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The U.S. Economy: Designed to Fail

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Global Research, February 28, 2009
28 February 2009

Region: USA
Theme: Global Economy

President Barack Obama showed a great deal of gumption in standing before Congress last night delivering his first speech to the joint assembly. All the trappings of power were on display as members of the House and Senate, the Supreme Court, the Joint Chiefs, the Cabinet, and the VIP guests hugged and waved at each other, radiant in their tailored attire only two nights after the Hollywood stars put on their own show on Oscar night.

Too bad neither the president, nor Vice President Joe Biden and Speaker of the House Nancy Pelosi applauding on the podium behind him, nor the jubilant Democrats with their solid majorities, nor the grumpy Republicans slouching in the minority across the aisle, know what they are doing as economic extinction stares the United States of America in the face.

Yes, it's that bad. The day after the speech the Dow-Jones dropped to 7,271, almost 50 percent off its October 2007 high, with no bottom in sight. According to the *Washington Post*, the Big Three automakers are now facing a "bottom-up" collapse of their component supply lines if their vast network of suppliers doesn't receive new federal loans within a week. Worldwide the situation is just as bad. The U.N.'s International Labour Organization reports:

"What began as a crisis in finance markets has rapidly become a global jobs crisis. Unemployment is rising. The number of working poor is increasing. Businesses are going under."

President Obama's speech was long on resolve but short on substance. He assured the nation:

"We will rebuild, we will recover, and the United States of America will emerge stronger than before."

But accomplishing this depends entirely on one thing: more federal deficit spending to serve as the economic engine in an economy where bank lending has dried up because businesses and consumers can no longer repay their loans.

Unfortunately, the deficit is approaching the breaking point.

During fiscal year 2009 the U.S. Treasury is on-track to pay over $500 billion just in interest payments to finance the already-existing debt. New debt this year will likely exceed a trillion dollars. The total debt burden on the economy as a whole could reach $70 trillion by 2010, with annual interest payments for individuals, households, businesses, and all levels of government likely to reach $3 trillion out of a $14 trillion GDP that is now in sharp decline.

Financing the deficit continues to depend on whether China will still purchase Treasury bonds. This is why Secretary of State Hillary Clinton said frankly during last week's trip to China : "We are relying on the Chinese government to continue to buy our debt."

But at least President Obama is trying. He knows the economy can only recover if growth is rekindled. So he is focusing on the creation of jobs that translate into real worker income. But can he reverse a generation of job outsourcing and income stagnation? I don't know of anyone who believes he can. Will the Republican nostrum of tax and spending cuts do anything? You jest. Not when unemployment is approaching Great Depression levels..

But neither President Obama, nor his Democratic supporters or Republican antagonists, should feel badly about what is happening. This is because the system they have been given to work with was designed to fail. The U.S. was saddled long ago with a debt-based monetary system, whereby the only way money can be introduced into circulation is through bank lending. It was the system that was instituted in 1913 when Congress gave away its constitutional power over money creation to the private banking industry by passing the Federal Reserve Act.

It was then that the catastrophe we are now facing became inevitable. It took nearly a century to get here but it finally happened. We should have known it was coming when Federal Reserve-created bubbles replaced economic growth from our disappearing heavy industry, starting with the recession of 1979-83. We could have seen it coming when the dot.com bubble collapsed in 2000-2001, and Fed Chairman Alan Greenspan worked with the George W. Bush administration to substitute the housing bubble for a real recovery.

The day of reckoning is here. So don't worry, Mr. President. It's not your fault. When the collapse takes place the international bankers who will take over might even let you keep your job.

Richard C. Cook *is a former U.S. federal government analyst. His book on monetary reform, We Hold These Truths: The Hope of Monetary Reform, is now available at www.amazon.com. He is also the author of Challenger Revealed: An Insider's Account of How the Reagan Administration Caused the Greatest Tragedy of the Space Age. He can be contacted through his website at www.richardccook.com.*

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