



Capitalism, Truth, and Expediency

20 June 2019

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The Nature of Capitalism

truth versus political expediency

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ICAP Technical Analysis



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The Role of Technical Analysis

- Fundamental analysis studies trends in logistics in order to get a handle on future price trends.
- The flaw in fundamental analysis is herding behavior.
- The invariable outcome is that fundamental analysts get more and more bullish the further that prices rise.
- In general, fundamental analysts seem to have no concept that price extremes discount future developments.
- The result is that, again and again, fundamental analysts are all bullish into major peaks and all bearish into major lows.
- As we see it, the role of technical analysis is to critique the bullish consensus of fundamental analysis into major tops.
- And to critique the bearish consensus into major lows.
- A bullish sentiment extreme marks the collective triumph of hope over reason.
- And a bearish sentiment extreme marks the collective triumph of fear over reason.
- Peak and troughs in the markets are always dominated by a false narrative - an outlook based on unsustainably excessive levels of ebullience and fear, and unsustainable deficits of common sense, rationality and critical thinking.
- The purpose of this report is to use our critical thinking to critique the nature of capitalism in light of current events.

Summary

- For some time now, and for reasons of political expediency, certain groups have been pushing the narrative that China is to blame for a loss of jobs in the United States.
- A related theme of this false narrative is that immigrants take jobs away from hard working Americans.
- This report aims to show that job losses in the United States are a function of the very nature of capitalism.
- A favorite quote of Calvin Coolidge was “After all, the chief business of the American people is business.”
- It is the very nature of this ‘business’ that is to blame.

Where to Start?

- I begin every major technical outlook on a market with a study of the longer term price history.
- And the more price history the better.
- The purpose of a historical review is to allow us to step out of the trees to gain a clear perspective on the forest.
- So I begin this analysis with a timeline of the rise of the economic power of China relative to the United States.
- The various points cited along this timeline will highlight the nature of capitalism - the business of business.
- It is hoped that this timeline will go a long way to making the points this report aims for.

A Timeline of Job Losses from the USA - to 1985

- 1965 - manufacturing jobs comprise 53% of the US economy
- 1970 - China per capita national income is \$155 per year placing China at #131 of 133 countries.
- 1970 - the number for the US was \$4,218 ranking it #1
- This makes China very low hanging fruit for manufacturing.
- 1971 - Kissinger meets with Mao
- 1972 - Nixon visits Mao
- 1974 - Real wages in US peaks
- 1978 - after major wage hikes in Japan, Korea, and Taiwan companies from the US, Western Europe, and Japan begin an urgent search for lower wage manufacturing locations.
- 1978 - In a bit of fortuitous timing, Deng Xiaoping inaugurates four special economic zones in China to spur exports
- 1979 - US companies begin to move manufacturing to China
- 1979 - real value of US Federal minimum wage peaks
- 1979 - in search of lower wages US companies also begin to move manufacturing from northern to southern states.
- 1979 - US manufacturing jobs peak in June at 19.5 million
- 1985 - 65 of the 76 counties with the highest percent of manufacturing jobs are in southern states.

A Timeline of Job Losses from the USA - from 1988

- 1988 Manufacturing jobs in the US have fallen to 39% of the US economy.
- 2000 - US Congress grants China permanent normal trade status, opening the door for China to join the WTO.
- 2001 - China quickly joins the WTO and the movement of manufacturing jobs from the US to China accelerates.
- 2004 - Manufacturing jobs in the US fall to 9% of the economy
- 2005 - more than half of US imports from China to the US are made by US companies in China.
- 2006 - Foreign, non-Chinese companies comprise 60% of China's exports.
- 2008 - Estimated 1.5 million manufacturing jobs lost in the US since 1995
- 2014 - since 2000 some 78,000 US manufacturing plants are closed, a drop of 22%
- 2014 - in terms of purchasing power parity China overtakes the US as the world's largest economy.
- 2019 - Foreign, non-Chinese companies still comprise 43% of China's exports.
- 2019 - China begins losing manufacturing jobs to Vietnam.

Some Lessons from the History

- Capitalism is a border free enterprise.
- In capitalism there is an urgent and relentless search for lower cost production locations.
- Companies need no external pressure or motivation to move production from higher to lower wage locations.
- This has been the case since day 1.

Pointing the Finger of Blame

1. China is not to blame for using capitalism to reduce its poverty level and grow a middle class.
 2. Congress is not to blame for opening the door that allowed China to join the WTO.
 3. China is not to blame for the loss of US manufacturing jobs.
 4. And Vietnam is not to blame for the loss of Chinese manufacturing jobs.
 5. And consumers are not to blame for eagerly buying lower priced made in China goods.
- Each of these five points display capitalism at work.
 - This is what capitalism does.
 - It strives to make things at the lowest possible wage level and export these things to the richest countries.

Main Points

- The business of America is indeed business
- And the system is capitalism
- And capitalism has sovereignty over all borders except for the rare and occasional outlaw nation.
- Capitalism made America great.
- And capitalism is always moving manufacturing and service jobs from higher to lower wage workers.

Current Events

- It may be politically expedient for certain politicians to blame China and immigrants for the nature and functioning of capitalism.
- But it is mis-direction of the work kind.
- No problem has ever been solved where the first step has been lying about the nature of the problem.
- The victory of political expediency over the truth is always a pyrrhic victory.
- One thereby only creates false hopes and loses valuable time that could have been spent dealing with the real issues.
- What can be done? Perhaps we can start with a critique of mis-direction and false narratives.



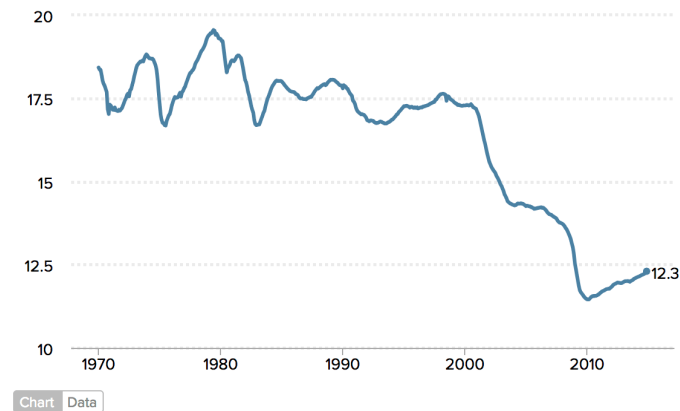
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[Appendix](#)

Some charts of interest

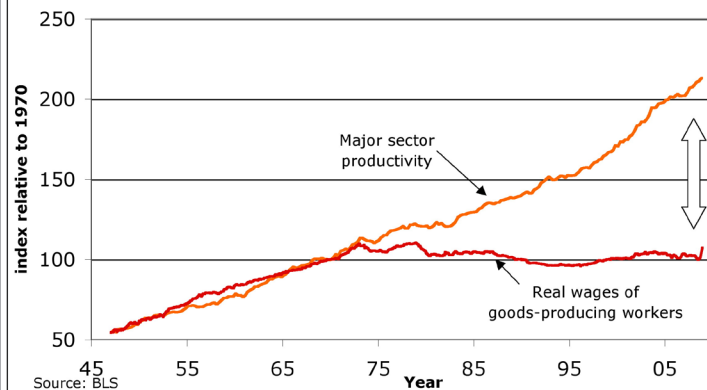
U.S. manufacturing employment, January 1970–December 2014 (millions of jobs)



Source: EPI analysis of Bureau of Labor Statistics (2015a)

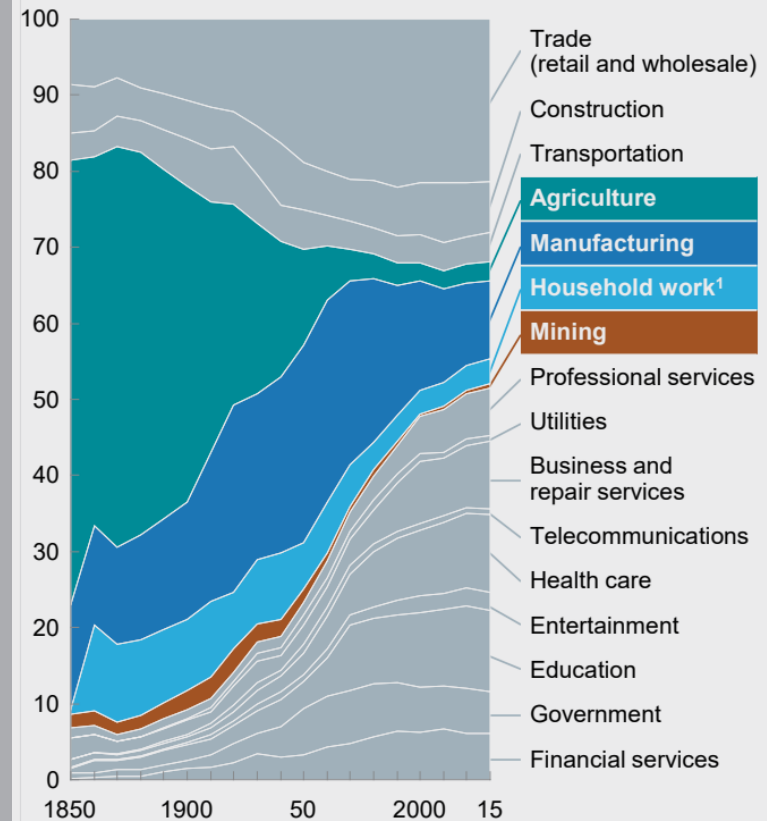
Economic Policy Institute

Productivity and average real earnings



Large-scale sector employment declines have been countered by growth of other sectors that have absorbed workers

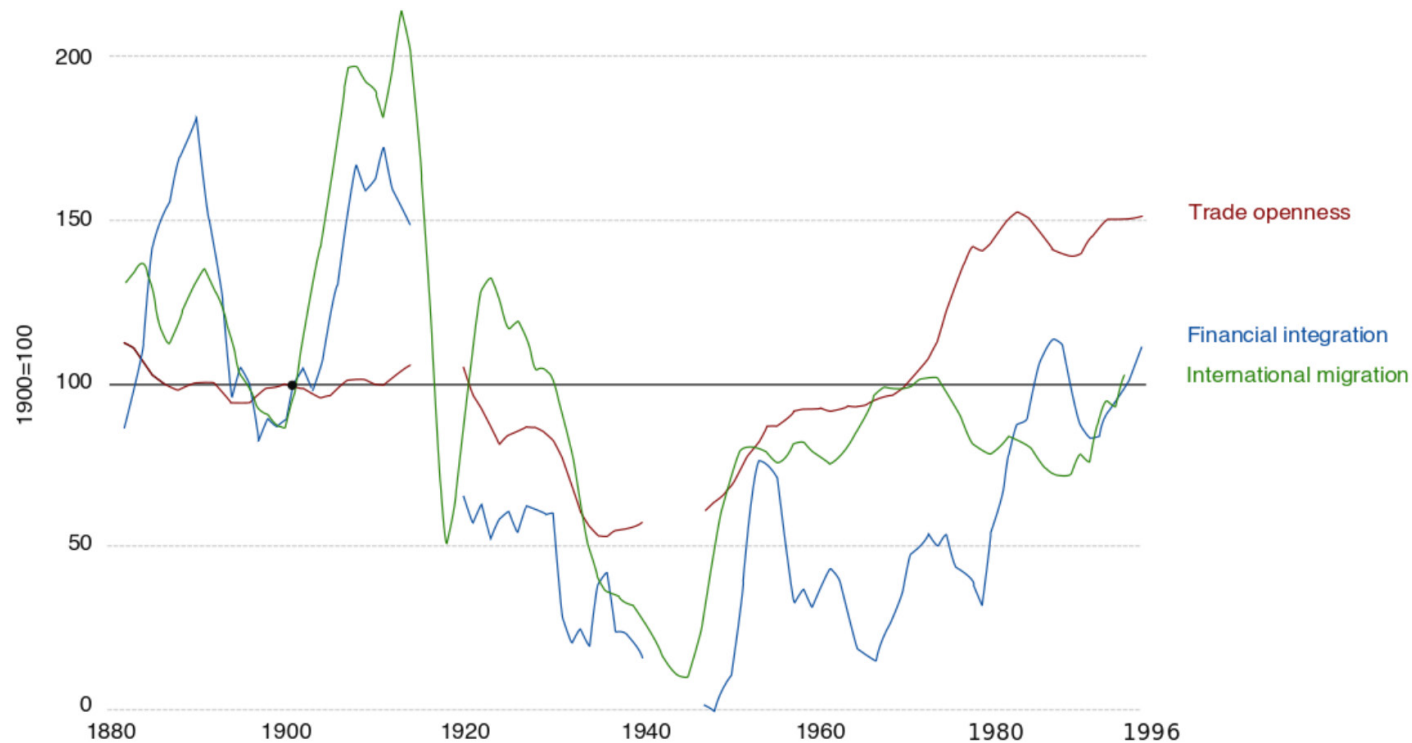
Share of total employment by sector in the United States, 1850–2015



Migration, financial integration and trade openness, World, 1880-1996

This chart shows the evolution of three indicators measuring integration in commodity, labor, and capital markets over the long run. All indicators are indexed, so that 1900 = 100.

Our World
in Data



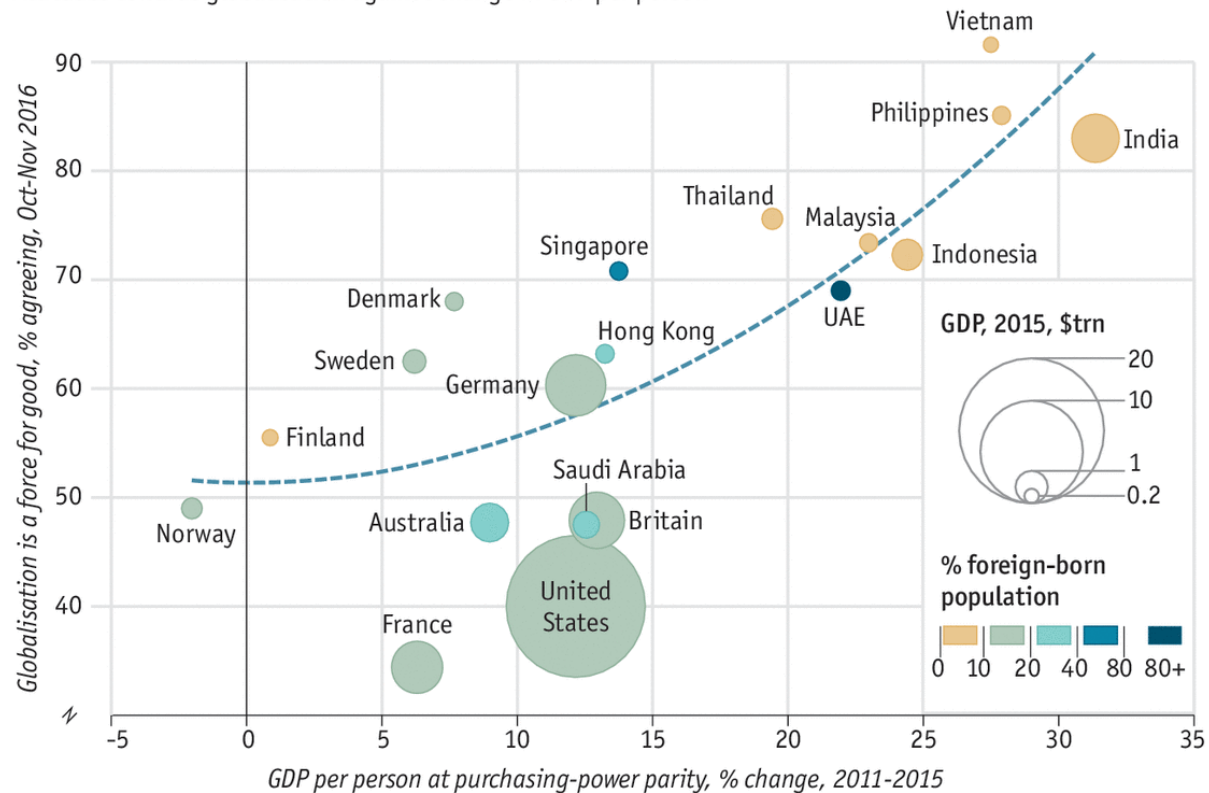
Note: Commodity market integration is measured by computing the ratio of goods exports to GDP. Labor market integration is measured by dividing the migratory turnover by population. Financial integration is measured using Feldstein-Horioka estimators of current account disconnectedness.

Source: Broadberry and O'Rourke (2010), The Cambridge Economic History of Modern Europe: Volume 2, 1870 to the Present. Cambridge University Press

This is a visualization from OurWorldinData.org, where you find data and research on how the world is changing. Licensed under CC-BY-SA by the authors Esteban Ortiz-Ospina and Diana Beltekian

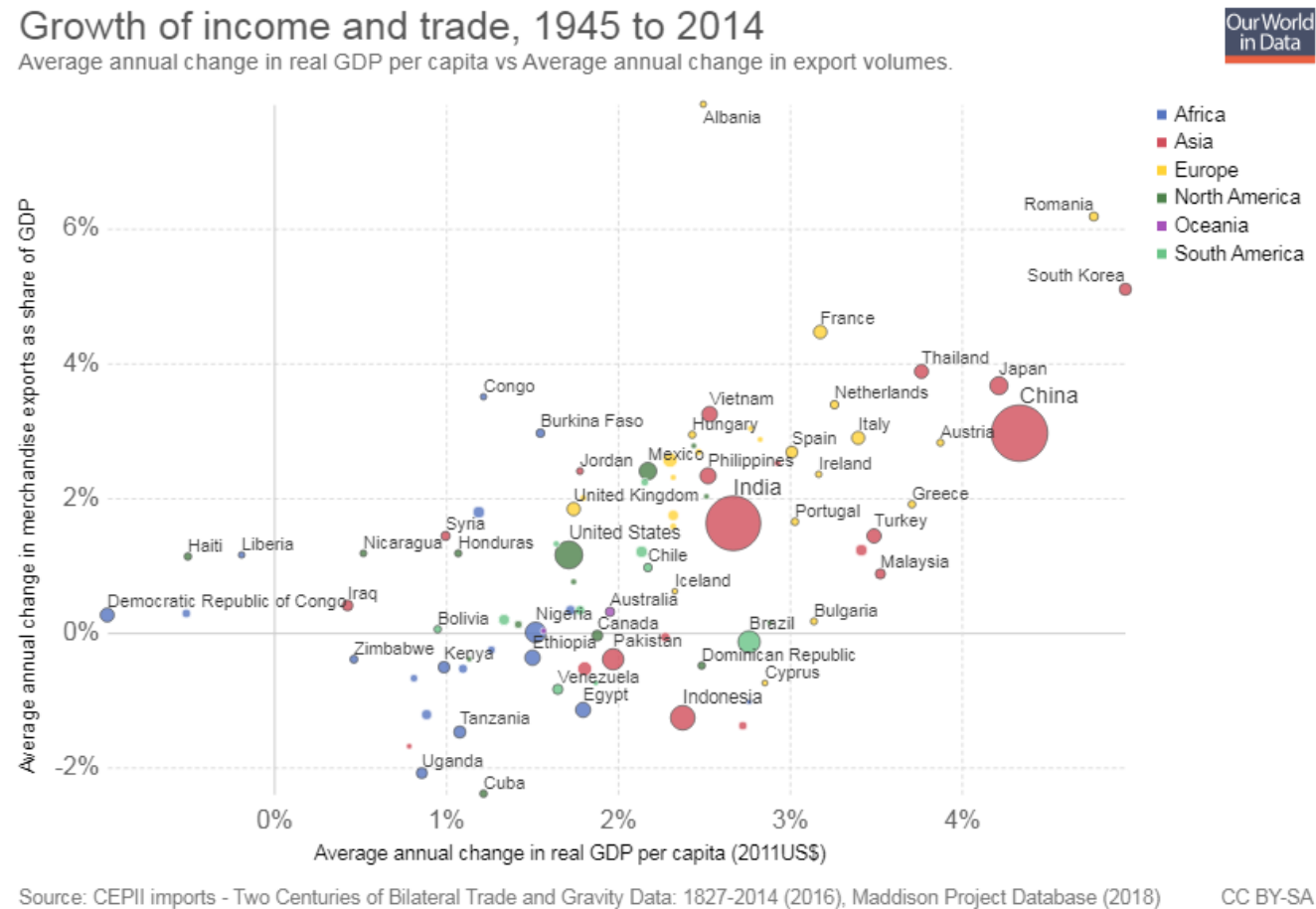
Enough to go around?

Attitudes towards globalisation against change in GDP per person



Sources: YouGov/The Economist; World Bank; UN

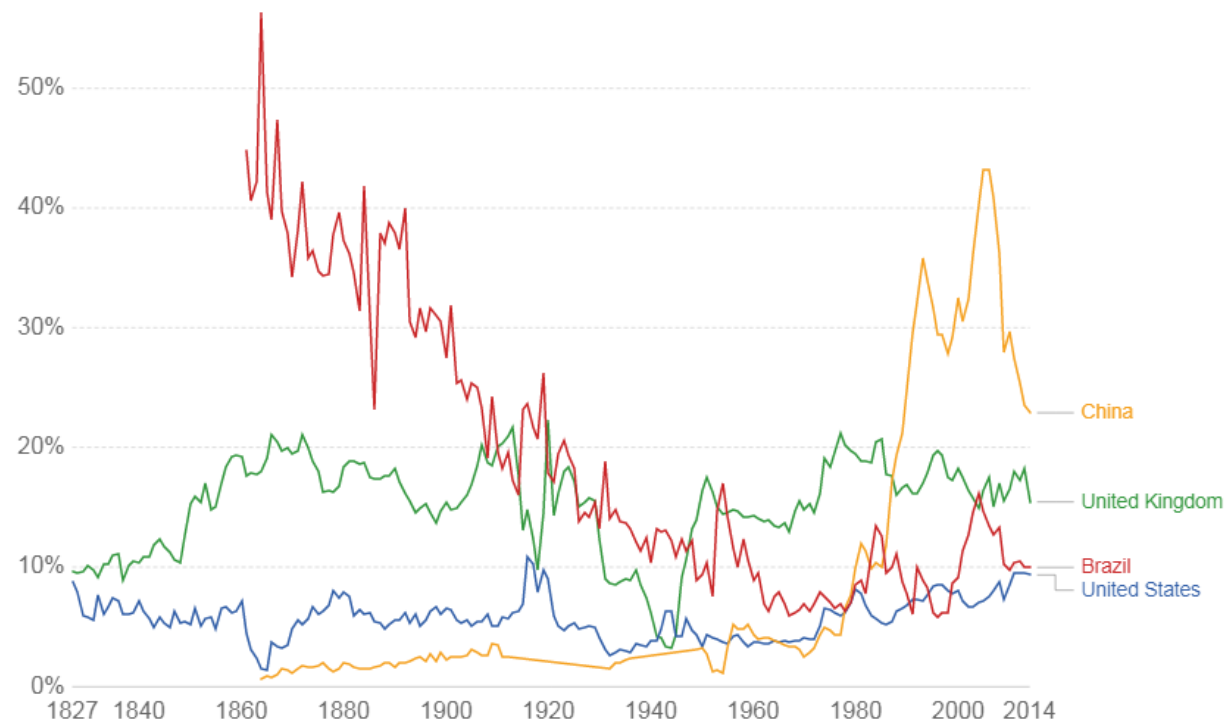
Economist.com



Value of exported goods as share of GDP

Estimates correspond to merchandise export-to-GDP ratios.

Our World
in Data



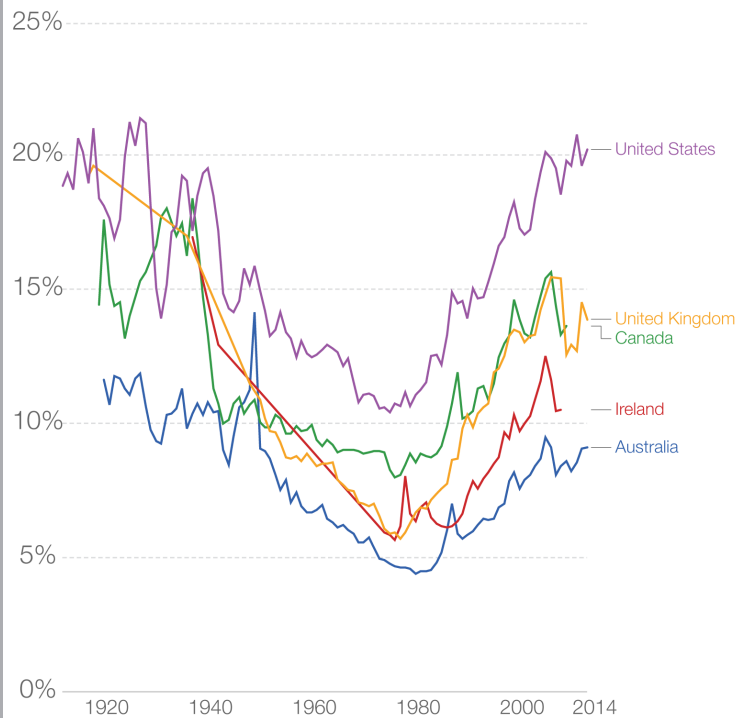
Source: Fouquin and Hugot (CEPII 2016)

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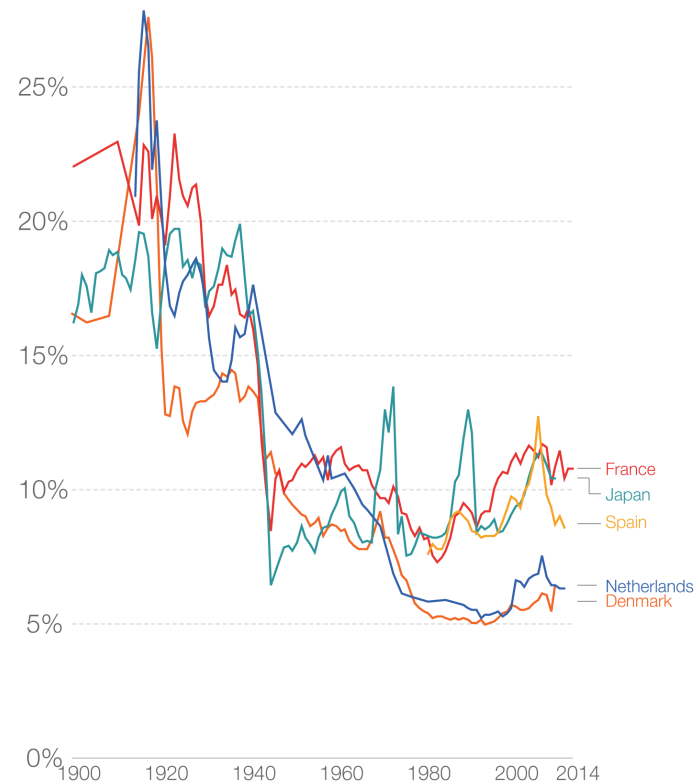
OurWorld
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Share of Total Income going to the Top 1% since 1900

The evolution of inequality in English speaking countries followed a U-shape



The evolution of inequality in continental Europe and Japan followed an L-shape



Data source: World Wealth and Income Database (2018). This is income before taxes and transfers.

This data visualisation is available at [OurWorldinData.org](https://ourworldindata.org). There you find the raw data and more visualisations on inequality and how the world is changing. Licensed under CC-BY-SA by the author Max Roser.