

The Reconstruction of America

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As 2008 comes to an end after a brain curdling descent in to an economic abyss, what is on the to-do list for 2009? Will the same mistakes that were made to try and ease the impact of the crisis be repeated in 2008? All indications are that addressing the root problems is still not on the agenda and the predilection for Keynesian stimuli will only exacerbate the fallout from a fundamentally unwinnable war. Unwinnable in the sense that the definition of victory is the restoration of a failed Economic model.

The injection of \$3 Trillion in to Commercial paper, mortgage, banking and auto markets has not even touched the onslaught of Economic Armageddon. The credit, so earnestly hoped for, never materialized as recapitalization outbid exposure in the financial world. There is a long, long way to go before the deleveraging Genie is put back in the bottle, and only then after a carnage never seen before in the history of the free market.

With the coming bankruptcy of General motors, there comes the specter of the \$250 Billion in Credit Default Swaps written against it. The F.D.I.C. will be working overtime after this one. This will only tighten the noose around the credit market even more. Every component of an economy is dependent on the other for a productive environment but when the dependency is wrapped up in an envelope of hugely leveraged bets on the viability of these components, the consequences of failure are multiplied beyond a sustainable level. This is the systemic failure that needs to be addressed above all others.

There is no point in trying to reinvigorate an economy if you have not removed the cancer that made it ill in the first place. The Derivatives and securities markets must be opened up, dissected and written off. How this will be achieved, nobody really knows because the opacity of these “weapons of mass destruction” has prevented a solid accounting of exactly who owes what to whom. The objective of this essential surgery is not to save the limb but to save the organism. There will be banks and financial houses that will die as they discover that they never really had the money in the first place to cover their gambling debts. Well, hey, that’s the free market for you. Live by it, die by it. If there is genuine regulation the healthiest institutions will rise from the ashes, burnt and better mannered. The end game here is to have a credit infrastructure that can stand on its own two feet and not have to grovel at the public trough when it has lost it’s shirt. By not reining in the gamblers now, we are guaranteeing that the deficit will continue to rise with absolutely zero in return on investment.

The first assaults in the War for the Economy have been a miserable failure. Each wave has been pushed back by an unforgiving army of economic realities. Overburdened by debt, a population cannot spend its way to prosperity; overburdened with falling incomes, a population cannot spend its way to prosperity; overburdened with unemployment, a population cannot spend its way to prosperity. Trying to increase the debt burden only

exacerbates the problem. But what has been proposed as the next step on the road to recovery? Spend your way to prosperity by increasing the debt burden.

The brainchild of the Economic Transition Team, it encompasses Healthcare, Infrastructure and Energy policy. The first estimate was around \$500 Billion and now is heading beyond the trillion mark. The overarching consequence of this spending will be that future generations of Americans will be the eternal debtors of the rest of the world. This does not seem to fit in to the mindset of the planners. Printing dollars and selling Treasury bills at sub inflation interest returns is the financial plan behind the project. The loss of attractiveness for T Bills as the deficit rises and flooding the country with devalued dollars will combine to unleash an inflationary spiral that will only aggravate the mess.

Let's analyse one part of the stimulus plan; Infrastructure. The crash of the housing bubble has created an enormous pool of job hungry construction workers. The latter will be newly employed by the Government, i.e. the taxpayer, i.e. themselves with their own tax dollars going to pay their wages. The one speck in the ointment here that comes to mind is how much of these tax dollars are going to be needed to even just pay the interest on the Government Debt? Assuming we put the latter on the back burner for a while and get on with the business of rebuilding the Economy, the health of suppliers to the construction industry will improve as their tax dollars are recycled back to them as wages.

With each newly employed individual comes an extra paycheck, a sum of dollars that can be spent in the real economy. Paying off mortgage debt, car debt and credit card debt are going to remain top priorities. The one snafu here and the big question that needs to be asked is how much will the Government pay all these new employees? Industry standard, union enforced remuneration with benefits will definitely not be on the cards as frugality for the general population as opposed to generosity for the financial population, will be the order of the day. Billions allocated for Medicare and Medicaid will also eat in to the apportioned cash.

If the former "wealth" was only obtained by living beyond one's means then the amount of income needed to get out from under it after being unemployed for months would have to be greater, not less than before. So being employed at low wages by the Government will increase the amount of money brought in to a household but will not be on a level to recreate the Nirvana of yesteryear. Call me cynical but can you say "Iraq Reconstruction"? This reconstruction will be the biggest boondoggle in American history. The same companies involved in the "reconstruction" of Iraq will most likely be the lucky recipients of Government contracts. Halliburton and KBR must be salivating right now as yet more taxpayer dollars will be winging their way to them in 2009. If Iraq was one of the golden opportunities for corruption, think of how much more opportunity there lies in the reconstruction of America.

The proposal for nationwide broadband access is, in my view, nothing more than a plan to control the Internet, pure and simple. With no looming convictions for illegal wiretapping within the U.S., increasing victimization of dissent through an out of control Police force and the loss of influence amongst the erstwhile Guardians of truth and "all the news that's fit to print", large portions of the population are beginning to discover that there are sources of unbiased information and intelligent analysis on "The Internet". This used to be rated along with Marvel comics as a source of intelligent discourse and the dwelling place of "conspiracy theorists". But now people are turning to it as an alternative source of information. As the

situation becomes worse over the next few years, information will need to be strictly controlled to keep the population at bay. If the Government is going to provide the Internet access they will also be controlling what content is available under the guise of protecting children or eliminating “hate speech”. The latter being anything that goes against the party line.

Social Security, Medicare and Medicaid are already unfunded to the amount of \$51 Trillion. Pumping more money in to this will only achieve a greater unfunded liability. Improving the efficiency and cost effectiveness of these programs can amount to a slight saving but the eventual bills will be falling on, as yet, unborn Americans. This is campaign promise planning, not long term planning. It might keep presidential approval ratings up for a while but goes nowhere in resolving the fundamental problems.

A [quote](#) from Tom Daschle, the new Health Czar, sums up the lack of connect between Government Economic policy and the real problems to be addressed...”addressing our health-care challenges offers the best hope for reducing personal bankruptcies, improving American competitiveness and helping “pull our economy out of its current tailspin.” Addressing health-care challenges would be providing *real* money for it. That means taking a decision to take money away from other programs such as the illegal wars in the Middle East and Eurasia. (Remember, there are plans to increase troop numbers permanently in [Afghanistan](#) and maintain a force in [Iraq](#) outside of Towns and cities by June 2009 but staying in the country until 2012. This will amount to a huge drain on U.S. balance sheet).

Personal bankruptcies have been caused by medical bills but unemployment caused by off shoring and the bursting of the housing and credit bubbles have contributed much more damage. Improving American competitiveness is not achieved by providing greater healthcare with money that has to be borrowed from our competitors.

If this represents “the best hope” for “pulling our economy out of its current tailspin”, then we have indeed passed through the Looking Glass and entered Never Never Land.

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