U.S. Economic Normality's 1945 -2015

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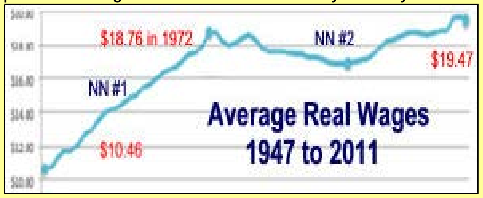
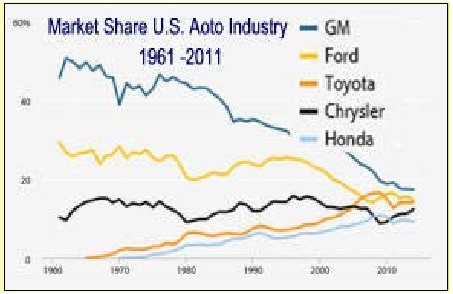
New Normal #1 Rising Income

After WW 2 U.S. industry had few competitors so both profit and wages increased substantially for 25 years.



New Normal #2 Oil Embargos and Competition Began Wage Stagnation

Japan's competitive manufacturing sector accelerated causing stagnate Rust Belt wages and employment. Why? Japan got lucky when gas efficient small green cars required change and U.S. manufacturing responded by protected profits with less quality improving capital investment. Unions protected current workers by accepting a two-tier wage system minimizing new worker wages. Feeling pressure Japan built modern U.S. plants. Use PDF for Color Printing.



New Normal #3 Financial Instability from Philosophical Change

1980's U.S. and England Returned to Conservative Lax Business Regulation because increased regulation and increased welfare provisions had upset many voters. Think Great Society and lax derivative regulation.

1980's Major Investments Banks Went Public creating a need to balance client needs with equity needs. Think expansion of financial industry's share of GDP.

1980's Accounting Standards Declined as accountancy firms struggled to balance commitments to audit standards with the desire to grow their consultancy business. Think off-balance-sheet items and Arthur Anderson Scandal.

1980's Home Equity Loans Increased Current Consumption and Lowered Savings as they replaced equity building home improvement loans. Think many not prepared for retirement.

1983 Reverse Mortgages Approved for FHA loans. Think less retirement savings.

1999 Gramm–Leach–Bliley Act Increased Systemic Financial Risk once limited by the Glass-Steagall Great Depression Act. Initiated by Republicans it was signed by President Clinton. Think financial industry expansion. See Five Bad Bush/Clinton Policies

2004 Uptick Short Rule of 1938 rescinded. Think stock market gambling.

2006 FASB requirement that housing assets be mark-to-market decreased financial system collateral. Action resulted from a 1991 Government Accountability Office investigation of the $160,000,000,000 savings and loan bailout. Think moral hazard.

From Financial Crisis to Recession to Great Recession to Recovery

1. 2007-8 Financial Crisis was tamed by the Federal Reserve. 2. 2008-9 Recession was tamed by monetary and fiscal policy.

3. European financial instability and world-wide austerity slowed economic recovery and income growth for all but the very, very, very wealthy. Think top 1/10th of one-percent.

4. Great Recession Recovery Has Varied Around the World

Understanding Balance Sheet Recessions They are infrequent, severe, and long-lasting. Understanding them is necessary when judging society's efforts to manage The Great Recession. It is like understanding a doctor's attempt to relieve a headache requires knowing the level of difficulty. Was it a Migraine Headache? A balance sheet is caused by high levels of private sector debt. Assets must equal liabilities plus equity. If assets values like housing collateral fall below their associated debt, equity must make up the difference or insolvency results and debt must be repaid. Think 1837, 1873, 1890 & 1929 See Most Severe US Recessions.

Was Our Great Recession a Balance Sheet Recession? Economist Paul Krugman feels the financial crisis ..."was one manifestation of a broader problem... associated with a "balance sheet recession." Economist Richard Koo wrote Japan's 1990- ? "Great Recession "was a "balance sheet recession."

What Led To The Great Recession?

1. Free Market Capitalism Lowered Regulation.
2. Innovative Expanded Investment Banking.
3. Global Trade Imbalances

China 2012	$214B
Germany 2012	208B
Saudi Arabia 2009	150B
Japan 2011	119B
Russia 2012	81B

4. Finance/Housing Easy Money Bubbles

Great Recession Stages from The Shifts and the Shocks by Martin Wolf

1. A more complex unstable financial/credits system resulted in extreme optimism in good times and panic in bad times. Think derivatives, securitization, credit default swaps all managed by hedge funds.

2. Savings glut created as emerging countries lowered borrowing and increased trade surpluses after the 1997 Asian Debt Crisis made their foreign dollar dominate debt unsustainable. They expanded trade and kept personal consumption below economic growth. Less consumption and borrowing plus a trade surplus increased Dollar, Euro, and Yen reserves. Think China and Russia.

3. Aggregate demand stagnated as trade surplus countries didn't spend. Germany's 2005 economic renewal was saved and Japan's private sector saved much more after their 1990's credit bubble exploded. Adding to the demand shortage were companies who maintained profit by decreasing capital investment spending despite historically low interest rates. Globalization and technology also helped them maintain profit as wage increases were limited to most valuable employees. State and local governments, especially those with underfunded pension systems, also cut expenditures. Think Mercantilism.

4. Increased current account deficits by wealthy nations balanced world trade. Higher demand for foreign goods was made possible by massive central bank supported low interest loans. The FED's historic monetary expansion was made possible by continued low inflation caused by expanded Flat World competition and low oil prices. Innovative financing and lax financial regulation also fostered expanded financial asset demand. Think excess OPEC savings financed the 1970's Latin American Debt Crisis leading to Savings and Loan Crisis.

5. Real Estate and Stock bubbles came as expected from low long-term real interest rates. New home buyers borrowed surplus savings and investors devoured growing unique debt securities created by an expanding finance industry promising insured difficult to understand almost guaranteed financial instruments. Leverage rose dramatically. Fraud, near fraud and data manipulation exploded. See Brief History of Financial Bubbles.

6. Poor Crisis Management by politicians as their economic advisors believed market capitalism would prevent serious recessions. The Great Moderation solidified this view. Possibility of new financial instrument contagion were not understood. When panic started, political, intellectual and bureaucratic leaders resisted quick action in areas that required cooperation. A US depression was avoided by FED, Treasury and Congressional efforts that were slowed by austerity. Iceland, Ireland, Greece, Spain and Portugal experienced economic depression.

See The Great Recession. Part 2 Financial Bailout, Economic Recovery, Poverty Stuck at 15%, Income Stagnates and Wellbeing Grows 12/18/15

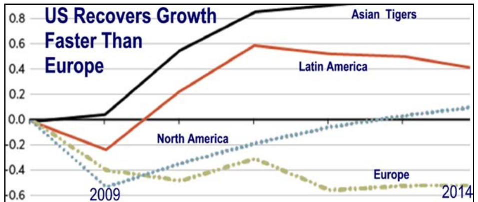
Financial Bailout, Economic Recovery, Poverty Stuck at 15%, Income Stagnates, Wellbeing Grows from textbooksfree.org

New Normal # 4 U.S. Bailout History The $700 billion 2008 financial-sector rescue plan is the latest of many bailouts that go back to the Panic of 1792 when the federal government bailed out states over-burdened by their Revolutionary War Debt. Thereafter private banks and investment bankers took over financial bailouts until the Panic of 1907 when the economy was so big that even J.P. Morgan needed U.S. Treasury help. This led to the 1913 Federal Reserve System designed to be the lender of last resort.

Recently the 1987 Savings and Loan Crisis bailout cost about $160 billion. Other recent government private sector bailouts have included: 1970 Penn Central 1971 Lockheed 1980 Chrysler 1984 Continental Illinois 1991 Executive Life Insurance Company by states assessing other insurers and the 1998 Long-Term Capital Management bailout by commercial and investment banks. See History of U.S. Government Bailouts. Think overcoming greed is difficult. U.S. does better than most! 12/28/15

Great Recession Cost Were High But Growth Cured Budget Problems

Economic Cost of Great Recession Estimated at 12.8 Trillion. Some add home values loss but this is a reach since the housing bubble had inflated values. U.S. FED Profit of $100b in 2014 was up from $47b in 2009. The 2010-14 total was $ 420b. **Source** See Treasury Financial Analysis of Great Recession in Charts.

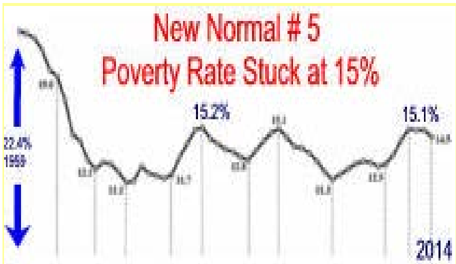


US Budget Deficits CBO	2010	2011	2012	2013	2014	2015
Amount Billions	-1,294	-1,300	-1,087	-680	-483	-439
Percentage of GDP	-8.7	-8.5	-6.8	-4.1	-2.8	-2.5

Think this is how we don't pay for federal deficits.

Bailout Made a Profit

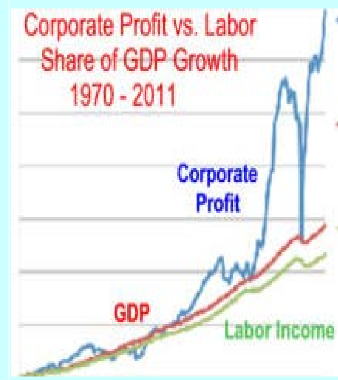
681 Billion Treasury Inflows		616 Billion Treasury Outflows	
Money Refunded	390	Banks/Financial Institutions	245
Dividends earned	260	Fannie and Freddie	187
Interest	2	US Auto Companies.	80
Stock warrants	10	AIG	68
Fees, equity, asset sales	20	Toxic Assets Purchased	19
Source/		Mortgage Modifications	17



A long economic expansion caused by high demand fostered prosperity was caused by WW 2, Korean War, baby-boomer demand, Great Society spending and the Vietnam War deficit.

Some believe the 15.5% poverty rate should be lowered. After "...correcting the 2013 poverty rate for noncash food and housing benefits, refundable tax credits, and the upward bias in the CPI-U ..."the rate drops from 14.5% to 4.8%. War on Poverty-Was It Lost Others believe it should be raised as it doesn't account for geographic and demographics differences. See Poverty Rates How Flawed Measure Drives Policy Other Data 1 Data 2 Think many use true but not necessarily appropriate data to foster their POLITICAL beliefs. Example: With our obesity problem how could anyone have believed that many went to bed hungry during the Great Recession. Calculation ignored food stamps and subsidized school lunches.

New Normal # 6 Profit Beating Labor Twenty-first century war expenditures helped profit recover after a dot-com bubble recession, then crash with The Great Recession and then grow to new heights. US Companies have competed very well in a flat world using technology, outsourcing to Asia, Mexico...and by keeping wage increases low. Source Total compensation has done better although Obama Care gave companies an opportunity to again lower compensation. Source More Data 1 Data 2 Think Rust Belt then NAFTA and soon TPP?

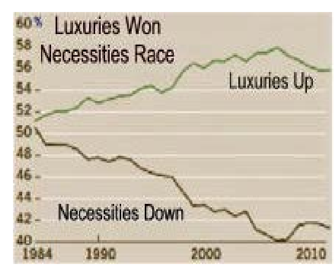


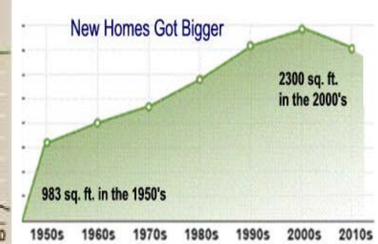
New Normal #7 Wellbeing Increased Continually

1. Society's continued stability has resulted in tremendous economic growth which is the key determinate of well-being. Public safety net, child safety, and adjusted poverty rate have all improved dramatically since the Gilded Age. Think economic continued economic distress in Russia, Europe, Japan and China.

2) Scientific achievements have continuously added to citizen well-being. Think cured diseases, smart phones, streaming audio-video, Gillette Stadium ... See Health Problems Solved.

3) Personal Income increased continuously if not always rapidly because nature and nurture improved the personal characteristics needed to enhance wellbeing. Think Russia, China, and Europe's really slow recovery from the Great Recession. Source Is The Country In Trouble, Will Stagnate Income Hurt Our Children and Recent Decades Ranked By Problems. Return to page 1 Send thoughts to antonw@ix.netcom.com





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