America’s Hidden Depression
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By Bill Bonner, Chairman, Bonner & Partners

Today, the world economy is minting one new billionaire every two days...

Eighty-two percent of the world’s wealth generated last year went to the “One Percent.”

That leaves 18% for the bottom 99%. Many of the 99 percenters must have gotten nothing at all... or less than nothing.

Numbers are always a little squirrely. Give them a bribe or threaten them with violence, and they’ll say practically anything.

But, spontaneously, more and more numbers are coming forth and bearing witness against a fraudulent economy.

They tell us that the feds’ GDP calculations are not to be trusted...

Looking at the economic picture in the U.S., we are meant to see happy people getting richer, with a bubbly stock market, low consumer price inflation, and jobs for whomever wants one.

That is the picture the news media, the financial press, Wall Street, and the Trump administration draws.

According to the Bureau of Economic Analysis (BEA), wages have risen 36% since the 2008 financial crisis. The jobless rate has been cut in half. And GDP has grown 20%.

The economy is cranking out more jobs... more money... and more stuff.

America is back!

What we see is claptrap. The dots don’t connect.

In a labor pool with barely any increase in average wages, if some wages are going up, other wages must be going down.

And in a country where growth is concentrated in a few urban-suburban conglomerates – Washington, D.C., New York, San Francisco, etc. – there must be a lot of places where people are not drinking cappuccinos, sending their children to private schools, or listening to NPR.

In the bottom half of the U.S. population, 117 million adults earn an average annual wage of $16,000 a year.

These people are worse off than they were at the end of the last century... and probably worse off than they were when the Fake-Money Era began in 1971.

But we’ll let you draw your own conclusion.

We asked our research department, headed by the able Joe Withrow, to comb through the U.S., county by county, and tell us where people were better off... and where they weren’t.

His report can be read in full below. You should read it. The assumptions and analytical methods he used are important.

In addition to the expected evidence came a revelation: GDP growth is largely counterfeit.

Read on...

Bill Bonner
Chairman, Bonner & Partners
The United States is a large, diverse nation full of 325 million people. The nation is composed of 50 states. Those states are composed of 3,141 counties. And those counties are very different from one another... as are the people who inhabit them.

But the Bureau of Economic Analysis (BEA) ignores that fact in its analysis. Instead, it rounds up economic statistics from all over the nation. Then it picks out the averages... and puts makeup on them. It smooths out their wrinkles and evens out their complexions.

For instance, GDP includes “all private and public consumption, government outlays, investments, private inventories, paid-in construction costs, and the foreign balance of trade.”

Can you spot the problem?

GDP measures government outlays... but those outlays exceed tax receipts by a wide margin every year. That's where the federal deficit comes from.

How is that possible?

As Bill has pointed out in his Diary countless times, the government magically conjures up money into existence to make up the difference.

Well, it's not really magic. The government just creates a bond and sells it to the Federal Reserve... which "writes a check against itself" to create the money it needs to buy the bond.

They are very honest about this. The Fed tells you how it works right on its website.

So, a portion of government outlays is financed by money created from nothing... and that is picked up as "growth" in GDP.

But there's more to the story.

The government gives that money to real people – defense contractors... corn farmers... state government officials... and, of course, people on the dole.

The people receiving that money then spend it on something... which is picked up in the "private consumption" part of GDP.

That means GDP records the Fed’s “fake money” as “growth”... twice.

By the way, government transfer payments have exploded by 45% since the 2008 financial crisis. And GDP metrics have captured every single penny of that as “growth.”

Bill’s right. That is less than unhelpful.

A Better Way Forward

If GDP is not the best measurement of economic health, what is?

That’s when the Bonner & Partners research team dusted off our old copy of Human Action – Austrian school economist Ludwig von Mises’ great treatise on economics. Economics, said Mises, was nothing more than the study of human action – the preferences and choices that people make in their daily lives:

Choosing determines all human decisions... In making his choice, man chooses not only between various material things and services... All ends and all means are subjected to a decision which picks out one thing and sets aside another. No treatment of economic problems can avoid starting from acts of choice.

In other words, economics is about real people making real choices. It is about individuals making decisions.

Should I go out to eat... or go to the grocery store?
Should I put a new roof on the house... or a bucket under the leak?
Should I go out to the movies... or turn on Netflix?
Should I buy Snapchat... or a 1 ounce Gold Eagle?
Should I take the job waiting tables... or collect unemployment benefits?

These are the decisions, made in private by millions (and billions) of people, that determine economic activity. The bureaus and think tanks could not possibly measure this.

So from the human action perspective, it stands to reason that the economy grows when people get richer. And it shrinks when they get poorer.

To uncover which American counties are depressed, we need to find out where people are getting richer. And where they are getting poorer.
Doing that is easy. You just go backstage at the BEA where they keep the county statistics... and you take the makeup off.

So that's what we did.

**Lots of Wrinkles**

What we found was that some counties have lots of wrinkles. Some are covered with pimples. Some haven’t gotten off the couch in a while.

With that said, we present to you the Bonner & Partners Map of Depressed Counties.

Let me tell you what you are looking at above.

Remember, this is a proprietary map created from proprietary data. We are determining which counties are depressed, and which aren’t, according to a scoring system that we established.

We aren’t following any of the official definitions for expansion... recession... or depression...

That’s because we think those definitions are bunk. They are meaningless, specifically because they disregard human action.

So, our scoring system is not designed to give you impressive data points regarding economic metrics within a particular county. All we are doing is telling you where people have gotten richer... and where they have gotten poorer.

That’s it.

The counties where people have gotten poorer are in a depression. The poorer the people got, the bigger the depression by our logic.

By the way, we are determining which counties are richer... and which are poorer... by looking back at where they were 10 years ago. We are comparing each county to the younger version of itself.
We are not comparing counties to each other or to any national average because that would disregard the uniqueness of each county... and the people living there.

So just because we say people in Clarke County, Iowa got richer, but people in San Bernardino County, California got poorer... that doesn't mean that people in Clarke are richer than people in San Bernardino. It means that people in Clarke are richer today than they were 10 years ago... and people in San Bernardino are poorer today than they were 10 years ago.

After all, isn't that what really matters at the end of the day?

So here's what you are looking at:

When you see green, people in that county have gotten richer.

When you see blue, people in that county haven't gotten richer or poorer. They are just about where they used to be.

When you see orange, people in that county have gotten a little bit poorer.

When you see red, people in that county have gotten quite a bit poorer.

And when you see black, just think of the honorable Ms. Yellen plowing through that county with a bulldozer.

How We Measure Depression

Our scoring system is composed of four fundamental metrics: unemployment, labor force participation, poverty rate, and inflation-adjusted wage growth.

We assigned each of the 3,141 U.S. counties scores according to whether those metrics went up or down over the past 10 years... and by how much.

The more unemployment increased... and labor force participation decreased... and poverty rates rose... and inflation-adjusted wages shrunk... the poorer people must have gotten in that county.

It’s important to remember that these metrics were designed to give us an idea of the general economic health of American counties. It’s not intended to tell us the economic story of each and every citizen in that county.

We say that people in Cullman County, Alabama got steam-rolled by a Yellen-dozer... But that’s a general statement.

We haven’t met all the people in Cullman County. To be honest, we haven’t met even one person in Cullman County.

And we know that there's got to be a few folks there who are doing better now than they were 10 years ago.

But if most of the other jobs moved to the city... and if most of the people who used to work those jobs dropped out of the labor force... then the people in Cullman County have generally gotten much poorer.

How We Scored Each County

Unemployment
- If unemployment increased over the past 10 years, we assigned one Doom Point to that county.
- If unemployment increased by more than 50% over the past 10 years, we assigned two Doom Points to that county.
- If unemployment decreased over the past 10 years, we subtracted one Doom Point from that county.

Poverty
- If the poverty rate increased over the past 10 years, we assigned one Doom Point to that county.
- If the poverty rate increased by more than 50% over the past 10 years, we assigned two Doom Points to that county.
- If the poverty rate decreased over the past 10 years, we subtracted one Doom Point from that county.

Labor Force Participation
- If labor force participation decreased over the past 10 years, we assigned one Doom Point to that county.
- If labor force participation increased over the past 10 years, we subtracted one Doom Point from that county.

Inflation-Adjusted Wage Growth
- If inflation-adjusted wage growth decreased over the past 10 years, we assigned one Doom Point to that county.
- If inflation-adjusted wage growth decreased by more than 5% over the past 10 years, we assigned two Doom Points to that county.
- If inflation-adjusted wage growth increased over the past 10 years, we subtracted one Doom point from that county.

* We used the BEA's statistics for unemployment, poverty, and labor force participation.

** We used the BEA's statistics for wage growth, but we adjusted that number by inflation as measured by the CPI back in 1990 (before they manipulated the model).
Our Scoring System

1 point or less: The county is better off today than it was 10 years ago (Green).

2 points: The county is not much better or worse than it was 10 years ago (Blue).

3–4 points: The county is slightly depressed (Orange).

5–6 points: The county is very depressed (Red).

7 points: The county has been economically devastated over the last ten years.

Above is the map again, now that you know what you are looking at.

The map shows that people in 2,278 counties have gotten poorer over the past 10 years. As best as we can tell, that means 75% of U.S. counties are in a depression.

Seventy-three percent!

Let’s look at each of our metrics. Over the past 10 years:

- Unemployment has increased in 56% of U.S. counties.
- Labor force participation has decreased in 60% of U.S. counties.
- The poverty rate has increased in 87% of U.S. counties.
- Inflation-adjusted wage growth has decreased in 98% of U.S. counties.

Which Areas Are Depressed?

When we started this project, we had a very good idea of what the county map would look like. All the counties
with major cities would be green. Everything else, especially in flyover country, would be orange and red.

We were wrong.

As you can see, most of the “green” counties are in flyover country. And everything else is mostly orange and red.

This surprised us at first… But it’s easy to see why this is the case. Look at the map above one more time.

You can see that most of the green is concentrated in seven states: Texas, New Mexico, Colorado, Wyoming, Montana, and the two Dakotas.

Do you know what they each have in common?

Shale oil.

People in those seven states have gotten richer over the past 10 years because of an explosion in shale oil production… and because of all the commerce that follows such productivity.

Think about this: At the height of the shale oil boom, several publications reported that a pizza delivery guy in Sidney, Montana was making $38 per hour. And apparently somebody opened up a water slide amusement park in that same town.

I don’t know that either of those items are wise or sustainable… but they are evidence of people getting richer.

And it wasn’t just Sidney – similar things were happening in small towns all over shale oil country.

Meanwhile, the rest of the country has struggled to overcome the political rules, regulations, and restrictions that curtail commerce and skim from the value it produces...

What It Means

Commerce and politics are opposing models.
Commerce is about production and voluntary exchange. It is about creating something that someone else wants... and is willing to give you money for. It is about win-win deals, as Bill writes about every day in his Diary.

Commerce is the engine of human progress... something apparently lost on most advocates of “progression.”

Politics is the enemy of commerce. It seeks to slow commerce down with all manner of red tape.

Restrictions... regulations... statutes... codes... zoning laws... permits... licenses... They are all implemented specifically to slow down commerce.

Despite it all, commerce plods along... struggling to overcome the obstacles in its path.

Then, politics skims from whatever value commerce manages to produce despite the political roadblocks... thus converting production into plunder.

In his book, *The State*, German physician and sociologist Franz Oppenheimer noticed this dynamic way back in 1908. Here’s Oppenheimer:

> There are two fundamentally opposed means whereby man, requiring sustenance, is impelled to obtain the necessary means for satisfying his desires. These are work and robbery, one’s own labor and the forcible appropriation of the labor of others.

Commerce is the means of satisfying needs and wants via “one’s own labor.” Politics is the means of satisfying needs and wants via “the forcible appropriation of the labor of others.”

Here is where I am going with this: the “green” counties you see on our map are places where people have gotten richer specifically because commerce has outrun politics over the past 10 years. These are places where productive activity has exceeded the political activity seeking to restrain and skim from it.

They are places where markets have trumped politics.

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**Red Tape Leads to Red Counties**

The *Federal Register* is a daily digest that the federal government has published every day since 1936. It contains regulations, proposed regulations, rules, notices, corrections, and presidential documents from all federal agencies.

Think about this: the first publication contained 2,620 pages back in 1936. By 2016, the *Federal Register* had ballooned up to 95,894 pages.

And every single one of those pages seeks to slow down or skim from commerce in some way.

Every single one of those pages seeks to replace the win-win deals that drive a healthy economy with the win-lose deals that drive the growth of government and its cronies.

Every single one of those pages seeks to infringe upon the freedom of the 325 million people living in the 3,141 unique U.S. counties to transact with each other as they fit.

Remember, politics is nothing more than “the forcible appropriation of the labor of others,” as Oppenheimer put it. So the more politics you have, the more forcible appropriation of labor you have. And the more forcible appropriation of labor, the harder those 325 million people must work just to stay afloat.

Let’s take a quick look at the federal government, as it existed back in the 1930s.

According to historian William Manchester, Washington D.C. was “a slumbering village in summer, largely forgotten the rest of the year. In size, it ranked fourteenth among American cities.”

According to Manchester, President Calvin Coolidge had usually finished his official day by lunchtime.

Coolidge’s successor, President Herbert Hoover, created a stir by becoming the first U.S. president to have a telephone on his desk. Hoover also employed five secretaries – all previous presidents employed only one.

Yet the Hoover administration was tiny by present-day standards. Picture this: the land upon which the Pentagon now rests was still farmland when Hoover was in office. The Secretaries of State, War, and Navy were all housed under the same roof in a building right across the street from the White House.

The federal government was a toothless little thing by today’s standards. In 1952, there were no federal subsidies to farmers, no handouts to the unemployed, and no tax dollars for public schools. The federal government did not build hospitals or interfere with medical care procedures.

People were left alone to handle their own affairs as they saw fit.

The federal government did maintain a standing army in the name of national defense... but it was the kind
The Bonner-Denning Letter

of army that would not lead directly to bankruptcy. The U.S. maintained the sixteenth-largest army in the world, yet still faced no legitimate threat of a foreign invasion.

In constant dollars, the army in 1932 cost roughly one-eighth of one percent (0.00125%) of what the U.S. military costs today.

In 1932, the federal government confiscated less than 5% of national income to finance its operations. Today, the federal government captures well over a quarter of national income... and then it borrows a great deal more.

That’s what happens when the Federal Register goes from nothing... to 2,000... to 95,000 pages.

And then you end up with 2,278 depressed counties.

How to Check Your County
Want to check how your county did in our study? You can view all of our research by selecting your state from the table below.

This is all of our data for every U.S. county. As we mentioned, we looked at 10-year changes in important economic data in each county. This includes changes in the poverty rate, unemployment rate, labor force participation rate, as well as CPI-adjusted wage growth.

In one of the far right columns of the linked document, you will see “ShadowStats-Adjusted Wage Growth.” This is wage growth adjusted by the CPI as it was calculated prior to 1990. Unlike today’s CPI figure, it takes into consideration the rising cost of living needed to maintain a constant standard of living.

As mentioned, we looked to see if economic conditions improved or declined in counties over the past ten years and applied a corresponding number of “doom points.” The color gauge is as follows:

Green = Improved
Blue = Unchanged
Orange = Slightly Depressed
Red = Very Depressed
Black = Devastated

Regards,
Joe Withrow
Head of Research, Bonner & Partners

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