

Can the Economy Recover?

Paul Craig Roberts

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There is no economy left to recover. The U.S. manufacturing economy was lost to offshoring and free-trade ideology. It was replaced by a mythical "New Economy."

The "New Economy" was based on services. Its artificial life was fed by the Federal Reserve's artificially low interest rates, which produced a real-estate bubble, and by "free market" financial deregulation, which unleashed financial gangsters to new heights of debt leverage and fraudulent financial products.

The real economy was traded away for a make-believe economy. When the make-believe economy collapsed, Americans' wealth in their real estate, pensions and savings collapsed dramatically while their jobs disappeared.

The debt economy caused Americans to leverage their assets. They refinanced their homes and spent the equity. They maxed out numerous credit cards. They worked as many jobs as they could find. Debt expansion and multiple family incomes kept the economy going.

And now suddenly Americans can't borrow in order to spend. They are over their heads in debt. Jobs are disappearing. America's consumer economy, approximately 70 percent of gross domestic product, is dead. Those Americans who still have jobs are saving against the prospect of job loss. Millions are homeless. Some have moved in with family and friends; others are living in tent cities.

Meanwhile, the U.S. government's budget deficit has jumped from \$455 billion in 2008 to \$1 trillion this year, with another \$2 trillion on the books for 2010. And President Obama has intensified America's expensive war of aggression in Afghanistan and initiated a new war in Pakistan.

There is no way for these deficits to be financed except by printing money or by further collapse in stock markets that would drive people out of equity into bonds.

The U.S. government's budget is 50 percent in the red. That means half of every dollar the federal government spends must be borrowed or printed. Because of the worldwide debacle caused by Wall Street's financial gangsterism, the world needs its own money and hasn't \$2 trillion annually to lend to Washington.

As dollars are printed, the growing supply adds to the pressure on the dollar's role as reserve currency. Already America's largest creditor, China, is admonishing Washington to protect China's investment in U.S. debt and lobbying for a new reserve currency to replace the dollar before it collapses. According to various reports, China is spending down its holdings of U.S. dollars by acquiring gold and stocks of raw materials and energy.

The price of 1 ounce gold coins is \$1,000 despite efforts of the U.S. government to hold down the gold price. How high will this price jump when the rest of the world decides that the bankruptcy of "the world's only superpower" is at hand?

And what will happen to America's ability to import not only oil, but also the manufactured goods on which it is import-dependent?

When the oversupplied U.S. dollar loses the reserve currency role, the United States will no longer be able to pay for its massive imports of real goods and services with pieces of paper. Overnight, shortages will appear and Americans will be poorer.

Nothing in Presidents Bush and Obama's economic policy addresses the real issues. Instead, Goldman Sachs was bailed out, more than once. As Eliot Spitzer said, the banks made a "bloody fortune" with U.S. aid.

It was not the millions of now homeless homeowners who were bailed out. It was not the scant remains of American manufacturing — General Motors and Chrysler — that were bailed out. It was the Wall Street Banks.

According to Bloomberg.com, Goldman Sachs' current record earnings from their free or low-cost capital supplied by broke American taxpayers has led the firm to decide to boost compensation and benefits by 33 percent. On an annual basis, this comes to compensation of \$773,000 per employee.

This should tell even the most dimwitted patriot whom "their" government represents.

The worst of the economic crisis has not yet hit. I don't mean the rest of the real-estate crisis that is waiting in the wings. Home prices will fall further when the foreclosed properties currently held off the market are dumped. Store and office closings are adversely affecting the ability of owners of shopping malls and office buildings to make their mortgage payments. Commercial real-estate loans were also securitized and turned into derivatives.

The real crisis awaits us. It is the crisis of high unemployment, of stagnant and declining real wages confronted with rising prices from the printing of money to pay the government's bills, and from the dollar's loss of exchange value. Suddenly, Wal-Mart prices will look like Neiman Marcus prices.

Retirees dependent on state pension systems, which cannot print money, might not be paid, or might be paid with IOUs. They will not even have depreciating money with which to try to pay their bills. Desperate tax authorities will squeeze the remaining life out of the middle class.

Nothing in Obama's economic policy is directed at saving the U.S. dollar as reserve currency or the livelihoods of the American people. Obama's policy, like Bush's before him, is keyed to the enrichment of Goldman Sachs and the armament industries.

Matt Taibbi describes Goldman Sachs as "a great vampire squid wrapped around the face of humanity, relentlessly jamming its blood funnel into anything that smells like money." Look at the Goldman Sachs representatives in the Clinton, Bush and Obama administrations. This banker firm controls the economic policy of the United States.

Little wonder that Goldman Sachs has record earnings while the rest of us grow poorer by the day.

To find out more about Paul Craig Roberts, and read features by other Creators Syndicate writers and cartoonists, visit the Creators Syndicate web page at <http://www.creators.com/>

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Source of following biography: http://en.wikipedia.org/wiki/Paul_Craig_Roberts

Roberts has been a critic of both Democratic and Republican administrations. He has written or co-written eight books, contributed chapters to numerous books and has published many articles in journals of scholarship. He has testified before congressional committees on 30 occasions on issues of economic policy. He was Distinguished Fellow at the Cato Institute from 1993 to 1996. He was a Senior Research Fellow at the Hoover Institution. From 1982 through 1993, he held the William E. Simon Chair in Political economy at the Center for Strategic and International Studies. During 1981-82 he served as Assistant Secretary of the Treasury for Economic Policy. President Reagan and Treasury Secretary Regan credited him with a major role in the Economic Recovery Tax Act of 1981, and he was awarded the Treasury Department's Meritorious Service Award for "outstanding contributions to the formulation of United States economic policy." From 1975 to 1978, Roberts served on the congressional staff, where he drafted the Kemp-Roth bill and played a leading role in developing bipartisan support for a supply-side economic policy.

In 1987 the French government recognized him as "the artisan of a renewal in economic science and policy after half a century of state interventionism" and inducted him into the Legion of Honor on March 20, 1987. The French Minister of Economics and Finance, Edouard Balladur, came from France to present the medal to Roberts at a ceremony at the French Ambassador's residence in Washington, D.C. President Reagan sent OMB Director Jim Miller to the ceremony with a letter of congratulation.