A Country of Serfs Ruled By Oligarchs

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The media has headlined good economic news: fourth quarter GDP growth of 5.7 percent ("the recession is over"), Jan. retail sales up, productivity up in 4th quarter, the dollar is gaining strength. Is any of it true? What does it mean?

The 5.7 percent growth figure is a guesstimate made in advance of the release of the U.S. trade deficit statistic. It assumed that the U.S. trade deficit would show an improvement. When the trade deficit was released a few days later, it showed a deterioration, knocking the 5.7 percent growth figure down to 4.6 percent. Much of the remaining GDP growth consists of inventory accumulation.

More than a fourth of the reported gain in Jan. retail sales is due to higher gasoline and food prices. Questionable seasonal adjustments account for the rest.

Productivity was up, because labor costs fell 4.4 percent in the fourth quarter, the fourth successive decline. Initial claims for jobless benefits rose. Productivity increases that do not translate into wage gains cannot drive the consumer economy.

Housing is still under pressure, and commercial real estate is about to become a big problem.

The dollar's gains are not due to inherent strengths. The dollar is gaining because government deficits in Greece and other EU countries are causing the dollar carry trade to unwind. America's low interest rates made it profitable for investors and speculators to borrow dollars and use them to buy overseas bonds paying higher interest, such as Greek, Spanish and Portuguese bonds denominated in euros. The deficit troubles in these countries have caused investors and speculators to sell the bonds and convert the euros back into dollars in order to pay off their dollar loans. This unwinding temporarily raises the demand for dollars and boosts the dollar's exchange value.

The problems of the American economy are too great to be reached by traditional policies. Large numbers of middle class American jobs have been moved offshore: manufacturing, industrial and professional service jobs. When the jobs are moved offshore, consumer incomes and U.S. GDP go with them. So many jobs have been moved abroad that there has been no growth in U.S. real incomes in the 21st century, except for the incomes of the super rich who collect multi-million dollar bonuses for moving U.S. jobs offshore.

Without growth in consumer incomes, the economy can go nowhere. Washington policymakers substituted debt growth for income growth. Instead of growing richer, consumers grew more indebted. Federal Reserve chairman Alan Greenspan accomplished this with his low interest rate policy, which drove up housing prices, producing home equity that consumers could tap and spend by refinancing their homes.

Unable to maintain their accustomed living standards with income alone, Americans spent their equity in their homes and ran up credit card debts, maxing out credit cards in anticipation that rising asset prices would cover the debts. When the bubble burst, the debts strangled consumer demand, and the economy died.

As I write about the economic hardships created for Americans by Wall Street and corporate greed and by indifferent and bribed political representatives, I get many letters from former middle class families who are being driven into penury. Here is one recently arrived:

> “Thank you for your continued truthful commentary on the ‘New Economy.’ My husband and I could be it’s poster children. Nine years ago when we married, we were both working good paying, secure jobs in the semiconductor manufacturing sector. Our combined income topped $100,000 a year. We were living the dream. Then the nightmare began. I lost my job in the great tech bubble of 2003, and decided to leave the labor force to care for our infant son. Fine, we tightened the belt. Then we started getting squeezed. Expenses rose, we downsized, yet my husband’s job stagnated. After several years of no pay raises, he finally lost his job a year and a half ago. But he didn’t just lose a job, he lost a career. The semiconductor industry is virtually gone here in Arizona. Three months later, my husband, with a technical degree and 20-plus years of solid work experience, received one job offer for an entry level corrections officer. He had to take it, at an almost 40 percent reduction in pay. Bankruptcy followed when our savings were depleted. We lost our house, a car, and any assets we had left. His salary last year, less than $40,000, to support a family of four. A year and a half later, we are still struggling to get by. I can’t find a job that would cover the cost of daycare. We are stuck. Every jump in gas and food prices hits us hard. Without help from my family, we wouldn’t have made it. So, I could tell you just how that ‘New Economy’ has worked for us, but I’d really rather not use that kind of language.”

Policymakers who are banking on stimulus programs are thinking in terms of an economy that no longer exists. Post-war U.S. recessions and recoveries followed Federal Reserve policy. When the economy heated up and inflation became a problem, the Federal Reserve would raise interest rates and reduce the growth of money and credit. Sales would fall. Inventories would build up. Companies would lay off workers.

Inflation cooled, and unemployment became the problem. Then the Federal Reserve would reverse course. Interest rates would fall, and money and credit would expand. As the jobs were still there, the work force would be called back, and the process would continue.

It is a different situation today. Layoffs result from the jobs being moved offshore and from corporations replacing their domestic work forces with foreigners brought in on H-1B, L-1 and other work visas. The U.S. labor force is being separated from the incomes associated with the goods and services that it consumes. With the rise of offshoring, layoffs are not only due to restrictive monetary policy and inventory buildup. They are also the result of the substitution of cheaper foreign labor for U.S. labor by American corporations. Americans cannot be called back to work to jobs that have been moved abroad. In the New Economy, layoffs can continue despite low interest rates and government stimulus programs.

To the extent that monetary and fiscal policy can stimulate U.S. consumer demand, much of the demand flows to the goods and services that are produced offshore for U.S. markets. China, for example, benefits from the stimulation of U.S. consumer demand. The rise in China's GDP is financed by a rise in the U.S. public debt burden.

Another barrier to the success of stimulus programs is the high debt levels of Americans. The banks are being criticized for a failure to lend, but much of the problem is that there are no consumers to whom to lend. Most Americans already have more debt than they can handle.

Hapless Americans, unrepresented and betrayed, are in store for a greater crisis to come. President Bush's war deficits were financed by America's trade deficit. China, Japan, and OPEC, with whom the U.S. runs trade deficits, used their trade surpluses to purchase U.S. Treasury debt, thus financing the U.S. government budget deficit.

The problem now is that the U.S. budget deficits have suddenly grown immensely from wars, bankster bailouts, jobs stimulus programs, and lower tax revenues as a result of the serious recession. Budget deficits are now three times the size of the trade deficit. Thus, the surpluses of China, Japan, and OPEC are insufficient to take the newly issued U.S. government debt off the market.

If the Treasury's bonds can't be sold to investors, pension funds, banks, and foreign governments, the Federal Reserve will have to purchase them by creating new money. When the rest of the world realizes the inflationary implications, the US dollar will lose its reserve currency role. When that happens Americans will experience a large economic shock as their living standards take another big hit.

America is on its way to becoming a country of serfs ruled by oligarchs.

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