Destructive Macroeconomic Policy: When the "Fiscal Cliff" Hits An Iceberg…

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2012 has been the l00th anniversary of the famous Titanic disaster. The Captain of that "unsinkable" ship was warned that there were icebergs ahead but he was too busy, out to set a speed record on the way to New York.

The warnings were ignored and we know what happened. What we don't know is why other urgent warnings go unheeded.

Take the repeated warnings that the easy availability of hand guns and assault rifles would lead to more massacres of innocents. The National Rifle Association operates with impunity (even as it bans weapons in its offices.)

When action is not taken, you increase the likelihood of more deadly incidents like the ones in malls and even elementary schools.

Take the predictions of a storm surge tied to climate change threatening the New York/New Jersey coastline. They were acknowledged but downplayed because right-wingers and their think tanks spent a decade in bogus quibbling about "junk" science.

Now New York City is facing a billion dollar plus clean up bill, and even the small army of the biggest names in rock and roll who did an inspiring benefit for storm victims did not question the denial factor in government and the media.

And now, as the fourth quarter of economic activity tapers down for the holidays, and companies close for the New Year, forecasters avoid making dire predictions for fear of being seen as alarmists or "doom and gloomers."

Many seem to fear that if they say things will get worse, the very act of saying it may make it happen. Talk about the arrogance of power!

But that hasn't stopped Paul Craig Roberts an Assistant Treasury Secretary in the Reagan Administration from warning on USA Watchdog.com:

> "America is going to crash big time… The real problem is not the fiscal cliff. The dollar is on very thin ice. "

Dr. Roberts says, "They can't stop hemorrhaging the debt, and the way they cover that is to hemorrhage the dollar." In this real time scenario, Dr. Roberts goes on to say, "When you have debt pouring out and dollars pouring out, the dollar can't keep its value forever. At some point, people will run away from it, and it will start abroad."

Dr. Roberts thinks there is "an impending collapse of the exchange value," and the U.S. dollar could unexpectedly plunge in buying power. Dr. Roberts contends, "All of a sudden, people walk into Walmart, as usual, and they think they've walked into Neiman Marcus." Dr. Roberts says there are no quick fixes to the bulging debt because "there's no way to close this deficit when corporations are moving the tax base off-shore."

Note his allusion to shopping reflects the fact that 70% of the economy is based on consumerism. A bullish Christmas Shopping season is supposed to make up for a whole year of dramatic ups and downs

It starts on the day after the Thanksgiving holiday with heavy sales and deep discounts called "Black Friday."

And this year shopping marathon seemed off to a good start. The crowds grew and initial reports said that sales were up. But, as the press reported. that the big day was driven by aggressive discounts and earlier than ever shopping hours.

The Washington Post later reported that "Black Friday is a bunch of meaningless hype because strong sales results around Black Friday actually predict slightly weaker holiday sales overall."

The National Research Federation's estimates for Black Friday spending are widely disseminated but not believable either because they are based on a consumer survey, not real data, with their accuracy open to question.

"Even a legitimate boost in sales can indicate variously that consumers are feeling flush, or that they're desperately chasing door busters because money is tight. While the U.S. Commerce Department doesn't break out Black Friday sales, its figures suggest that the final tally for holiday spending isn't likely to be as stratospheric as the trade group's weekend numbers suggest."

The Wall Street Journal now admits consumer spending is "wobbly."

In fact, every year, the initial reports show a shopping boom, but later filings by credit card companies reveal a fall-off. In January next year, stores are likely to be flooded with returns by shoppers who realize they can't afford all their goodies. This proves Christmas shopping it is not the economic miracle it is always cracked up to be.

Meanwhile there are other economic indicators that show there may be more pain than gain, as these headlines attest:

• Home Seizures are way up as the flow of foreclosures pick up

• A delay of Bank of America'a return to selling mortgage securities shows the bust is limiting the housing market's revival.

• More and more bank scandals offer evidence of massive fraud and manipulation. Cash fines substitute for prosecutions assuring the frauds will continue. A new report by the center for Responsible Lending confirms that predatory lending has not been checked.

•The Federal Reserve Bank is twisting up its "Operation Twist" and pumping more

> money—money they print—into, reports ML-implode.com, "buying $45 billion of longer-term Treasury bonds per month in addition to the $40 billion per month of agency mortgage backed securities announced in September. By dropping the sales component of operation twist, it means that the entire $85 billion of asset purchases will add to the Fed's balance sheet as none of it will be sterilized."

None of these issues are discussed in any comprehensible detail in our media. The focus since the election has been on a contrived distortion—the so-called "Fiscal cliff."

Writes Paul Street, "The fiscal fixation is childish and irresponsible in a country plagued by mass unemployment, endemic job insecurity, and related widespread poverty

But that's not all that gets lost in the current mass-mediated deficit mania. Let's assume that "the deficit" is a genuine problem with grave long-term implications for the U.S. economy (i.e., crippling interest payments, loss of national sovereignty, and more). Two obvious solutions are to (1) cut U.S. "defense" …expenditures and (2) initiate serious health care reforms on the model of the health insurance systems that prevail in other industrial powers."

None of that is likely to happen as tax policy gets all the attention, It looks like Republicans now will compromise on their opposition to increasing taxes on the ultra rich in exchange for more cuts in social programs—the so-called "entitlements."

The rich can afford to pay a bit more although they will probably find more loopholes to keep actual payments down, but people dependent on federal assistance will be hit hard.

The net result of all of this will decidedly not be more economic fairness. A deal between the White House and the Republican dominated Congress will be reached, but its not one that will please progressives.

The "Fiscal Cliff" may then disappear as an issue but icebergs of economic volatility are still rushing our way. Mayday, Mayday!

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