Does the US Still Have an Economy?

By Dr. Paul Craig Roberts
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People want to know where the economy is headed. What they should be asking is does the US still have an economy? My answer is no, it doesn't. I will explain why.

For a quarter century I have pointed out the destructive effect of moving American investment and jobs to China and other points abroad. Offshoring served the interests of corporate executives and shareholders. The lower labor costs raised profits and, thereby, executive bonuses and the prices of the stocks, resulting in capital gains for shareholders.

These benefits accrued to a small percentage of the population. For everyone else these closely held benefits imposed huge external costs many times greater than the rise in profits. The American manufacturing workforce was devastated, as was the tax base of cities, states, and the federal government. The middle class shrunk and the populations of St Louis, Detroit, Cleveland, Pittsburgh, South Bend and Gary Indiana, Flint Michigan and other cities declined as much as 20%. The hopes and aspirations of millions of Americans were crushed. Once thriving American cities became blighted. Supply chains and real estate values collapsed. (See Paul Craig Roberts, *The Failure of Laissez Faire Capitalism*, Clarity Press, 2013)

As incomes fell for the bulk of the American population, incomes rose for the One Percent. Income and wealth gains have been concentrated at the top resulting in the United States today having one of the most unequal distributions of income and wealth in the world.

As the offshoring of high productivity, high value-added manufacturing jobs reduced American incomes, US aggregate domestic demand was impacted and economic growth fell. The Federal Reserve expanded credit and substituted an increase in consumer debt for the missing growth in consumer income. This aggravated the indebtedness that economist Michael Hudson correctly emphasizes is exhausting consumer income to pay debt service—mortgages, car payments, credit card and student loan debts—which leaves little or no discretionary income to drive economic growth.

Hudson, who has been on the job of analyzing America's eroding economy for a long time, emphasizes that the US economy is no longer a productive or industrial economy but a financialized economy in which bank lending is not used for new plant and equipment but for the financing of takeovers of existing assets in pursuit of interest, fees, and capital gains– what the classical economists called unearned income or "economic rent." In short, Hudson demonstrates that the American economy is no longer a productive economy. It is a rent-seeking economy.

Hudson points out that as the economy is increasingly financialized, looting shifts to the privatization of public assets. The examples are endless. In the UK the post office was privatized at a fraction of its value, along with public housing, transportation and British Telephone, resulting in huge private gains. The French also privatized public holdings. In Greece the municipal ports and water companies were privatized along with Greek protected islands. In the US, segments of the armed forces are privatized, along with prisons. Chicago sold 75 years of its parking meter fees to a private entity for one lump sum payment. Everywhere public assets, including services, are being sold to private interests. In Florida, for example, the issuance of the annual vehicle license tag is privately provided. When there is nothing left to privatize, what will banks finance?

Hudson notes that the real economists, the classical ones, focused on taxing unearned economic rent, not labor income and productive activity. Today's neoliberal economists are unable to differentiate between economic rent and productive activity. Consequently, GDP analysis fails to reveal the economy's transformation from a productive to a rentier economy. Hudson terms neoliberal economists "junk economists," and I concur. Essentially, they are shills for the financial sector and for the offshoring corporations who paid them to conflate job and investment offshoring with free trade.

I am convinced that if the entirety of neoliberal economics were erased nothing of value would be lost. Economists, particularly academic economists, are in the way of truth. They live in a make-believe world that they created with assumptions and models that do not bear on reality.

I am familiar with universities and academic economics. I graduated from an engineering and scientific institution—Georgia Tech—and then was a graduate student in economics at the University of Virginia, University of California, Berkeley, and Oxford University. I had four Nobel prize-winners as professors. I have a Ph.D. in Economics. I have made contributions to major journals of economics and to others outside the field, 30 published articles altogether before I left academia. I served for years as a reviewer for the *Journal of Political Economy* with the power to decide publication of submitted research.

I have peer-reviewed books from Harvard University Press and Oxford University Press. I have debated Nobel prize winners before professional audiences. I served as a *Wall Street Journal* editor and as Assistant Secretary of the US Treasury, and have had many university appointments. Michael Hudson also has real world experience in major financial institutions, international organizations, and governments, as well as US and overseas professorships and contributions to academic publications in many languages.

In other words, we know what we are talking about. We have no interest to serve except truth. No one pays us to serve an agenda.

But we are only two voices.

Two decades ago I was presented with the prospect of a large increase in amplification of my voice about the deleterious effects of offshoring. In December 2003 I received a telephone call from US Senator Charles Schumer, Democrat, New York. Senator Schumer had been reading my columns in which I made the case that under the guise of free trade, jobs and investment were being moved offshore at the expense of US economic success. Senator Schumer shared my concern and asked if a Reagan Treasury official would agree to coauthor with a Democrat Senator an article for the *New York Times* raising the issue whether job offshoring was in America's interest.

Our article appeared on January 6, 2004. Here it is.

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Second Thoughts on Free Trade

By CHARLES SCHUMER and PAUL CRAIG ROBERTS

New York Times, January 6, 2004

> *"I was brought up, like most Englishmen, to respect free trade not only as an economic doctrine which a rational and instructed person could not doubt but almost as a part of the moral law," wrote John Maynard Keynes in 1933. And indeed, to this day, nothing gets an economist's blood boiling more quickly than a challenge to the doctrine of free trade.*
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> *"Yet in that essay of 70 years ago, Keynes himself was beginning to question some of the assumptions supporting free trade. The question today is whether the case for free trade made two centuries ago is undermined by the changes now evident in the modern global economy.*
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> *"Two recent examples illustrate this concern. Over the next three years, a major New York securities firm plans to replace its team of 800 American software engineers, who each earns about $150,000 per year, with an equally competent team in India earning an average of only $20,000. Second, within five years the number of radiologists in this country is expected to decline significantly because M.R.I. data can be sent over the Internet to Asian radiologists capable of diagnosing the problem at a small fraction of the cost.*
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> *"These anecdotes suggest a seismic shift in the world economy brought on by three major developments. First, new political stability is allowing capital and technology to flow far more freely around the world. Second, strong educational systems are producing tens of millions of intelligent, motivated workers in the developing world, particularly in India and China, who are as capable as the most highly educated workers in the developed world but available to work at a tiny fraction of the cost. Last, inexpensive, high-bandwidth communications make it feasible for large work forces to be located and effectively managed anywhere.*
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> *"We are concerned that the United States may be entering a new economic era in which American workers will face direct global competition at almost every job level — from the machinist to the software engineer to the Wall Street analyst. Any worker whose job does not require daily face-to-face interaction is now in jeopardy of being replaced by a lower-paid, equally skilled worker thousands of miles away. American jobs are being lost not to competition from foreign companies, but to multinational corporations, often with American roots, that are cutting costs by shifting operations to low-wage countries.*

"Most economists want to view these changes through the classic prism of "free trade," and they label any challenge as protectionism. But these new developments call into question some of the key assumptions supporting the doctrine of free trade.

"The case for free trade is based on the British economist David Ricardo's principle of "comparative advantage" — the idea that each nation should specialize in what it does best and trade with others for other needs. If each country focused on its comparative advantage, productivity would be highest and every nation would share part of a bigger global economic pie.

"However, when Ricardo said that free trade would produce shared gains for all nations, he assumed that the resources used to produce goods — what he called the "factors of production" — would not be easily moved over international borders. Comparative advantage is undermined if the factors of production can relocate to wherever they are most productive: in today's case, to a relatively few countries with abundant cheap labor. In this situation, there are no longer shared gains — some countries win and others lose.

"When Ricardo proposed his theory in the early 1800's, major factors of production — soil, climate, geography and even most workers — could not be moved to other countries. But today's vital factors of production — capital, technology and ideas — can be moved around the world at the push of a button. They are as easy to export as cars.

"This is a very different world than Ricardo envisioned. When American companies replace domestic employees with lower-cost foreign workers in order to sell more cheaply in home markets, it seems hard to argue that this is the way free trade is supposed to work.

"To call this a "jobless recovery" is inaccurate: lots of new jobs are being created, just not here in the United States.

"In the past, we have supported free trade policies. But if the case for free trade is undermined by changes in the global economy, our policies should reflect the new realities. While some economists and elected officials suggest that all we need is a robust retraining effort for laid-off workers, we do not believe retraining alone is an answer, because almost the entire range of "knowledge jobs" can be done overseas. Likewise, we do not believe that offering tax incentives to companies that keep American jobs at home can compensate for the enormous wage differentials driving jobs offshore.

"America's trade agreements need to to reflect the new reality. The first step is to begin an honest debate about where our economy really is and where we are headed as a nation. Old-fashioned protectionist measures are not the answer, but the new era will demand new thinking and new solutions. And one thing is certain: real and effective solutions will emerge only when economists and policymakers end the confusion between the free flow of goods and the free flow of factors of production.

"Charles Schumer is the senior senator from New York. Paul Craig Roberts was assistant secretary of the Treasury for economic policy in the Reagan administration."

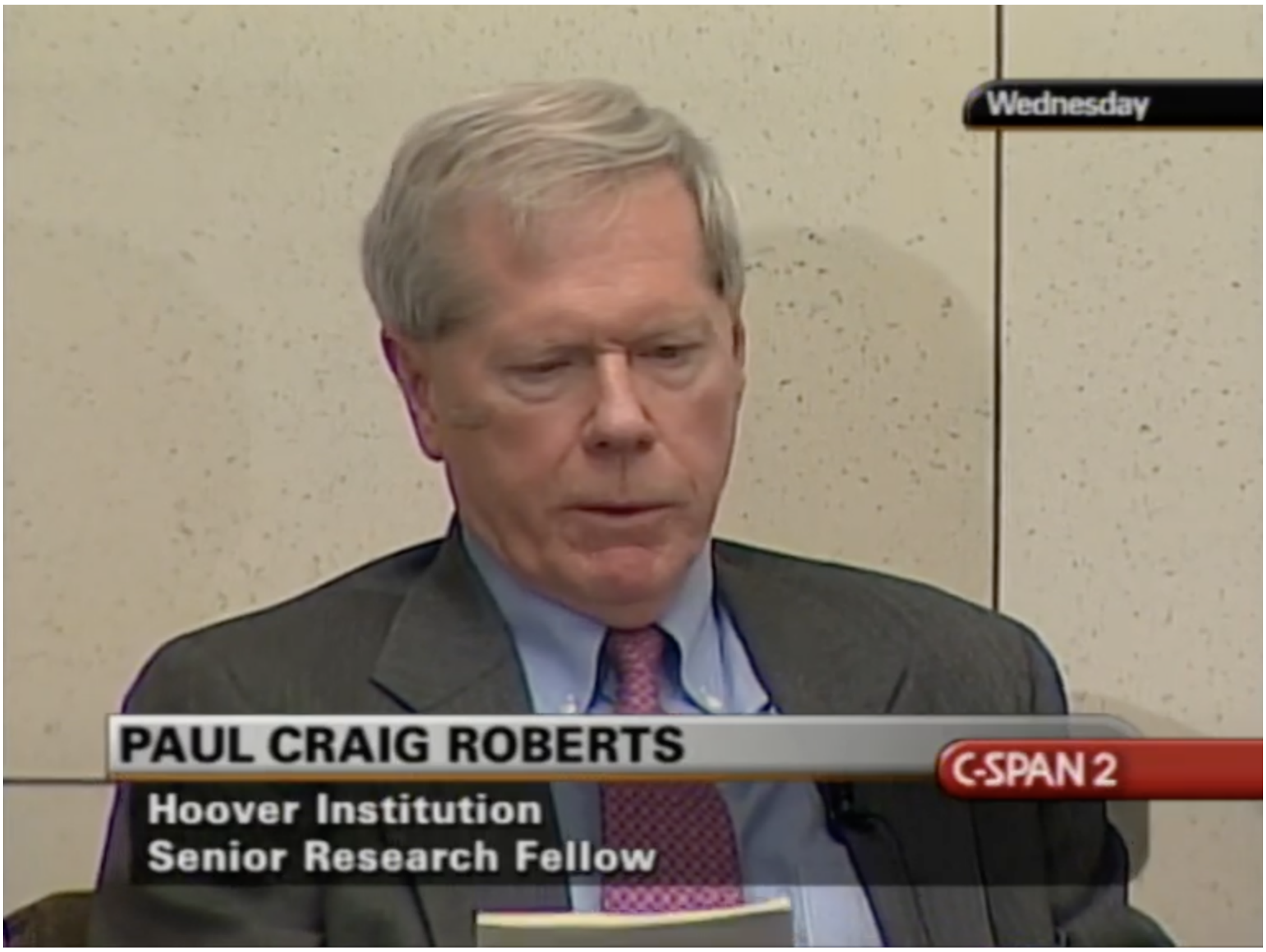
Senator Schumer's staff seemed to think that free trade was the problem because real world conditions had changed. My position was that jobs offshoring was not free trade. But I realized that any opening of the question was promising.

Our article in the New York Times had an extraordinary impact. The Brookings Institution, at that time an important liberal economic policy think tank that was home to former economic policy makers, called a Washington conference to hear us and examine our position. There was a panel with myself, Schumer, a former policymaker and the head of the US manufacturing lobby who could not figure out which side to be on. C-Span gave the conference live coverage and rebroadcast it a number of times.

Here is the video of the conference called in Washington to submit the argument by Schumer and myself to scrutiny:

https://www.c-span.org/video/?179821-1/us-trade-policy-global-economy

click the video screenshot to access video



Schumer and I carried the day. Members of the audience came up afterwards, including World Bank economist Herman Daly, in support of my position that the destruction of the American manufacturing economy could not be reasoned away as a free trade result.

Senator Schumer had a sincere interest in what job offshoring was doing to his constituents. He proposed that we continue our collaboration and write a second article for the *New York Times*. In those days the *Times* was still, partly, a newspaper rather than a total propaganda voice for the Establishment, and the *Times* assumed nevertheless that a Democrat Senator from New York and an Treasury Official who had been confirmed in office by the US Senate were part of the establishment.

The second column began and then suddenly went dead. No response. A telephone call revealed that the staffer with whom I was working was no longer there. After discussing this with old Washington hands, I concluded that Schumer had not realized that he was threatening Wall Street's interest in higher profits by opening the question of jobs offshoring and had received a good talking to.

Wall Street Killed the Schumer/Roberts truth squad and protected the profits from job and investment offshoring.

This is what happens to elected officials when they attempt to represent the general interest rather than the special interests that finance political campaigns. The public interest is blocked off by a brick wall posted with a sign that says get compliant with the Establishment or get out of politics. Unless money is taken completely out of electoral politics, there will be no democracy.

Globalism serves to destroy sovereign and accountable government. In the US globalism destroyed the manufacturing middle class. Now Covid lockdowns are destroying the remainder of the middle class—family businesses. Businesses have fixed costs. When they cannot operate red ink mounts and the businesses fail. The lockdowns together with jobs offshoring monopolize the economy in few hands. This is not a theory. It is what we are experiencing. Feudalism is being resurrected. A few lords and many serfs. The serfs will be dependent on the lords and will have no independence.

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Dr. Paul Craig Roberts *writes on his blog site, PCR Institute for Political Economy, where this article was originally published. He is a frequent contributor to Global Research.*

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