

No Escape from War and Unemployment

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New Hampshire voters have chosen warmonger clones of Bush/Cheney for their party's presidential candidates. The only candidates not in Israel's pocket are Kucinich, Paul, and Gravel, who have no chance for their party's nomination.

Obama, who provided some hope for change, undercut his support on the eve of the New Hampshire primary by declaring that he would invade Pakistan in order to protect America. It is a mystery why Obama thought this message would motivate those inclined to support his candidacy.

This means change is unlikely. Neocon think tanks, media, evangelical preachers, President Bush, Vice President Cheney, and many other members of the government have succeeded in turning a majority of Americans into scared Islamophobes and in denying Americans any reliable information about the cause of the conflict.

Unfolding economic events during 2008 are likely to increase fear among the US population—the fear that comes from recession and indebtedness.

As the German National Socialists said, a fearful population welcomes a savior. The Bush Regime has put into place all the necessary pieces for rule by the executive.

The Greenspan Fed created money and low interest rates to hide the effect on the US economy of job loss from offshoring. The low prices, achieved by substituting low-cost Asian labor for American labor, masked the inflationary impact of the Fed's monetary policy.

The low interest rates created artificial increases in home prices by reducing the carrying costs of mortgages. Most people buy according to monthly payment, not purchase price of the home.

Many homeowners refinanced to capture and spend the rise in home equity produced by the low interest rates. This spending and the construction boom misled people about the strength of the economy.

So did US productivity and GDP statistics. As Susan Houseman has shown, US statistics have not been adjusted for offshoring and include in US productivity and GDP growth both the lower labor costs and the real output of offshored goods that are in fact part of Asian GDP.

Performance-driven executives at financial institutions were suckered into purchasing subprime derivatives, which have crashed, leaving the financial system with serious problems.

Bailouts require yet more liquidity, but the exchange value of the US dollar has been reeling from US budget and trade deficits. Creating more dollars makes holding existing dollar assets even less attractive to the foreigners who finance US deficits.

The dollar has retained its reserve currency role despite its loss of value, because there is no clear alternative. The euro is a currency without a country, and might be adversely affected by differential interest rates arising within the EU membership. The UK economy is comparatively small and faces similar problems to the US. The rising Asian economies are not ready to assume the role.

As I have documented repeatedly, job growth in the US has been confined to domestic nontradeable services. The US is now far more dependent on imported manufactured goods than it is on imported energy. Offshoring makes it impossible for the US to balance its trade as offshoring turns US GDP into imports.

Offshoring is now reaching beyond manufacturing into high-end service jobs. Princeton University economist Alan Blinder, a former vice chairman of the Federal Reserve, estimates that there are as many as 30 million US service jobs filled by college graduates that are susceptible to offshoring.

As long as China continues its currency peg to the dollar, lower prices from a continuation of offshoring can hide the new round of Fed money creation. But can a new round of money creation create enough new consumer spending by over-indebted consumers to mask the jobs lost to offshoring with more employment for waitresses and bartenders, or will the new liquidity be used up in saving the troubled financial institutions? Access to more credit does not help people who are maxed out and cannot pay their bills, especially when they are losing their jobs.

Studies by economists with the Economics Policy Institute report that as of 2006, the most recent data, the typical American family's income remained \$1,000 below its peak in 2000. Six years of "economic recovery" were unable to put the real median family income back to its previous peak. The combination of massive indebtedness, offshoring job loss, and recession is likely to produce further decline in US living standards.

Last month (December 2007) the Congressional Budget Office released its report on household incomes. The CBO data show that 80% of Americans have experienced a falling share of US income, and that the top 1% of the income distribution has received almost the entire income gain of the top 20% of Americans. Keep in mind that some of this measured income gain is in reality phantom income according to the research of Susan Houseman.

An economy that concentrates its income gains at the very top while wiping out high value-added jobs by sending them abroad, thus dismantling the ladders of upward mobility, is an economy headed for serious troubles even without subprime derivative and currency problems.

All of the presidential candidates currently in the running have authoritarian personalities. America's next president is likely to seize upon rising domestic economic hardship and growing resistance abroad to US hegemony to complete the dismantling of America's constitutional system.

Dr. Roberts was Assistant Secretary of the US Treasury for Economic Policy in the Reagan

administration. He is credited with curing stagflation and eliminating “Phillips curve” trade-offs between employment and inflation, an achievement now on the verge of being lost by the worst economic mismanagement in US history.

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