



THE GREAT DEPRESSION

OF THE

2020s

ITS CAUSES AND
WHO TO BLAME

PHILIP WILLIAMS

Economists' reliance on flawed economic theories has sown the seeds for a calamitous economic collapse as great, if not greater than the Great Depression. This event will shake the very foundations of the world as we know it.

Mainstream economists have perpetuated a gigantic fraud on the people of the world by implying that they understand how modern economies work, and that they can control economic outcomes. If mainstream economists had such wisdom and power, the world would be on a trajectory of unbridled economic growth rather than standing on the edge of an economic precipice.

In perpetuating this fraud, economists have created a number of myths, myths that are not only wrong, but are actually damaging to economic growth. These include that central banks control interest rates and inflation, inflation and low interest rates are necessary for economic growth, and deflation is bad for the economy.

The banking and corporate elites have exploited these failures to hijack the economy for their own benefit. In so doing, they have massively increased the size of the banking sector relative to the real economy. This has not only created huge asset bubbles, but transferred hundreds of billions of dollars of wealth from the low and middle classes to the elite, while creating a massive underclass of serfs financially beholden to the banks. It has also led to a massive build-up in debt, malinvestments and distortions in the global economy, at levels far greater than at any other time in human history.

China has also exploited the global trading system by using unfair and illegal trade practices in chasing her ambitions for regional and global hegemony.

The purpose of this book is to demystify economics and expose this fraud so that people can use the knowledge gained to actively engage in debate. This will enable everyday people to challenge the fraud perpetuated by economists and the elite and return some balance and fairness to society.

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About the Author

I was born in Sydney, Australia and graduated with an economics degree from the University of Sydney.

After graduating, I joined a major Australian bank as a graduate trainee, working in branch banking before transferring to its economic department. Here I worked as a research officer, focusing on a range of subjects including international trade.

I left banking and joined Shell Oil. Throughout my 14-year career, I worked in retail management, sales, finance and administration, network development, manufacturing, logistics, business improvement and strategic planning.

I left Shell and worked for a leading global management consulting firm, specialising in strategy and business transformation. It was here that I learnt how to analyse and restructure businesses.

For the next 20 years, I worked as a management consultant across a range of industries including mining, heavy industry, telecommunications, all tiers of government, utilities, agriculture, entertainment and railways. This work included strategic and business planning, business transformation, change management, procurement, IT, operational improvement and program management.

This broad business experience gave me a unique insight into how businesses operate, how managers allocate capital and make business decisions, and how corporations grow, thrive, stagnate and die. It also impressed upon me the inefficiency of government bureaucracies and how out of touch government bureaucrats are.

In addition to my career, I was also active in politics, serving for a number of years on the governing body of the Liberal Party (conservatives) in Queensland. Here I worked on numerous local, state and federal election campaigns and got to mix regularly with senators, federal and state politicians, cabinet ministers, mayors

and local councillors.

My involvement in politics left me with an enduring sense of cynicism towards politicians and the political process. With few exceptions, I found politicians to be self-serving, conflicted, reactive, short-sighted, cunning and, often, not particularly smart. It also re-enforced that the higher the level of government, the more detached and remote politicians are from their constituents. I came away supporting Aristotle's view that the most responsive form of government occurs at the local level.

While no longer working as an economist, I maintained an interest in economics. In the mid-2000s, I became a guest commentator on economics on the Australian Broadcasting Corporation's evening radio show – Australia's version of Britain's BBC. In July 2007, I was on the public record stating that U.S. house prices were in a bubble and that the world would experience a financial crisis. Three months later, the world's financial system was brought to its knees when the Global Financial Crisis (GFC) struck in September 2007.

In subsequent interviews, I argued that extreme money printing by central banks (counterfeiting) would not restore prosperity; the European Union (EU) would eventually break up; and that a deflationary depression was the most likely outcome from irresponsible bank lending and central bank activism.

The fact that so many mainstream economists – the so-called experts that the mainstream media loves to quote – got it wrong not only surprised me but caused me to question the very foundations of modern economic theory. I also pondered why my analytical framework allowed me to see so clearly the looming economic problems and yet so many famed economists couldn't.

Which brings me to the reason for writing this book.

Reasons for Writing the Book

Economics plays a vital role in our prosperity, standard of living, health, mental well-being and safety. It enables us to not only meet our basic needs but to live the more affluent life we've become accustomed to. And yet very few people, including many economists, have a good understanding of how economies function, and what drives the endless cycle of boom and bust.

Our general economic illiteracy has enabled the banking elite to take control of the world's financial systems. In key areas of the economy, free-market capitalism has been replaced by a hybrid of central planning, corporatisation and protection of favoured industries. This, together with globalisation, has led to the hollowing of the middle classes and the massive transfer of wealth to the elite. A large underclass of financial serfs has emerged who are beholden to the banks.

Alongside this, the west's prosperity is threatened by the rise of China as an aggressive, strategic competitor. China has achieved the status of a global economic powerhouse through illegal means and unfair trade practices.

Economists' reliance on flawed mainstream economic theories, fiscal stimulus and central bank activism have sown the seeds for an economic collapse of a magnitude as great as, if not greater than, the Great Depression. This event will shake the very foundations of the world as we now know it.

*

One other reason for writing this book is personal. Based on financial advice, I was fully invested in managed funds through the 1990s. I was mortified when the dot-com bubble collapsed. I can still vividly remember the fear I suffered every morning as I tuned in to see how much the Dow Jones had fallen the previous day. Five years later I was diagnosed with cancer. Fortunately, I have made a full recovery but I put this bout of cancer down to the extreme fear that I suffered in the 2000 stock market collapse, and the possible loss of our life savings.

The reality is that booms and busts are not just esoteric events. They have real world consequences, sometimes dire.

The purpose of this book is to demystify economics so that people can use the knowledge gained to actively engage in debate. From this position of power, our society can challenge the fraud perpetuated by the elite – banks, mainstream economists, central banks, politicians, bureaucrats, corporate executives, financial commentators, the mainstream media, the real estate industry and special interest groups – and return some balance and fairness to society.

Introduction

Greed, hubris and flawed economic theories have led to a massive build-up in debt, malinvestments and distortions in the global economy, at levels far greater than at any other time in human history. Not only has this led to a massive redistribution of wealth from the poor to the elite, but it has sown the seeds for a calamitous deflationary depression and economic collapse of a magnitude as great as, if not greater than, the Great Depression.

We are now at a tipping point where the economy is so distorted that only a depression can cleanse the system of its malinvestments and distortions before sustainable economic growth can resume.

So how did we get to this point, and who's to blame? Turning to the second part of the question first – the answer is simple. Politicians, bureaucrats and the general public have taken for granted that mainstream economists and central bankers are experts and know what they are doing. As I shall demonstrate, they don't.

Not only have mainstream economists failed to properly analyse economic history and therefore develop a proper understanding of how economies function, they have also failed to learn the lessons of history.

They have failed to heed the warnings which highlight that boom and bust cycles have been a regular feature of the economic landscape through the ages. With few exceptions, booms have been brought about largely by poor banking practices, excessive debt, runaway inflation and credit-fuelled asset booms. And surely as night follows day, booms have been followed by busts, often with catastrophic consequences.

History clearly demonstrates that the best way to handle a financial crisis if it does arise is to let the debt implode, let bad banks fail or be reconstructed, and let asset and consumer prices and wages deflate to more sustainable levels. This ritual

cleaning of distortions and malinvestments sets the foundation for renewed and vibrant growth.

Mainstream economists have eschewed this evidence, instead promoting policies that encourage government meddling and intervention in the economy. Intervention that actually prolongs economic depressions and human suffering while failing to cleanse the system of structural imbalances.

In recent years, mainstream economists and politicians have taken economic meddling to an extreme, undertaking the greatest monetary and fiscal stimulus in history and in so doing running up record levels of debt. And yet despite this unprecedented monetary and fiscal stimulus, the rate of real economic growth in the west has been in inexorable decline for the past seven decades.

In other words, government intervention in the economy not only causes imbalances and exacerbates financial problems, it prolongs human suffering while doing little to support real economic growth.

And while they have been pursuing these flawed policies, they have failed to promote policies that actually support economic growth and prosperity. Policies that encourage sound money, that encourage laissez-faire economics and support increased productivity.

It is nothing short of scandalous. Mainstream economists have perpetuated a gigantic fraud on the working people of the world: firstly, by suggesting that they understand how a modern economy works; and secondly, by implying that they can control economic outcomes. If mainstream economists had such wisdom and power, the world would be on a trajectory of sustainable economic growth rather than standing on the edge of an economic calamity.

In perpetuating this fraud, they have also created a number of myths, for example that inflation and low interest rates are necessary precursors for economic growth, and deflation is bad for the economy. Myths that are not only incorrect, but are actually damaging to economic growth.

These flawed economic theories have allowed politicians and others to hide behind a chimera of respectability while wreaking havoc on the economy and the well-being of millions of innocent people.

More importantly, it has exposed a dark underside to humanity, insofar that politicians, when faced with economic difficulties – generally of their own making – will say things that are often misleading and will implement draconian measures that impact directly on the rights, freedoms and lives of their own citizens. This time will be no different.

The banking and corporate elites have exploited these failures to hijack the economy for their own benefit. In so doing, they have massively increased the size of the banking sector relative to the real economy. This has not only created huge asset bubbles, but transferred hundreds of billions of dollars of wealth from the low and middle classes to the elite, while creating a massive underclass of serfs financially beholden to the banks. It's now a matter of: 'I owe, I owe: it's off to work I go.'

Of course, the elites aren't the only ones to blame. Ordinary folk have been caught up in speculation and the borrowing binge, hoping to get rich on the asset boom, or living beyond their means. But none of this would have been possible if credit hadn't been so readily available, and at such low interest rates.

The elites have also created the pre-conditions for a depression through the creation of fractional reserve banking and fiat currencies, and through the actions of central bankers, all of which have undermined the concept of sound money.

While this book seeks to expose how the elites have exploited the fraud that is economics, there is a glimmer of hope.

There are minority groups of non-mainstream economists who do have a clear understanding of how economies work, what causes booms and busts, and what policies can deliver prosperity. They are also very clear of the limitations of economics in solving world problems. Until now, their theories have been largely

ignored as they haven't supported the narrative of the political classes and the elite. It's time to change that.

*

The book is divided into five parts. Part 1 introduces basic economic and financial concepts, while highlighting how mainstream macroeconomics is not a science, but rather a jumble of disconnected, unproven and failed theories. It also provides several examples of financial crises through the ages.

Part 2 covers the creation of the U.S. Federal Reserve – the worst financial decision in U.S. economic history, together with analysis of the 1920–21 Depression, the Roaring Twenties and the Great Depression. It also critiques the different theories put forward as to the causes of the Great Depression and demonstrates clearly how these theories, which form the basis of current mainstream economic thought, are not only deeply flawed but are at the heart of most of today's economic problems.

Part 3 uses the post-war U.S. economy as an exemplar to support my arguments of economic malfeasance by mainstream economists. This looks at key stages in the growth and development of the post-war U.S. economy before delving into how banks have taken control of the world's financial system; and how misguided U.S Federal Reserve monetary policies, such as inflation targeting, have led to the financialisation of the economy. These policies have not only created structural imbalances, but have contributed to the transfer of billions of dollars in wealth to the global elite, especially bankers.

Part 3 also describes how excessive credit growth led to the credit crisis in Japan in the 1980s, how China has exploited mercantilist policies to take unfair advantage of free trade in the west, and how structural problems in the EU have been caused by flawed economic and geo-political policies that favour France and Germany at the expense of peripheral nations.

Part 4 identifies measures that suggest that the global economy is at a tipping

point of another financial crisis. It also introduces four scenarios as to how the financial crisis may play out, with a detailed explanation of the most likely scenario – a devastating and prolonged global deflationary depression. It paints a picture of untold misery, pain and suffering, and massive social upheaval.

Finally, Part 5 looks at how we, the people, can wrest control of the global economy from the elite, before detailing a range of factors that are crucial to deliver economic prosperity moving forward.

It is now time to challenge the elite and their reliance on quack economic theories that have created this ungodly mess.

I hope you enjoy the book and that it will help protect your savings in the ensuing global meltdown.

Part 1

Key Concepts



Chapter 1 – Key Economic Concepts

'Economics is extremely useful as a form of employment for economists.'

John Kenneth Galbraith

Economics plays a vital role in our prosperity, standard of living, health, mental well-being and safety. Without the products and services provided through modern economic activity, we would be unable to meet our basic needs, let alone support our modern way of life.

One only needs to compare the standard of living in the west to those living in developing nations, or to the lifestyles of our forebears, to understand the benefits of economic progress.

Unfortunately, the field of economics has become a political football, open to abuse and manipulation by vested interest groups towards their own ends.

Many people – including politicians, unionists, church leaders, academics, the media, social activists and even economists themselves – have difficulty separating economics from other disciplines such as finance, politics, psychology, anthropology and sociology. Many suggest that economic growth can solve all of life's problems. Others blame economic growth for all of life's ills. Both groups are wrong.

Another problem is the relentless battle that rages between the aspirations, goals and objectives of diverse groups within society, requirements that are often at complete odds with one another. This is no better exemplified than the ongoing ideological battles between environmentalism and development, socialism and capitalism, collectivism and liberalism, democracy and authoritarianism.

A further problem relates to short-term political and economic needs versus

the long-term needs of current and future generations.

Unfortunately, some prominent economists have adapted and sponsored economic theories to support partisan political and social views. Worse still, some have been willingly co-opted by the elite to support economic theories which favour the elite. This has resulted in massive financial and social distortions which will blow up in our faces.

This is not only an indictment of the economics 'profession' as a whole – and I use the word 'profession' very loosely – but of those prominent mainstream economists who have sold their souls for twenty pieces of silver.

Economics does have a place in supporting social and political debate. Economists can provide the theoretical and analytical frameworks to help policy-makers and the public make informed decisions against the complex trade-offs between competing interests.

But it cannot solve all of life's problems. People need to make decisions which reflects society's needs and wants. Such decisions may have good economic outcomes, or they may have very poor social and economic outcomes. The best economists can do is provide the analysis to support debate in making these decisions.

Ideally, economics should be agnostic and neutral to all groups within society. Sadly, it never will be as economists are driven by the same primordial psychological factors that drive the rest of us – self-interest.

Given these shortcomings, the best I can do is highlight the gross deficiencies in current mainstream economic theories so that people can participate in the debate on how society and the economy should function to the benefit of as many people as possible.

*

The following provides a brief introduction to the field of economics before moving

onto the main chapters in the book.

Definition of Economics

The first problem with economics is that economists can't agree on a common definition of economics. The definitions range from a focus on the study on wealth; how individuals and society choose to employ scarce productive resources; to how society goes about organising the production and distribution of the goods and services it wants.

Despite the multiplicity of views, five underlying principles and commonalities seem to emerge from these definitions.

Firstly, the study of economics arises out of the need to use resources to satisfy human needs and wants.

Secondly, they identify key aspects of economic activity, namely: production, distribution, consumption and savings of individuals and groups within society.

Thirdly, they raise the critical role that time plays in relation to economic activity. For example, do we consume everything now and leave nothing for future generations, or do we have some form of moral obligation to future generations?

Fourthly, economics deals with scarcity and choice – and how resources are allocated, now and in the future.

Finally, economics should help people establish frameworks of how economic systems work to help solve everyday problems.

What Problems is Economics Trying to Solve?

Global economies are highly complex systems that handle literally billions of economic transactions every hour. That the system works at all is a miracle. Can

you imagine, for example, trying to design and maintain a machine that could handle so many components and transactions in an environment that is continually changing? And yet, the global economy, for better or worse, does exactly that.

Lipsey et al¹ identify six types of problems that economics is trying to solve. The first three questions fall within the realm of microeconomics while the latter three questions fall within the field of macroeconomics.

1. What goods and services are being produced and in what quantities?

This question addresses the issue of scarcity, that is how an economy allocates scarce resources to meet insatiable and unending human needs, where demand will always outstrip supply.

There are various mechanisms for allocating goods and services. In a centrally planned economy, the decision to allocate resources and at what prices is determined centrally, either by bureaucrats or by decree. This is often undertaken without regard to the prevailing market conditions, or to consumer needs and wants. In contrast, in free-market systems, resource allocation is determined in competitive markets through the price system. In such cases, the relative prices of goods and services will adjust over time to reflect changing consumer preferences, which in turn impacts on the supply and demand for goods and services.

In reality, most economies are a hybrid of centrally planned and free-market systems with a leaning towards one or the other of the two extremes.

2. By what methods are goods and services produced?

Generally, there is more than one way to produce goods and services. These range from labour intensive to highly automated methods. Unfortunately, there is no simple formula to determine the optimum mix as the answer will depend on a range of local and international factors.

3. How is the supply of goods allocated amongst the members of society?

This question seeks to address issues associated with the allocation of income,

wealth and resources throughout society. There are two aspects to this question. The first relates to purely economic forces, where resources are allocated on the basis of economic factors, independent of any other considerations. The second aspect transcends economics to look at other areas such as sociology and politics to determine how income and wealth should be distributed.

In recent times, there has been a great deal of debate around income and wealth inequality. Whatever one's social and political leanings, history would suggest that wealth and power tend to concentrate amongst a few, highly powerful individuals and families while invariably there will be a middle class of varying proportions and a large underclass. This is true whether the prevailing political and economic system is socialism, Nazism, communism, tribalism, autocracy or capitalism.

Moreover, despite the recent debates, human nature being what it is, I believe this disparity in income and wealth will continue well into the foreseeable future.

4. Are the country's resources being fully utilised, or are some of them lying idle and thus going to waste?

In recent times, politicians and economists have focused almost exclusively on economic growth at all cost. Unfortunately this debate has been driven largely for political considerations, that is to keep the incumbent government in power, rather than for purely economic reasons.

The argument goes that if a nation's resources are under-utilised then a nation's economic output will be reduced, unemployment will be higher and the economy will be less able to satisfy society's needs and wants. But more importantly, politicians will be less popular and therefore less likely to be elected.

End of Sample

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