

US Financial Powerhouse: “House of Cards”

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America today is not the only empire, but it is one that has consistently formulated itself around the ideologies of corporate business, the military, big government, and religious self-righteousness, mass marketing itself and mass exploiting others with military back-up when needed to make itself the biggest and most powerful ever known. Superficially, the empire has used the media interface of corporate business, the well known media companies themselves such as Time-Warner, to keep the general public ill-advised and readily entertained with pulp writing, pulp broadcasting, and computer activities and internet surfing.

The government and military combine to provide “reliable information” from “reliable sources” who wish to remain “anonymous” and thus create a mystique of underhanded cleverness and consequently apparent correctness of information. The CIA along with other putative non-governmental organizations operates ‘think tanks’ and ‘institutes’ to disseminate stories and scare tactics (and significant amounts of money) within America and offshore. Religious groups, now fully into the swing of projecting their interests into the corridors of power, have become more and more publicly involved in the political process, allowing their messianic beliefs and self-righteousness to carry the balance of power, especially within the half of government known as the Republican party, with the other half, the Democrats, mentally supining themselves in order to appear no less patriotic in their pummelling of the world.

The American image still remains strong around the world, and that is readily understood as an image created by a massive corporate and government propaganda effort that displays the finest of American tinsel and glitter and gloss. It would be wonderful but highly unrealistic to imagine a world without that advertising, without the constant images that subtly extol the virtues of American freedoms and purchasing power, the easy life with powerful cars, sexy women, and all the glamour of Hollywood and all the techno-glitter of Apple i-pods. It is a society built upon these images, upon the instant gratification and apparent wealth that is created in this wonderful entity called the United States of America.

The mythologies of ‘rugged individualism’ (as compared to corporate welfare), of Disneyesque happy-ever-after-lands (now found within gated communities and barred roads that keep the uglies out), of ‘free markets’ (as compared to agricultural subsidies and illegal immigrants), of ‘productivity and growth’ (while many OECD countries have higher productivity working less time with better benefits), of a classless society (fully debunked by anyone looking at crime statistics, incarceration rates, educational levels, and many other demographic factors), of ‘rule of law’ and ‘transparency of government’ (when most military contracts are no bids, and the executive is run by a group of unelected patronage and corporate power positions) are readily bought into by a largely complacent public and accepted worldwide, at least with the powerful elites in governments, with the idealized

transparency and rule of law delivered mostly through economic coercion by way of the fully non-democratic and non-transparent WTO, IMF, World Bank and various other trade agreements not supported by the populace.

Conversely, the propaganda constantly reduces the rest of the world as being 'old' (as in Europe), or lacking in 'modernity' (as in the Middle East), or being 'corrupted cronyism' (as in Africa and Asia), or more basically, simply the 'other', a lesser breed of humanity to be looked down upon, creatures that may or may not be able to uplift themselves to American standards of institutional and personal excellence, but either way are useful commodities as labourers, extractors of wealth, and maybe but not paramount, as consumers. Anything that touches upon the horrors of 'socialism' or 'social democracy' anything that denies the commodification of essentials to life, now extending to genetically modified foods, water, and the basic genetic structures of indigenous plants and animals including human genetics as well, anything that denies ownership of resources to the 'forces of the market' rather than to the benefit of the workers that produce the wealth or the nation that possesses it – all this is considered sacrilege to the American controlled global financial gurus and prophets.

The 'neutral' market must rule everything, unsullied by morals, allowing 'la crème de la crème' to rise to the top while the rest are uplifted by the 'trickle down' effect, whereas the reality shows that markets are anything but neutral, never truly free, and from many of the court cases seen as with Enron, and Arthur Andersen, highly immoral. The rich take care of themselves first, witness the savings and loans scandal of the 1980s, and Bush's failed business attempts and the buyout of Harken Oil, and the interactions of the Saudis with BCCI, the Bank of Credit and Commerce International, and the billions of dollars made by Prince Bandar and the Saudi government, who supported the Wahhabi fundamentalist sect within their own Islamic theocracy. Nothing neutral or free, or transparent or under rule of law with these operators. The poor, those stuck in Katrina's aftermath in New Orleans, the blacks segregated by white emigration out of Detroit, the 40 million without medical coverage, all know the lie about trickle down economics and the supposed uplifting effects of neutral market forces. The trickle down effect is negated by the sucking sound of the wealthy absorbing the profits from the huge consumer appetites created in the American public, and from the huge government demands for more money to pursue its military efforts around the world, and from laws and taxes that are written by the wealthy, for the wealthy.

This wonderful financial powerhouse unfortunately relies now more than ever before on the creation of debt to supply the wealth and keep the economy 'growing'. It is a financial institute built with the strength of a house of cards, susceptible to any stray currents within the financial markets of the world, or susceptible to some other marketers destabilizing it all with a few puffs of air, a whisper or rumour of 'selling' American owned debt, causing the cards to tumble and scatter uncontrollably. Globalization has come home to roost (pardon the mixed metaphor, but perhaps one can consider the 'house of cards' to be the 'roost', a very shaky, unsteady one).

"The economy, stupid."

Bill Clinton's electoral campaign targeted economic factors as a crucial point in deciding the outcome of his presidential campaign. The phrase is still applicable and probably will be for a while in one manner or another. But I also relate to it on a personal basis.

Economists live in a wonderfully purified world of jargon that most outside the economic literati, such as myself, have a great deal of trouble understanding what they are truly saying. This study, the 'science' of money and men has been called a "a dreary, desolate and, indeed, quite abject and distressing one; what we might call, by way of eminence, the **dismal science**.[emphasis added] " Coined at a time when economics was encountering emancipation, the relationship would end up giving "birth to progenies and prodigies; dark extensive moon-calves, unnameable abortions, wide-coiled monstrosities, such as the world has not seen hitherto!"[1] More applicable today it is a dismal science because in all reality there is nothing scientific about it.

Economists do use mathematics a lot, especially statistics, but there is no scientific method of experimental deconstruction that relates to what they do, which is mostly talk about the wonderful statistics they create. Statistics, for those who have studied them without delving into the details, can be used for both sides of many arguments, according to the manner in which a phrase is turned around that statistic and what supporting data are included or left out. Opinion polls are example of statistics that are meaningless in the 'real' world as they are exactly that, an opinion, not reality, although the opinions on diverse topics are often represented as great truths.

The GDP is the most obvious statistical effort to hide what is happening in the world, as most countries do have increases in their GDP when they encounter the IMF, and the World Bank, as in Mexico where the statistic does not reveal the increasing gap between rich and poor, the impoverishment of the farmers as American subsidized corn destroys their markets, and an economy that relies on the billions of dollars in remittances from illegal immigrants to support those left at home. It is all a wonderful economic fairy tale that allows the IMF and World Bank to rationalize their own economic goodness and continue on with a losing cause with no apparent remorse for the damages incurred along the way.

Trying to understand what the economic problems of the United States are took some time for me to get through the jargon, but it reduces down to a few simple applications that any householder running an intelligent monthly budget based on money in and money out can understand.

The basis of the problem is that U.S. industrial production has declined significantly over the past two decades, while the service sector has grown immensely to become the "new dominant economic sector. Debt was a critical enabler." [2] In other words, economic 'wealth' and 'growth' in America has been created by the manipulations of a huge debt; wealth and growth are flimsy statistical apparitions that could vanish quickly if someone shouted "boo" at the appropriate time. The economy is financed by debt, and "this debt and credit revolution constitutes the third major peril hanging over the future of the United States" (the other two being the military/oil connection and the rise of the Republican theocracy).[3]

The U.S. economy has always been based on consumption as previous historical events have attested to, leading to the first level of debt, that of the consumers. Americans have kept their economy rolling as "consumer spending accounted for more than two-thirds of the \$11 trillion national economy" with "many consumers unable to resist the overpowering mantra: spend, spend, spend..." that comes "pouring out of Madison Avenue's American dream machine." [4]

As an aside, but a significant one, it should be noted that war is also a major 'consumptive' enterprise, consuming large amounts of raw materials and human resources for production, consuming lives and their future contributions to a whole society on a large scale, and consuming the environment through chemical weapons and land-mines/cluster bombs left behind to consume even more after the war is 'over'. Direct military expenditures are 4 per cent of the GDP,[5] but an accounting of all other 'militarized' damages as above and other militarized budgets (war in Iraq/Afghanistan, the CIA, anything related to 'homeland terror', aid to Israel and other countries) would raise this proportion significantly. Consumption truly is an American way of life and death. The cost of war **in** Iraq alone – and not including costs **to** Iraq per se, but costs incurred by America – is conservatively estimated at 1.2 trillion dollars[6] – a figure largely and truly unimaginable – it is simply a grotesquely big number that defies comprehension of its consequences.

But to continue with the 'average' American, any individual catastrophe, with the average American having a negative saving rate, can tip any particular individual into poverty: a work disability, or a medical emergency can quickly destroy a family. On a broader scale, if interest rates are allowed to increase too much, and the over-extended mortgages and huge credit card debts become too much to manage, and with the no-escape bankruptcy laws now in effect, broad swaths of the middle and working class could quickly become impoverished.

Americans have used the increased value of their homes, artificially inflated to keep the economy rolling, withdrawing over \$600 billion to pay off credit card debt and for personal spending.[7] As the housing market flattens out, with the bubble burst now well under way, and as wages continue to stay flat, the economic house of cards becomes less and less stable. It is not just the consumer at fault as corporate America has financed itself as well largely through debt.

The highly volatile money markets, stock markets, and corporate financings, the deregulation that has allowed all kinds of new and complex financial structures to develop is a second major factor in the frailty of the U.S. economy. Trillions of dollars have been placed into "such opaque standards as credit derivatives, credit derivative futures, and collateralized debt obligations." [8] Those are terms that I have yet been able to understand clearly, along with others, "even more opaque, such as split capital trusts, collateralized debt obligations, and market credit default swaps." [9] These wonderful new enterprises in the jargon of economics – with some degree of intention – keep it a mystery except to a few acolytes who profess to actually understand it, although along the way I have come across those much more immersed in economics than myself, who were intelligent enough to admit they could not truly fathom what the terms meant either. At any rate, they appear to be high-risk management items of various kinds for buying and selling other peoples debt – to the amount of "a whopping \$17.3 trillion, enough to sink the entire economy if the market takes a nosedive." [10] These debt structures of course are all inter-twined, with personal debt beholden to the corporations, and the corporation beholden to each other and various governments, the whole structure riding along comfortably so long as no ill wind blows. "Banks simply do not understand the chain of exposure and who owns what. Senior financial regulators and bankers now admit as much." [11]

An aspect of debt that is readily understood is the national debt – at least readily understood for its definition, but again using numbers with place values well beyond the visualizing ken of most everyone, including, I would argue, most economists who bandy the amount around with great pride in their use of truly large but objectively meaningless large

numbers. The understood part is that the nation owes a ton of money to other nations from whom they have borrowed money to finance their ongoing consumption, and the other nations so far are willing to carry the debt. However, if they decide they no longer want to carry that debt, if they stop purchasing the bonds and debentures (the latter being unsecured bonds relying on the goodwill of the government to repay them, if no way else other than to print more money, or raise more taxes, and it is obvious what the American government prefers), then the value and goodwill of the dollar will collapse.

The majority of this debt is owned by international central banks in China, Japan, Taiwan and South Korea who have their own motives for “purchasing short-term Treasuries [bonds and debentures] with negative real returns, their obvious motivation was to keep lucrative export markets open.”[12] In common terms, they are trading off investment losses in order to sustain their profit making exports to the over-consuming Americans, who no longer manufacture many of the products they want to buy.

There is a fourth aspect to debt, that of the current account deficit, simply defined as “money transactions with the rest of the world.”[13] It is “the broadest measurement of how much more Americans buy...than they sell.”[14] The current account problem is tied in with the national debt. The amount borrowed is staggering, as “the US has to borrow from foreign lenders (mostly Japan and China) \$900 billion annually or nearly \$2.5 billion every single day to finance the gap between payments and receipts from the rest of the world”[15] My simplest definition, economics for dummies, arrives at this: Americans buy more than they sell in a year (current account); year over year, Americans have to borrow money to continue that buying spree (national debt).

All these debts added up are more than staggering, and they defy all the precepts about fiscal prudence that has ever been preached to the average working layperson, yet it is okay for the government to encourage this debt policy. Taken all in total, “All Uncle Sam’s debt, including private household consumer credit-card, mortgage etc debt of about \$10 trillion, plus corporate and financial, with options, derivatives and the like, and state and local government debt comes to an **unvisualizable, indeed unimaginable, \$37 trillion**, which is nearly four times Uncle Sam’s GDP [gross domestic product – emphasis added]”[16]

Perhaps it is just all numbers and the economy can once again go percolating along as the economists juggle their statistics and print more money and everyone believes that the financial house is stronger than a house of cards. In my daily transactions, the run of the mill ordinary life I lead, which in itself is a blessing compared to the majority of the rest of the world upon whose labour this wealth has been built, these thoughts rest unquietly not so far in the back of my mind anymore. War and nuclear devastation are one thing, economic collapse, while not as disastrous for the environment and the third world (I imagine Cuba and Venezuela might actually weather the financial storm, being financially isolated as they are anyway – how ironic) would certainly affect my life and those of millions of other working people. The poor would not see much change; they have next to nothing anyway. The truly wealthy might not be quite so wealthy, but they always seem to hang onto their ill-gotten gains, or conversely, perhaps go on a buying spree of now cheap enterprises within which they could employ dirt-cheap labour. It is the hundreds of millions in the middle who would be affected most. The end result might just be the military application of nuclear weapons on a chosen target, as the wounded economic beast strikes out at its media created imaginary foes, blaming the rest of the world for their own stupid culpability.

That, of course, is paranoid conjecture. Only time will tell, but in the meantime, hopefully some solutions, some soft landings, will avail themselves in order that the economic puzzle of huge debts – the house of cards – resolves itself rather than collapsing into its empty basement.

The American empire is based on this house of cards, the borrowing of huge sums of money to keep the consumptive engines burning up as many commodities as can be created. The disasters of the IMF and the World Bank and the many free trade negotiations and agreements, instruments of the empire along with the military that I have previously examined, have negatively affected hundreds of millions of people globally. Something as apparently simple as a change from American petrodollars to the Euro petrodollar (one of the reasons, not stated, that the U.S. invaded Iraq, with one of its first actions being to restore Iraqi oil to the dollar base from the euro) or the hint to the central banks that China is disposing of its American reserves, or a drastic increase and sustaining of oil prices resulting in high inflation, could pull a keystone card out of the imperial arch. Ironically it was a homebuilt housing mortgage market that seems to have triggered the stock market collapse.

If it were simply a housing market collapse, with the rest of the economy still relatively strong, it might be a short-term milder recession. The efforts of the administration to help the situation do nothing but aggravate it. The 145 billion being returned to the taxpayer has to be borrowed from foreign sources, simply adding to that debt. The spending that the Americans will do with their magnificent \$800 rebate is also money that is being spent on foreign goods. Consider that “According to reports, 70% of the goods on Wal-Mart shelves are made in China.” In reference to the number of manufactured goods being produced in the U.S. it is also important to note, “In 2007, prior to the onset of the 2008 recession, 217,000 manufacturing jobs were lost. The US now has fewer manufacturing jobs than it had in 1950 when the population was half the current size.” [17]

In an economy defined as “military keynesianism”, Chalmers Johnson writes of the necessity of “liquidating the global empire” and bringing the defence budget into line with actual need, much less than the 55 per cent of global military expenditures that it now spends. Otherwise: “If we do these things we have a chance of squeaking by. If we don’t, we face probable national insolvency and a long depression.” [18]

With the enormous debt at all levels, intertwined throughout various corporations and governments, with a senseless war for strategic oil control costing billions of dollars daily and creating overwhelming negative response to the American way, the world could be in for a long haul where major restructuring of the global markets might take decades to work out. Pessimistic? For sure, but the market collapse has been foreseen as a possible/probable event by alternate media for some time, while all the local financial advisors still run the tired and true mantra of “holding on” and “riding it out”. Be prepared for a long ride.

Notes

[1] Levy, David M. and Peart, Sandra J. “The Secret History of the Dismal Science: Economics, Religion and Race in the 19th Century.” The Library of Economics and Liberty.
<http://www.econlib.org/LIBRARY/Columns/LevyPeartdismal.html>

[2] Phillips, Kevin. American Theocracy – The Peril and Politics of Radical Religion, Oil, and Borrowed Money in the 21st Century. Viking, Penguin, N.Y. 2006. p. 266.

[3] Ibid, p. 268.

[4] Ibid, p. 294, p. 271. Debt represents 70% of U.S. GDP as per Mike Whitney, "Preparing for the Economic Typhoon. Counterpunch. April 25, 2006.
<http://www.counterpunch.org/whitney04252006.html>

[5] <https://www.cia.gov/cia/publications/factbook/geos/us.html#Military> (est. 2005).

[6] Bilmes, Linda and Stiglitz, Joseph. "The Economic Costs of the Iraq War: An Appraisal Three Years After The Beginning of the Conflict."
http://www2.gsb.columbia.edu/faculty/jstiglitz/cost_of_war_in_iraq.pdf

[7] Whitney, ibid.

[8] Whitney, Mike. "Days of Reckoning". Counterpunch. September 9/10, 2006.
<http://www.counterpunch.org/whitney09092006.html>

[9] Kolko, Gabriel. "Why a Global Economic Deluge Looms," Counterpunch. June 15, 2006.
<http://www.counterpunch.org/kolko06152006.html>

[10] Whitney, ibid.

[11] Kolko, ibid.

[12] Phillips, ibid, p. 336.

[13] Heakal, Reem. "Understanding The Current Account In The Balance Of Payments." June 18, 2003. |
<http://www.investopedia.com/articles/03/061803.asp>

[14] Phillips, ibid, p. 334.

[15] Corpus, Victor N. "America's Acupuncture Points Part 1: Striking the US where it hurts," Asia Times. October 19, 2006. <http://www.atimes.com/atimes/China/HJ19Ad01.html>

[16] Andre Gunder Frank, cited in Auerback, Marshall. "Giant in decline," Asia Times. January 25, 2005. www.atimes.com/atimes/Global_Economy/GA25Dj01.html

[17] Roberts, Paul Craig. "Farewell to Old Economic Nostrums - Neither Supply-Side Theory Nor Keynesian Remedies Can Save Us Now." Counterpunch. January 22, 2008.
<http://www.counterpunch.org/roberts01222008.html>

[18] Johnson, Chalmers. "Going bankrupt: The US's greatest threat," Asia Times. January 23, 2008. http://www.atimes.com/atimes/Middle_East/JA24Ak04.html

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