The Economic Situation of the West

By Dr. Paul Craig Roberts
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Theme: Global Economy

Once upon a time America had a capitalist economy. Bank deposits were used for loans that expanded productive ability. America produced its own goods and grew its own food. America's currency was backed by gold and inflation was nonexistent. New technology brought into play by new investment improved the productivity of labor, and living standards rose. Profits were plowed back into improved methods and expanded production.

Governments subsidized social infrastructure and education. This lowered the cost of transportation and, thereby, the cost of production and prices, and it provided industry and manufacturing with an educated work force. As an instate resident, my annual tuition at Georgia Tech came to about $450.

This highly successful way of running an economy was replaced by an entirely different economy, the one we have today. Who is responsible and how it came about is a story that can be told later but not in this column.

In the current economy bank loans are not made to finance new investment in new plant and equipment. They are made in order to finance the purchase of existing assets. Loans are made to purchase existing companies, load them up with debt, and sell off their assets. Loans are made to finance a buyback of a company's own stock, thus raising the stock price and resulting in executive and board "performance" bonuses. Loans are made to finance real estate purchases and thereby drive up the values of real estate, thus raising the cost of housing.

The new economy is financialized. It lives off of interest on debt and fees, the plunder of public assets via privatization, and exploitation of third world economies via dollar-based bank loans that can only be repaid by the indebted country selling its public assets to its American creditors, usually at rock bottom prices.

The new American economy rests on the indebtedness, not the prosperity, of the American population and on the financial coercion of dollar-indebted foreign governments who pay their debts with their country's assets.

The Federal Reserve destroyed family farms and monopolized food production in agri-business, monopolized the financial system in the hands of the five largest banks, and destroyed the value of the US dollar.

This is not a portrait of a successful economy with a future.

The Western World, especially the US, has offshored its industrial and manufacturing economy to Asia and Mexico. Offshoring has deprived the American workforce of the incomes associated with the production of the goods that Americans consume. When the goods and services come into the US to be marketed, they come in as imports, thus enlarging the US trade deficit.

The reason this exploitative system has been able to continue is that Washington used World War II to make the US dollar the means of international payment, that is, the reserve currency of the central banks of the world. Dollar-denominated debt instruments became the reserves of the world's central banks.

To be the reserve currency means that the country's debt is the reserves of all other countries' central banks. Therefore, an increase in US government debt was not a problem, because it meant an increase in reserves of the world's central banks. This is why financing the US debt was never a problem.

In the 21st century the US government itself has been busy at work destroying this privileged way of financing its ever-growing debt by weaponizing the use of the dollar as reserve currency. The sanctions imposed on Russia and other countries have created a general move away from the use of US Treasury debt as central bank reserves. Washington's seizure of Russia's central bank reserves held in dollars told the world that the same could happen to them. Consequently, the use of the US dollar in international payments has fallen from about 90% to a bit less than 50%. With the formation and expansion of BRICS it will fall further.

As other countries cease using the US dollar as their reserves, the large supply of dollars in the world–I recently read that the US national debt is now $35 trillion–is likely to be a supply that exceeds demand. The implication is a fall in the exchange value of the dollar, already confirmed by the rise in gold and silver prices. In the short run, Washington can prevail on the Japanese, UK, and EU central banks to support the dollar by using their currencies to buy dollars. But this rescue operation of the dollar cannot be forever extended.

When the time comes that Western central banks are no longer willing to risk the values of their own currencies in support to the US dollar and the gold and silver prices cannot longer be suppressed by the practice of selling naked shorts, America will become a third world country.

This is not a subject that interests many economists. The American economic profession is, in my opinion, a collection of people who, in exchange for grants and consultantships, have embraced the lie that offshoring of "dirty fingernail jobs" will result in higher paid new economy jobs for the work force. After all these years there is still no sign of these promised higher-paying replacement jobs. The same economists have told us that globalism, which makes us dependent on imports, is the wave of the future. The future of an import-dependent economy with a weakening currency is permanent inflation.

With robotics and artificial intelligence replacing the human work force while millions of immigrant-invaders enter the country annually, the future is also one of permanent unemployment.

The US economy is run by short-run profit maximization. The absence of vision means a bleak future even in the absence of the Great Reset.

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