The Death of Wealth

by Clem Chambers

SAMPLE:

JANUARY 2012: THREE QUESTIONS FACING CAPITALISM

What does the Euro crisis mean for capitalism?

The problems with the euro are the same problems the world economy used to have with gold. Ironically, the weak economies of Europe are working under a kind of 'gold standard'. The euro, of which Germany is/was keen to not debase, has acted like gold. The weak economies have simply not been able to compete with Germany and, as they are unable to print their own money, they have gone bust.

The euro has thrown them into recession and depression in the same way as gold threw the world into recession after the First World War.

However, when it comes down to it, euros are merely paper. To increase the world's gold supply, you must of course go to much greater lengths than merely switching on a printing press. Yet to make more euros, you simply have to convince Germany to let Europe throw the switch on the money making machine.

In the pre-euro system the mess Europe is in would not have happened. Each country would have merrily devalued its currency to increase competitiveness whilst promoting inflation to eat up the debt pile.

This is what the UK has been doing and this is why it keeps its AAA credit rating. The UK can't default. It only has to let the ink dry on new money to avoid that risk. The 'thought crime' of monetisation – buying your bonds back from their owners with new freshly minted money – is the very ability that keeps the UK clear of the dire straits of Italy, Spain, Ireland, Greece etc.

The solution to the crisis is to get Germany on board the inflation bandwagon and, in spite of whatever is being said in public, this is the deal that has been done. This is why the euro has suddenly weakened; it has gone from a gold standard to a soft currency, one where Germany will let the presses roll.

If this happens then the euro crisis' potential to be an EU- and euro-destroying mechanism is over.

Instead, the euro will continue to weaken as it goes the way of the dollar and pound; inflation will bubble up. The banks have already been bailed by the European Central Bank.

In turn, this will enable the banks to bail out the very same system that has bailed them out. The merry-go-round will continue to spin, however giddily.

The expected 'Lehman' event predicted by the doomsayers won't happen. Budget cuts and inflation will.

People will get significantly poorer but in nominal terms. Their pay and assets will not appear to fall in numeric terms as inflation pushes up the value of all the things they need to buy, whilst pegging income and the value of assets to a never-rising floor.

One of the consequence of there being no 'quick fixes' to the current economic mess is the ignition of debate about 'the failure of capitalism'. On the surface, this is an interesting debate, but capitalism is a system where capital is rewarded for its application, be it in industry or in a bank deposit account.

The debate raises three questions – firstly, is capitalism alive? Secondly, if alive, where is it? Finally, can a system be capitalist if the state takes the majority of GDP?

With so much GDP being sucked into the public sector there will be little growth. It is a recipe for long-term pain. There will be no change in policy, just a slow painful attempt to keep economies afloat and little change in a chronic cycle of retraction.

With zero interest rates, capital enjoys no such reward. We are left wondering: is this recession/depression a failure of capitalism or merely an indicator that capitalism is long since dead?

Where are the capitalists? Where are the builders of steel mills, the mines, the smoking factories? Who are the Plutocrats? There aren't that many to be seen in the West; you have to go to the BRIC countries to find them.

In the developed world, governments spend much more on behalf of an average working family than that family earns; in many countries as much as twice the take home pay of an average family – after they pay their taxes. To make this more startling, there are many in Western societies who are not employed at all.

If you subtract state spending from total GDP, then subtract the tax take from what's left and then deduct government borrowings, what remains in most developed countries approaches . . . zero. There is little or no GDP left for the private sector. No wonder there isn't any economic growth.

Can an economy that spends more on the individual than they earn, which takes almost all GDP for its purposes, really be considered a capitalist system at all?

It is unsurprising new capitalist countries of the developing world are catching up fast. Even against a background of a depressed global economy are we about to witness a 'triumph of capitalism'? The real capitalists of the developing world grow to surpass the socialised economies of the waning first world.

Until something is left for the private sector to reinvest, there will be no meaningful recovery in the West.

If austerity means shrinkage of the public sector to a sustainable balance, with the wealth-creating private sector, then there is hope. However, if austerity means simply holding wage levels of the public sector down while public sector debt is diluted by inflation (as savers and the private sector are pillaged) then the doomsayers will be proved correct.

What happens after the elections in Europe and the US will set the trajectory of the next decade, be it an era of recession or an economic re-birth. Whatever the road, there will be inflation.

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