Is The Recovery Real? The US Economy is Set for a "Double-Dip" Recession

By Dr. Paul Craig Roberts
Global Research, March 03, 2010
3 March 2010

Region: USA
Theme: Global Economy

Happy news! The government has come up with a 5.9 percent GDP growth rate in the fourth quarter of 2009. The recession is over.

Or is it? Statistician John Williams has informed us that 69 percent of this growth, or 4.1 percentage points, is the result of inventory accumulation. That leaves a 1.8 percent growth rate, and the 1.8 percent is likely due to the underestimate of inflation and other statistical problems.

The Federal Reserve's own monetary evidence contradicts the recovery assurances from Fed chairman Ben Bernanke. The Federal Reserve continues to pour massive reserves into the banks. The monetary base, which consists of currency in circulation and bank reserves (the basis for new loans), has surged from $850 billion in 2009 to $2.2 trillion on February 24.

Despite this potential for massive new money creation, the broadest measure of money growth is still contracting.The banks are too impaired and so are consumers for the banks to create new money by making loans.

The economy, in other words, is going nowhere.

As I have emphasized for years, an economy that moves its high productivity, high value-added jobs offshore is going nowhere but down. Except for the super-rich, there has been no growth in people's incomes for a decade. To substitute for the missing income growth, consumers took on more debt. The growth in consumer debt kept the economy going. However, most consumers have now reached their maximum debt load, and millions went beyond their limit, resulting in foreclosures and lost homes.

There are no jobs to which people can be called back to work. The jobs have been given to the Chinese and Indians.

The economy is set for a "double-dip," that is, renewed decline. This, of course, means larger federal, state, and local budget deficits. The U.S. federal deficit is now so large that it can no longer be financed by the trade surpluses of China, Japan, and OPEC.

Currently the deficit is being financed by deterioration in the Federal Reserve's balance sheet. The Fed is creating new reserves for the banks (thus the surge in the monetary base) in exchange for the bank's toxic financial instruments. The banks are using the reserves to purchase Treasury debt instead of making new loans. This makes money for the banks, but

does not grow the economy or create jobs for the millions of unemployed.
According to reports, recent auctions of Treasury debt have not gone well. China, America's biggest creditor, has reduced its participation and is even selling some of its existing holdings. Whenever all of a new Treasury debt offering is not taken, the Federal Reserve buys the remainder. This results in debt monetization. The Fed pays for the bonds by creating new checking accounts for the Treasury, in other words, by printing money.

On February 24, Fed chairman Ben Bernanke told Congress that the U.S. faced a serious debt crisis and that the Fed was not going to print money in order to pay the government's bills. In fact, Bernanke would have no choice but to print money.

Bernanke's warning to Congress is his way of adding Federal Reserve pressure to that of Wall Street and former Treasury Secretary Paulson for Congress to balance the budget by gutting Social Security and Medicare. In case you haven't noticed, no one in Washington or New York talks about cutting trillion dollar wars or trillion dollar handouts to rich bankers. They only talk about taking things away from little people. It is not the Bush/Cheney, Obama, neocon wars that are in the cross hairs; it is Social Security and Medicare.

Other Obama economic officials, such as White House economist Larry Summers, a former Treasury secretary, have called for a middle class tax increase. The problem with this "solution" is that a good part of the middle class is now jobless and homeless.

Money will have to be found somewhere if the Fed is to avoid printing it. During the Clinton administration a Treasury official proposed a 15 percent capital levy on all private pensions to make up for their tax deferral status. This idea didn't fly, but today a
desperate government, which has wasted $3 trillion invading countries that pose no danger to the U.S. and wasted more trillions of dollars combatting a crisis brought on by the government's failure to regulate the financial sector, is likely to steal people's pensions as well as to gut Social Security and Medicare.

The reason is that the dollar's role as reserve currency is at stake. If the Federal Reserve has to monetize the federal deficit, the world will turn its back on a rapidly depreciating dollar. The minute the dollar loses the reserve currency role, the U.S. can no longer pay its bills in its own currency, and its days as a superpower come to a sudden end. Wars can't be financed, and Washington's pursuit of world hegemony will hit a brick wall.

The power-mad denizens of DC will do anything to further the expansion of their world empire.

About the author:

Paul Craig Roberts, former Assistant Secretary of the US Treasury and Associate Editor of the Wall Street Journal, has held numerous university appointments. He is a frequent contributor to Global Research. Dr. Roberts can be reached at http://paulcraigroberts.org