GlobalResearch
Center for Research on Globalization

The Economy's Search for a "New Normal"

By Shamus Cooke

Theme: Global Economy

Global Research, May 17, 2009

17 May 2009

When the reality of the economic crisis first made itself known, many who realized what was happening dubbed it "the greatest crisis since the Great Depression." This description was more than bombast; it was a sober analysis of the immensity of the economic problems in the country — problems that had been building up for years.

The mainstream media is now — for political reasons — in a constant clamor for the economy's elusive "rock bottom." This is so people will be more hopeful, less agitated, and more willing to let those who destroyed the economy continue running the country unchallenged. Every time a new economic indicator comes out that wasn't "as bad as expected," Wall Street cheers and politicians give their "we've turned the corner" speeches. Reality is thus turned on its head.

Regardless of what the media says, the reasons for calling this crisis the "worst since the Great Depression," still exist. Not only this, but new problems are being created that are compounding the old.

One of the original, major concerns of the economy was the fact that the banks were bankrupt. This problem still persists, even after trillions of dollars of taxpayer money was given away, not to mention a "stress test" where the banks in fact "negotiated" the terms of the test. By pretending this problem doesn't exist, the Obama administration is continuing the Bush-era approach to the banks: don't ask, don't tell. Banks will thus continue to be bailed out when their problems are too explosive to be ignored; credit will continue to be restricted, and a general level of instability will taint the system itself.

Another major problem of the economy is that consumers are bankrupt. Unemployment continues to skyrocket, ensuring that every month hundreds of thousands of less people will be able to consume, driving more establishments out of business. The people who lose their jobs thus fail to pay their mortgages, credit cards, student loans, etc., all furthering the losses of the banks.

The issue of debt is fundamental to understanding the current crisis: households, corporations, banks, and the government have all taken on massive levels of debt.

Getting rid of the debt is often referred to as "de-leveraging." On all levels of society a gigantic de-leveraging is taking place; and only after this process is done will the elusive "bottom of the recession" be found, amidst a society that looks far different than the one we're used to.

For example, households are rapidly getting rid of expenses they can no longer afford, due to either joblessness, low wages or lack of credit. They are thus saving more than they are spending. For an economy that depends on 70 percent consumer spending, this is a huge problem, not only for the U.S., but for the world as well, since many countries constructed their economies as export machines directed towards U.S. consumers.

Is this problem likely to go away anytime soon? Probably not. The recession is creating such dramatic effects on so many people that the consuming culture is being changed, much like what happened after the Great Depression. The New York Times notes:

"…forces that enabled and even egged on consumers to save less and spend more — easy credit and skyrocketing asset values — could be permanently altered [!] by the financial crisis that spun the economy into recession." (May 9, 2009)

If the U.S. consumer can no longer be the driving force of the economy, what will replace it? The elitist Economist magazine offered a cure: because consumer spending will be debilitated, "something else will have to grow more quickly. Ideally that would be exports and investment." (May 6, 2009)

There is in fact little else that can be done if one is playing by the strict rules of the market economy. Obama again gave his allegiance to this broken system by agreeing with the Economist, when he stated, "We must lay a new foundation for growth and prosperity, where we consume less at home and send more exports abroad."

The average person will be totally uninspired by this "solution." Nevertheless, Obama should have answered an important question: why isn't the U.S. an exporting economy now? And what would it take for it to be one in the future? The answers to these questions are intertwined with Obama's proposal that Americans "consume less."

In order for US corporations to sell products (export) on the world marketplace, they must have competitive prices. Labor is a key ingredient in determining the price of a commodity, since the other ingredients have relatively stable prices. The price of labor in the U.S. was, in part, the result of a strong labor movement, which achieved a living wage. This not only drove down profits for corporations, but made them less competitive on the world market — they consequently defected to countries that pay slave wages.

How, then, does Obama plan to "send more exports abroad?" The answer is simple: by insuring that Americans are able to "consume less." For example, Obama's Auto Task Force told Chrysler and GM workers that their incomes were too high, that they needed to make less so that their companies could "remain viable" (compete) on the global market. They were thus threatened with bankruptcy if they did not offer "significant concessions." The workers conceded, and bankruptcy happened anyway — a phenomenon bound to happen again soon at GM — unless workers fight back.

If such a "restructuring" happens at a company the size of GM, the precedent would be haunting. Corporations of all kinds are looking to "de-leverage" in the same way to successfully survive the recession. They need to balance the books, and workers' wages are one of the few options they have. Obama's Auto Task Force is overseeing the destruction of the U.A.W., and clearing the path for this restructuring to happen across the U.S.

But falling wages have a negative side effect, aside from disgruntled workers. As Nobel Prize- winner Paul Krugman points out:

“Families are trying to work that debt down by saving more than they have in a decade — but as wages fall, they’re chasing a moving target. And the rising burden of debt will put downward pressure on consumer spending, keeping the economy depressed.” (New York Times, May 3, 2009)

His conclusion is sobering: “The risk that America will turn into Japan — that we’ll face years of deflation and stagnation — seems, if anything, to be rising.”

Equally concerning is the amount of debt the U.S. government has taken in bailing out banks and fighting foreign wars. The New York Times notes:

“[the national debt] has prompted warnings from the Treasury that the Congressionally mandated debt ceiling of $12.1 trillion [!] will most likely be breached in the second half of this year.” (May 3, 2009)

The debt is so high that those financing it are getting worried, and thus demanding a higher rate of interest in repayment (since they correctly think they’ll be paid back in inflated dollars). Already the U.S. pays $176 billion a year in simply paying the interest on the debt, a number that is expected to reach $806 billion by 2019, according to the Congressional Budget Office.

This debt is of course unsustainable. There are numerous signs that overseas’ buyers are likely to reduce their investment, worried as they are about the U.S. money printing bonanza. In an effort to bolster confidence, Obama has plans to balance the budget by the end of his presidency. Again, a massive de-leveraging of debt will need to happen. Obama has made no secret of where this restructuring will come from: he has made repeated references to “reforming entitlement programs” (Social Security, Medicare, etc.).

It should be noted that the only other way Obama could balance the budget is if he taxed the super rich at a high rate while slashing military spending, neither of which is going to happen on its own. Nevertheless, these items must be central demands for the American worker, who is already under immense economic pressure, with more to come.

The recession is creating a “fight or die” environment for corporations and governments around the world. The super rich that currently control both entities are using their influence to ensure that workers carry the brunt of this burden. It doesn’t have to be so.

The fight for jobs, a living wage, progressive taxation, social security, and single payer healthcare are all topics capable of uniting the vast majority of U.S. citizens. If properly organized, and with the Labor Movement playing a leading role, such a coalition would have no problem overcoming the objections of those who oppose it — the tiny group of super rich benefiting from how things are currently.

Shamus Cooke is a social service worker, trade unionist, and writer for Workers Action (www.workerscompass.org). He can be reached at shamuscook@yahoo.com

Comment on Global Research Articles on our Facebook page

Become a Member of Global Research

Articles by: Shamus Cooke