

Flash Economics

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Curiously, impoverishing wage earners eliminates cycles and recessions

The skewing of income distribution at the expense of wage earners in OECD countries in the past 20 years has led to the disappearance of inflation, even at full employment and with interest rates remaining low.

This has led to the disappearance of economic cycles and recessions, since they were triggered by a rise in interest rates, which led to deleveraging, declining investment and a downward correction in asset prices.

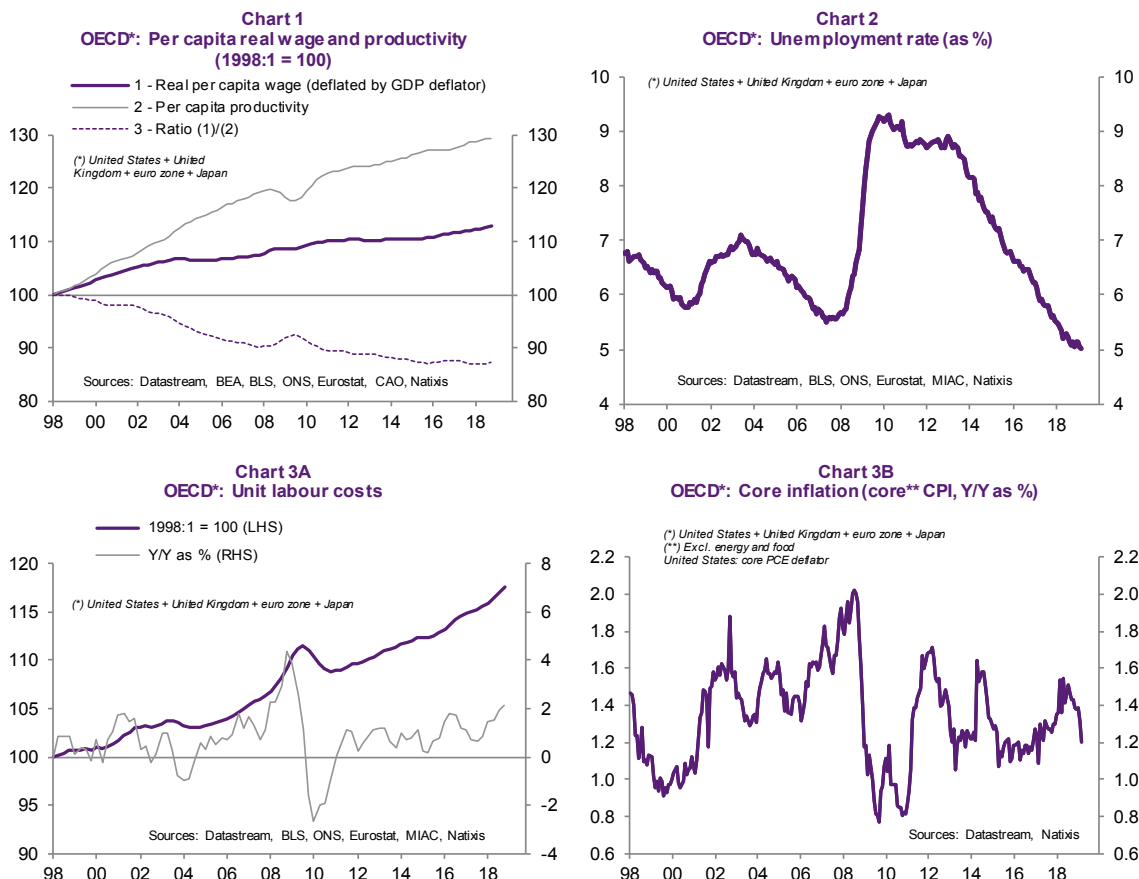
All things considered, it is therefore the impoverishment of wage earners that is leading to the disappearance of economic cycles.

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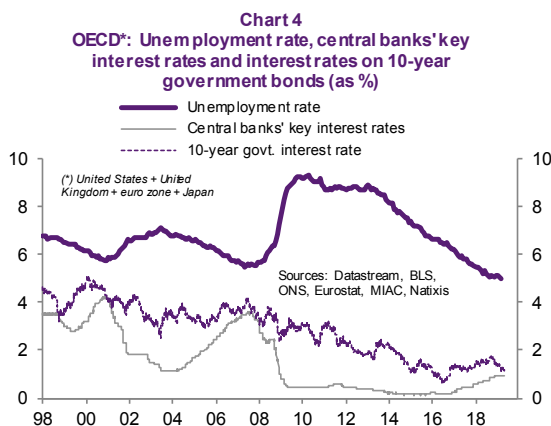
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Disappearance of inflation at full employment

We look at the OECD defined as United States + United Kingdom + euro zone + Japan. **Over the past 20 years, income distribution has been skewed at the expense of employees (Chart 1), due to their loss of bargaining power, which has led to, even at full employment (Chart 2), small increases in unit labour costs and inflation (Charts 3A and B).**



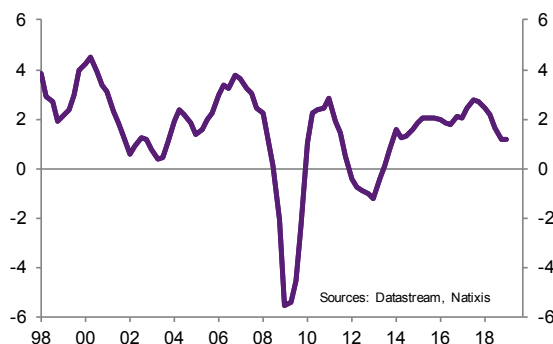
The low level of inflation even at full employment has now led to **persistently low interest rates during the entire cycle (Chart 4).**



Disappearance of economic cycles and recessions

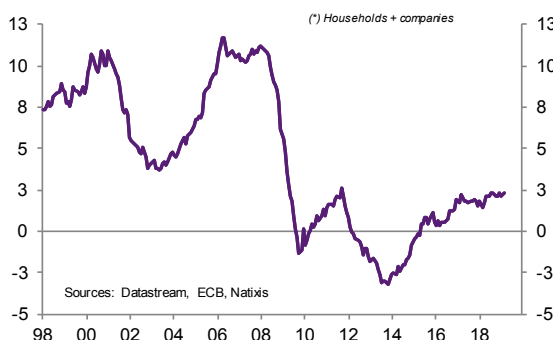
All recessions in the past (the last were in 2000-2001 and in 2008-2009, **Chart 5**) were caused by rising interest rates, which triggered:

Chart 5
Euro zone: Real GDP growth (Y/Y as %)



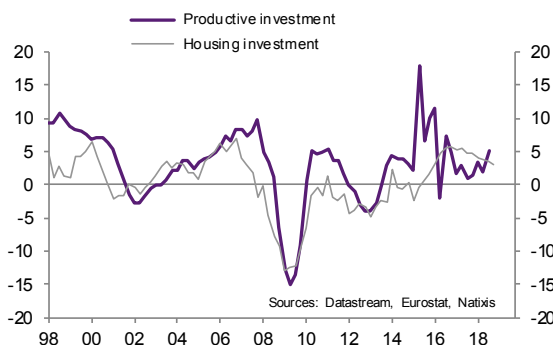
- **Deleveraging (Chart 6);**

Chart 6
Euro zone: Lending to the private sector* (Y/Y as %)



- **Declining investment (Chart 7);**

Chart 7
Euro zone: Real productive investment and household housing investment (Y/Y as %)



- **A downward correction in asset prices (Charts 8 and 9);**

Chart 8
Euro Stoxx: Forward PER

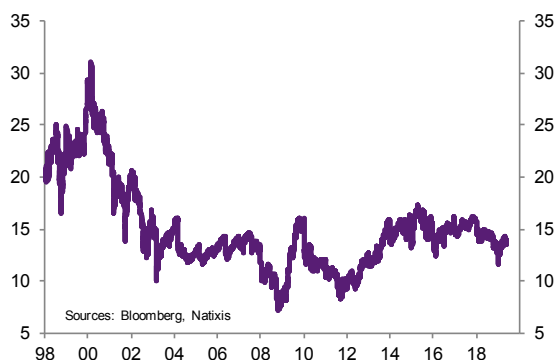
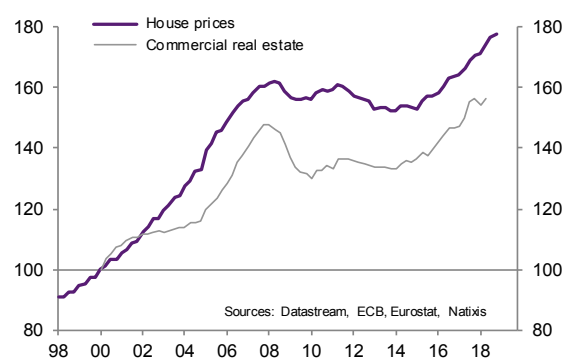


Chart 9
Euro zone: House prices and commercial real estate prices (2000:1 = 100)



The disappearance of inflation and of interest rate rises even at full employment has therefore eliminated the causes of recessions.

Conclusion: A high price to pay

The disappearance of inflation - and therefore of interest rate rises - at full employment is eliminating recessions, and therefore economic cycles.

This development may seem positive, but we have to keep in mind the price to pay to obtain it: skewing of income distribution at the expense of wage earners, and therefore impoverishment of wage earners.

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