

The Curious Bush Recovery

by [Steven LaTulippe](#)

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While I am admittedly not a professional economist, I am an "evil capitalist" with some interest in the field. From this perspective, a quick examination of recent economic data is showing odd and scary trends that defy the general consensus that we are in a great "Bush recovery." And the more closely this data is analyzed, the stranger it gets. As with everything else concerning this administration, it leaves one wondering what the hidden agenda is and who is pulling the levers.

Things just don't happen this weirdly by themselves.

The first oddity is the lack of job creation. Normally, by this time in the recovery cycle, millions of jobs would have been added to the national economy. As businesses move out of the wary psyche of recession and into the daylight of prosperity, they eventually hire more workers to meet increasing demand.

This recovery has seen no such hiring surge. In fact, some recent data shows that the manufacturing sector now has fewer employees than it did back in 2000. This must be the first time in US history that a recovery has fewer manufacturing jobs than the recession that preceded it.

But unlike many of the other oddities, the obvious explanation for this one is that the recovery *is* creating manufacturing jobs...in China. That giant nation has seen an historic surge in industrial production, much of which is destined for our shores.

While this is no great mystery, things do get a bit more bizarre when one looks at the twin behemoths of our trade and budget deficits in conjunction with the dollar's trends on international markets.

In a nutshell, the US government is spending money at a heretofore unprecedented pace...and is going into debt at a rate seldom seen before in human civilization. And much of this spending is not defense or terrorism related. Education, housing, and numerous other social programs have exploded under this president at rates far in excess of the "liberal" Clinton administration. This president is about to become one of a very few in history to never have vetoed a single bill during a 4 year term in office.

Accompanying this surge of government indiscretion is our trade deficit. These past months, it has rocketed to stratospheric levels. Americans have been importing far more than they export for many decades, but the current rate could set an all-time record.

What makes this even scarier is that the trade imbalance is occurring in conjunction with two other factors.

First, Americans have essentially ceased saving money. We are financing this import binge on credit (thanks, in part, to the Federal Reserve's manipulation of interest rates). The average US household now has somewhere in the neighborhood of \$7-8000 in credit card balances...and growing. EZ credit and mortgage refinancing schemes (fueled largely by the government-manipulated and quasi-governmental mortgage industry) have encouraged Americans to raid their one last store of wealth: the equity in their houses.

Second, is the fact that this massive trade deficit is occurring amid an historic slide of the US dollar on the world's currency exchanges. In normal times, a large trade deficit depreciates a nation's currency relative to other nations' currencies. The market thus returns things to equilibrium by making imports more expensive and exports cheaper.

But in the Bush-Greenspan universe, nothing seems to operate as it should.

Last month we nearly set a record for a monthly trade deficit, but it occurred after a long 30% slide in the value of the dollar against a variety of world currencies. Our exports should be booming, and imports should be prohibitively expensive...bringing our deficit to a balance.

But the trade deficit somehow got worse.

Numerous policies can be blamed for the continued hemorrhage. The fact that OPEC continues to accept only dollars for oil purchases is a biggie. If America was any other nation, the recent plunge in the value of our currency would result in a gigantic surge in the price of oil. This alone would short-circuit the recovery and slump the economy back into recession...shutting off our ability to import and thus bringing the trade deficit to balance.

But since the dollar is the medium of oil purchases, OPEC gets hosed when the dollar drops, while we continue to import oil at the same price.

One might ask why OPEC goes along with this charade. In fact, some oil-exporting nations have discussed switching to the Euro, to gold, or to a basket of currencies. But this would undoubtedly raise the ire of some very heavily armed people.

The last guy who switched from dollars to Euros for oil purchases was Saddam Hussein. He changed over in 2000, and found himself in a jail cell just a couple of years afterwards (as to whether these two events are connected in any way, I'll leave it to the reader to decide).

Secondly, we are able to continue on this path to oblivion because the wonderful Chinese government maintains a fixed exchange rate between its currency (the yuan) and the dollar. Thus, if the US dollar drops on international currency exchanges, the yuan does as well...meaning that the baubles we buy from China at WalMart do not change in price when the dollar drops.

And the Chinese (and Japanese) also help Uncle Sam's voracious appetite for money by circulating the dollars from their trade surplus back to the US in the form of US Bond purchases.

In essence, the Bush recovery consists of the Japanese loaning us money to purchase things from the Chinese that we really can't afford.

The Asians are financing our government's budget deficit with dollars obtained from our Asian trade deficit.

This is not a stable economic strategy...it is a bizarre high-wire act.

Since the market doesn't like to be dallied with, it always finds a way to make itself heard. The flaw in this crazy theory of economics is the willingness of Asians to continue to buy US bonds. The question is quite simple: *Why buy a bond with a 1–2% yield when the currency in which the bond is denominated is plunging?* The investor loses on the spread big-time (it should also be added that the investor has a further disincentive when he realizes that the USA is so far in debt that we'll never be able to pay it back...even with devalued dollars)

Sooner or later the geniuses over at the Japanese Central Bank are going to begin to ask themselves this very question. Right now, they probably don't pull the plug because they 1) are afraid of precision-guided munitions (after all, some of their cities have only recently stopped glowing from the last run-in they had with Uncle Sam), and 2) realize that their own industries rely on giving Americans their money back to buy more junk.

Talk about a dysfunctional relationship!!

But this can only go so far. Sooner or later, the Asians are going to realize that we can't pay the money back...and that even if we could, the plunging dollar makes it ludicrous to loan us any more.

Then, interest rates on US bonds will have to rise to lure more investors. And then the budget deficit explodes, the economy slows down due to higher rates, and things get really ugly.

There are a lot of little guys in leotards swinging through the air under the big top. Sooner or later, someone isn't going to be at the right place at the right time.

Now some folks might ask who I am to question the Federal Reserve Chairman. To which I reply with the old adage: "Remember, it was amateurs who built the Ark, and professionals who built the Titanic."

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