

Economic Fundamentals Through Post Doc

*criminal, n. A person with predatory instincts who has not sufficient capital to form a corporation:
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Econ 001 - pop quiz:

Example 1

What is the economy?

The economy is the means by which we provide ourselves with the things we need to live.

Example 2

List the elements of economy. Prioritize them. How fundamental, necessary and important are each one?

- priority 1 The fundamental element of economy is the production of the food, tools and other goods that we consume.
- priority 2 The distribution of the products is a secondary element of economy. The process can be divided into trade and mercantilism, though they're not the only possible means of distribution.
- priority 2.5 Distribution is facilitated by communications and transportation of goods and people among producers and consumers.
- priority 3 Health care and war are services deemed necessary and have symbiotic relationships with the chemical industry. The assignment to the third level priority is justified because, without adequate food, clothing and shelter to sustain life, healing and defense are of no use to US.
- priority 4 Finance, including banking, insurance, investment and real estate and other brokerage are abstract elements that provide no material production or fundamental support service. These are a superstructure that cannot exist without the primary construct, which is a healthy priority 1 economy.

- 1) List the elements according to cost. Which is most costly? Which is most necessary?
- 2) List the elements by benefit. Which is most beneficial?
- 2a) Which service elements contribute to the material or fundamental economy and which detract, take material without substantive contribution or are otherwise non productive services?
- 3) Which elements do you believe might be better done on a non profit basis, by the community, to reduce cost and increase benefit for all of US?
- 4) Which elements do not contribute to the survival of the Human Race or have been so abused that they threaten the existence of many for the benefit of the few?

Extra Credit:

A) Even good guys tend to rationalize in defense of the status quo. They see the need for organization and management but are conditioned to believe that only profit motive can inspire qualified individuals to perform the function. They are likewise programmed to not perceive the dysfunction and poverty introduced, when the system is commanded by those whose lack of scruples and greed negate any benefit to the community they might otherwise have made. They are selected for advancement and are given power and money, on the basis of their willingness to defend the property, rank and privilege of the ruling class investors. Do we live in a meritocracy and if so, who are the arbiters of merit?

B) The politicians and academics see the need for organization to operate on the immense scale of today's culture but are limited by training to thought that supports "free" market capitalism. They're not free to think that there may be other management and organizational paradigms that work much better for the majority of people. They're constrained to support the profit of a neo aristocracy, central control by Wall St and planning by the invisible hand of mindless greed. A parasite that mindlessly consumes its host will die with its victim. So what can we do to save US all?

My final exam answer:

At this time about all that can be done is to identify the faults of the system and hope to break up the flawed thought processes. To continue to seek excuses for inaction that decry the inability to envision, with certain knowledge, a more beneficial path for US all, is to reinforce the dysfunctional model that threatens our existence. We must defeat our greatest enemy, the avarice of the ruling class, before we can start to design a better world for ourselves and our children.

Imagine a world in which we're all merchants, traders and investors and no one has to be a worker, who gets dirty to make a real product. We can simply buy and sell from and to one another. We can all make a profit and no one will lose. We can all invest in and loan to one another. The banks and the government can print all the money we'll need to realize an investors' paradise. Onward to financial utopia! In that magical world where our hope resides, everyone will have more than average. , , , And Jack really did bring gold back from the giant's castle in the sky.

Einstein said that to do the same thing over and over and to expect a different result, is a definition of insanity.

Now that we have Econ 001 out of the way, let's move on to the post doctoral work phase of our species' economic career.

Don't you understand complex instruments, like CDOs, CDSs and MBSs?¹⁷ Of course not! Such esoterica is best left to the wizards of Wall St. The politicians tell US that our distrust of derivatives results in the lack of confidence that's wrecking the economy. Don't worry, the economic masters just need a little more of your cash to get over the slump in your faith. Then the marketplace will do it's magic. As to the instruments would be reformers malign, think of them as black boxes that make money. You don't have to understand their complex and mysterious workings to get rich by their use. But you do have to trust the experts or you'll never have the confidence to use them to get rich quick.

¹ Recently Paulson used a new name for the worthless paper to take the place of nomenclature employed in the creation of the credit Ponzi that's caused the crisis. They've apparently been subsumed under the classification of CABS - Consumer Asset Backed Securities.

The dull public, whoever they are, will be convinced to believe that new euphemisms for toxic assets are the antidote that will save US. Of course, the use of the word "Consumer" indicates we're being saved from ourselves. Now recent history is revised. Not the greedy rich investors, bankers and CEOs but the American People are at fault. The conservatives gift for framing the dialog seems to be in decline. The People have begun to see through the bullshit. [["Rebuilding the Nation on a Foundations of Sand"](#) by Jim Kirwan] I wonder if Hitler noticed a decline in the power of his demagogic techniques before the end? Paulson looked and sounded worried as he made the following statement.

[Henry Paulson, 11/25/08](#) links to the entire statement, which is truncated below:

November 25, 2008

Secretary Paulson Remarks on Consumer ABS Lending Facility Washington--

Today the Treasury and the Federal Reserve are announcing a facility to finance the issuance of non-mortgage asset-backed paper in order to support lending to consumers and small businesses that is vital to our economy.

The consumer asset backed securities market is a source of liquidity to financial institutions that provide federally-guaranteed small business loans and consumer lending such as auto loans, student loans and credit cards. Issuance of ABS in these areas reached \$240 billion in 2007, but credit market stresses led to a steep decline in the third quarter of 2008, and the market essentially came to a halt in October. [Editor's Translation: the housing bubble broke and its derivatives followed the economic drive toward the thin air at the top of the paper pyramid. The even less secure credit card debt then tightened as the sharks circled to protect their kill. After brokering the mortgage on the home whose price had been pumped to two or three times its value, the hustlers, who took all the points, commissions and fees, turned around and leveraged your "asset" by packaging it with others in MBSs and such. Then they were sold to investors around the world including China – for ten to one hundred times the amount of the original loans. The proceeds, issuing from the same assets that secure our mortgages, were then loaned to and insured by each other, making exponentially grown additional interest, fees and commissions as the scam matured. Now we'll issue another round of paper, the ABS, to help re-capitalize the looted banks, hoping the money will be loaned for cars and credit cards, instead of calling back the army to send to the Cayman Islands to recover the stolen monies from the first few rounds of the super con.] As a result, millions of Americans cannot find affordable financing for their basic credit needs. And credit card rates are climbing, making it more expensive for families to finance everyday purchases. [The mortgage hustlers are still running with the money they've stolen and there's non left for payrolls. Solution: the FED and the government will make some to be loaned to US, by the banksters, who may run with that too.] This lack of affordable consumer credit undermines consumer spending and as a result weakens our economy. . . .

“If I could lead you into the Promised Land, I would not do it, because someone else would come along and lead you out.” - Eugene Debs

By the way, I have several black boxes and will part with one for a wise investor like you. Just put a dollar in one end and a twenty comes out of the other. Works every time. It's the greatest investment ever. It's even better than loaning money at a profit [usury] to income starved consumers. If you have the confidence, if you just trust me, you will set yourself apart from the ordinary people. You'll survive the downturn and even grow fantastically rich. As a sign of your good faith, you must pay several points of the first \$100k you'll profit, to acquire one of my boxes. Your confidence will be rewarded, believe me. You'll know the first time you use it. Delivery will be within days of verification of your payment. Get ready to discover how the faithful get rich the free market way.

After you purchase your box it may need to be tweaked to make it work properly. If it fails at first to provide profit, try putting in the dollar with a different orientation or straighten the creases and dog ears before inserting. If that doesn't work try inputting a five or ten. It may be that you need an upgrade to the \$20 → \$100 model. Just return yours with a check for the difference. The more sophisticated box will be shipped promptly. Remember, there's always some trial and error involved in the optimization process. But if you keep experimenting and investing, you'll stimulate the machine into action in the end. Don't give up just before the payoff. Stick in there. Go the extra mile with us.

Stimulate What?

I must appeal to the government to buy the secure asset black boxes that remain in my inventory/portfolio. My institution can't afford to get stuck with them and the retarded cash flow will hurt the economy. I don't think I can sell many more. I'm not so good a salesman as was Milton

Friedman, whose theories of money effectively sold the redefinition of GNP as GDP. If I remember correctly, part of Friedman's study of monetarism implied that jobbing out as many services as possible helps to grow the economy and that every transaction counts. That seems to be how the derivative hustlers got their inspiration to trade money among themselves and everybody wins. The money is supposed to circulate and that's the beneficial effect of non productive [of real goods] services. The circulation expands the GDP. Friedmanites [monetarists like Milton Friedman] hold that the GDP is the available money times its velocity. "The quantity theory of money holds that GDP is equal to the amount of money available multiplied by the velocity of money." - [imaginary economy](#) That is the heart of the service economy delusion. The obvious flaw is that the increase of the velocity of money doesn't increase the amount of real goods one can buy with it. A dull 4th grader could understand that simple math but it eluded Milton and the faithful free market gurus who've followed him. However, the profits on non productive services must add to the cost of the products we buy. So too it is with inflation, including that of the GDP, which is pumped up with such imaginary numbers nonsense.

All the while, the current crisis has been building, Bush and the "fantastic" economists have said we're all right. We can borrow more, the GDP is growing. But the growth is in finance, debt, the money supply and its velocity. All the growth has been in the imaginary realm of Friedmanesque fantasy economics. Real economy is based on the production of real goods, which takes place far from Wall St. But, in America, we no longer participate very much in real economic activity. Until we recognize this and start making the products we need for everyday life here at home, we will never find an adequate solution to our recurring economic crises. The GOP, though, backs up their call for more of the same activities that created the mess. They invent even more fantastic lies that attempt to fix the blame on US - or anything that's not their abstract money making schemes - instead of fixing the problem.

Let's look at some facts. From Internet searches I was able to piece together useful statistics about the number of mortgages and average amounts. I never did find a direct statement of an estimate of the number at risk but not yet delinquent in the current crisis. The closest I got was the google search for "mortgage crisis" that pointed me to Wikipedia: "As of August 2008, 9.2% of all mortgages outstanding were either delinquent or in foreclosure." They cited the [Mortgage Bankers Association](#), where you can add delinquencies of 6.41% to actual foreclosure proceedings of 2.75% to get 10.16%. I'm going to round it off to 10% of the total of 51 million or so mortgages. I was able to calculate the 51M number from statistics about Fannie Mae and Freddie Mac. [Some of the useful data was gleaned from an Arizona Daily Star article on November 12, 2008]

The financial bailout fraud is abundant with typical kinds of spin and distraction that conservative/libertarians use to keep US conned. Republican true believers imply that privatized Fannie and Freddie are really a government entity and not a private, for profit corporation with a taxpayer guarantee that the investors will lose no money. The deceivers try to hold them responsible, though while F&F control 60% of the 50M mortgages in America, they only hold 20% of those at risk. [Arizona Daily Star article on November 12, 2008] If the 10% at risk figure is accurate, then that would leave F&F with about 1.02 million at risk mortgages, while other private financial "institutions" hold 40% of all mortgages and 80% [4.08 million] of the bad ones.

MBA's [Mortgage Bankers' Association] David G. Kittle in Senate testimony claims that the average purchase price of homes bought in 2007 was \$313,600 [MBA cited [census data](#)] if all of those properties were 100% mortgages with no consumer equity accrued, the total of the loans would come to \$16 trillion. Calculated Risk says there's about \$10.5 trillion in outstanding mortgage debt.² Conservatives try to blame the consumers, whom the parasites victimized though the bad loans that amount to maybe \$1 trillion. They don't talk about the derivatives of those mortgage "assets" which the financial industry leverage into anywhere from 50 to 100 trillion in their pyramid scam/debt kite, which made CEOs and investors richer yet. Pam Martens [A Credit Crisis or a Collapsing Ponzi](#)

[Scheme?](#) - Counterpunch; November 13, 2008. But they want to protect that hoard. The hoard is the problem. This attempt to blame the victims by the Republican frauds would be laughable if so many Americans hadn't been duped into believing it – yesterday, today and tomorrow. The boobs of the rank and file have been eating this crap forever – just like good Germans during the 1930s.

² by CalculatedRisk on 3/06/2008 02:20:00 PM

One of the headlines from the Fed's Flow of Funds report this morning was that household percent equity had fallen to a record low 47.9%. This is a simple calculation: divide home mortgages (\$10,508.8 billion) by household real estate assets (\$20,154.7 billion) gives us the percent mortgage debt (52.1%). Subtract from one gives us the percent homeowner equity (47.9%). - [Calculated Risk web site](#)

The “black box” derivatives, whether we call them MBSs, CDOs, CDSs or CABS, are the imaginary assets that have been exploited to loot the economy we depend on for life. Every dollar we throw away to support them can only exacerbate the problem. The original \$700 billion giveaway, to the greedy rich parasites who created the mess, has grown to ten times that amount [Google “bailout \$7 trillion” for dozens of references.] We must have real production of real goods in America, if we are to survive. To hell with the investors and their profit, which is our loss. We can't even consider competition in the world market, until we've produced enough for our own use and have a surplus to trade. Don't forget! The most unnecessary part of the cost of any product is the profit of investors. We've to rethink the entire economy and find a better way to support Human survival. ["Free Trade and the Price of Fruit"](#) appeared at agkaiser.org on February 15, 2007.

“The greatest country, the richest country, is not that which has the most capitalists, monopolists, immense grabbings, vast fortunes, with its sad, sad soil of extreme, degrading, damning poverty, but the land in which there are the most homesteads, freeholds-where wealth does not show such contrasts high and low, where all men have enough-a modest living-and no man is made possessor beyond the sane and beautiful necessities.” - Walt Whitman

The free market and Giga corporations have failed. We must do what we need to do to live. Think in terms of subsistence farming on a national scale.

**"We can have democracy in this country, or we can have great wealth concentrated in the hands of a few, but we can't have both." - Justice Louis D. Brandeis
(1856-1941) US Supreme Court Justice**