekend trying to put America's empire of debt into perspective. We paraphrase:

"America's debt is so large that if you earned a million dollars a year, every year, going all the way back to the year of Jesus' birth, you still wouldn't have enough money to cover the nation's financial obligation.

"We did the numbers ourselves. While it puts the number into perspective, it's a stupid stat. The total is \$2,010 or \$2,012 billion (depending on where you get your information), less than a quarter of the gaping hole at the center of the nation's balance sheet."

- From the *Financial Times*:

"But the evidence from history suggests that we are still in a bear market.

"Research by Abhijit Chakraborti of JP Morgan on stock market corrections (where the S&P 500 falls by at least 10 per cent) provides more gloomy reading. He believes a 'momentous' market correction is on its way, and that earnings disappointments will provide the final

necessary catalyst.

"On his reading, another catalyst is already in place. Of the last 10 corrections, seven occurred when interest rates were rising, or when the Fed had just finished tightening.

"Historically the market declines badly at the end of a Fed tightening cycle. And almost everyone expects the Fed to stop tightening sometime this year.

"So it looks like we can expect the directionless choppiness of January to continue a while longer. The bears are still in charge."

Well, at least someone is in charge. For a while there we thought stock prices went on their own merry way without asking anyone's say-so. Now, we know they have to answer to the bears.

What do the bears say?

They say prices have to go down, and keep going down until stocks are too cheap.

Why do they say that?

We don't know. They just always do. Like everything else in nature, they seem to have some swing to them. Up and down...back and forth... day and night...winter and summer ...life and death...yin and yang...good and evil...Cheech and Chong.

- Markets tend to go in long cycles, with many mini-cycles along the way. We don't try to guess about what will happen in those mini-cycles; they come and go too fast. We just try to figure out the major trend.

Looking back at the last century, we see a long bull market leading up to the crash of '29. An investor could have tried to catch the swells and eddies in the choppy markets of the '30s and '40s. There were some huge run-ups during that period. But the tide was running out. He would have had to contend with the Great Depression, and then World War II.

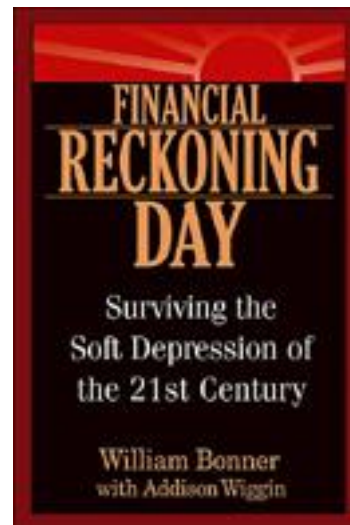
And if he held on through all these calamities, by '49, 20 years after the market broke, he would still have been far below where he began. Then, a new bull market got underway. Here, too, he might have made some

money betting against the market – there were plenty of riptides and backwashes. But the water was rising. He would have been better off buying stocks in 1949 and holding on for the next 20 years.

The first crack came in 1966. Then, the market seemed to recover, and broke again in 1968. And then it was down, down, down...for another 14 years. The losses were worse than they appeared, because inflation was taking down the dollar at the same time. An investor could trick himself by noticing that his stock was still at \$50...as it had been in 1966. But the dollar of 1982 was not the same as the dollar of '68. It would have taken 10 times as many to buy an ounce of gold, for example.

But then came the Reagan years...the Bush years...the Clinton years... and the other Bush years. Paul Volcker, the hero of the war against inflation, actually did what central bankers are supposed to do: he closed the bar, just before the party got out of hand.

Under pressure from Volcker, inflation peaked out at the same time as Saturday Night Fever. Then, the stage was set for a new, long period of rising asset prices, and falling interest rates, which lasted for nearly 20 years, too – from 1982 until 2000. It made such an impression on people that they believed it was eternal, rather than cyclical. They would take any guff you gave them, if it helped explain why this trend would last forever.



Even now, six years later, they still don't believe it's over – even though stocks have not recovered, but then, stocks haven't really broken down either – except for those on the Nasdaq. So, the average investor is still a believer, and maybe this year...he'll even be proven "right."

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[Reckoning Day: Surviving the Soft Depression of The 21<sup>st</sup> Century](#) *and*  
[Empire of Debt: The Rise Of An Epic Financial Crisis.](#)

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