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American Economy: R.I.P.

By Paul Craig Roberts

09/10/07 'ICH' -- -- The US economy continues its slow death before our eyes, but economists, policymakers, and most of the public are blind to the tottering fabled land of opportunity.

In August jobs in goods-producing industries declined by 64,000. The US economy lost 4,000 jobs overall. The private sector created a mere 24,000 jobs, all of which could be attributed to the 24,100 new jobs for waitresses and bartenders, and the government sector lost 28,000 jobs.

In the 21st century the US economy has ceased to create jobs in export industries and in industries that compete with imports. US job growth has been confined to domestic services, principally to food services and drinking places (waitresses and bartenders), private education and health services (ambulatory health care and hospital orderlies), and construction (which now has tanked). The lack of job growth in higher productivity, higher paid occupations associated with the American middle and upper middle classes will eventually kill the US consumer market.

The unemployment rate held steady, but that is because 340,000 Americans unable to find jobs dropped out of the labor force in August. The US measures unemployment only among the active work force, which includes those seeking jobs. Those who are discouraged and have given up are not counted as unemployed.

With goods producing industries in long term decline as more and more production of US firms is moved offshore, the engineering professions are in decline. Managerial jobs are primarily confined to retail trade and financial services.

Franchises and chains have curtailed opportunities for independent family businesses, and the US government's open borders policy denies unskilled jobs to the displaced members of the middle class.

When US companies offshore their production for US markets, the consequences

for the US economy are highly detrimental. One consequence is that foreign labor is substituted for US labor, resulting in a shriveling of career opportunities and income growth in the US. Another is that US Gross Domestic Product is turned into imports. By turning US brand names into imports, offshoring has a double whammy on the US trade deficit. Simultaneously, imports rise by the amount of offshored production, and the supply of exportable manufactured goods declines by the same amount.

The US now has a trade deficit with every part of the world. In 2006 (the latest annual data), the US had a trade deficit totaling \$838,271,000,000.

The US trade deficit with Europe was \$142,538,000,000. With Canada the deficit was \$75,085,000,000. With Latin America it was \$112,579,000,000 (of which \$67,303,000,000 was with Mexico). The deficit with Asia and Pacific was \$409,765,000,000 (of which \$233,087,000,000 was with China and \$90,966,000,000 was with Japan). With the Middle East the deficit was \$36,112,000,000, and with Africa the US trade deficit was \$62,192,000,000.

Public worry for three decades about the US oil deficit has created a false impression among Americans that a self-sufficient America is impaired only by dependence on Middle East oil. The fact of the matter is that the total US deficit with OPEC, an organization that includes as many countries outside the Middle East as within it, is \$106,260,000,000, or about one-eighth of the annual US trade deficit.

Moreover, the US gets most of its oil from outside the Middle East, and the US trade deficit reflects this fact. The US deficit with Nigeria, Mexico, and Venezuela is 3.3 times larger than the US trade deficit with the Middle East despite the fact that the US sells more to Venezuela and 18 times more to Mexico than it does to Saudi Arabia.

What is striking about US dependency on imports is that it is practically across the board. Americans are dependent on imports of foreign foods, feeds, and beverages in the amount of \$8,975,000,000.

Americans are dependent on imports of foreign Industrial supplies and materials in the amount of \$326,459,000,000--more than three times US dependency on OPEC.

Americans can no longer provide their own transportation. They are dependent on imports of automotive vehicles, parts, and engines in the amount of \$149,499,000,000, or 1.5 times greater than the US dependency on OPEC.

In addition to the automobile dependency, Americans are 3.4 times more dependent on imports of manufactured consumer durable and nondurable goods than they are

on OPEC. Americans no longer can produce their own clothes, shoes, or household appliances and have a trade deficit in consumer manufactured goods in the amount of \$336,118,000,000.

The US “superpower” even has a deficit in capital goods, including machinery, electric generating machinery, machine tools, computers, and telecommunications equipment.

What does it mean that the US has a \$800 billion trade deficit?

It means that Americans are consuming \$800 billion more than they are producing.

How do Americans pay for it?

They pay for it by giving up ownership of existing assets--stocks, bonds, companies, real estate, commodities. America used to be a creditor nation. Now America is a debtor nation. Foreigners own \$2.5 trillion more of American assets than Americans own of foreign assets. When foreigners acquire ownership of US assets, they also acquire ownership of the future income streams that the assets produce. More income shifts away from Americans.

How long can Americans consume more than they can produce?

American over-consumption can continue for as long as Americans can find ways to go deeper in personal debt in order to finance their consumption and for as long as the US dollar can remain the world reserve currency.

The 21st century has brought Americans (with the exception of CEOs, hedge fund managers and investment bankers) no growth in real median household income. Americans have increased their consumption by dropping their saving rate to the depression level of 1933 when there was massive unemployment and by spending their home equity and running up credit card bills. The ability of a population, severely impacted by the loss of good jobs to foreigners as a result of offshoring and H-1B work visas and by the bursting of the housing bubble, to continue to accumulate more personal debt is limited to say the least.

Foreigners accept US dollars in exchange for their real goods and services, because dollars can be used to settle every country’s international accounts. By running a trade deficit, the US insures the financing of its government budget deficit as the surplus dollars in foreign hands are invested in US Treasuries and other dollar-denominated assets.

The ability of the US dollar to retain its reserve currency status is eroding due to the continuous increases in US budget and trade deficits. Today the world is literally flooded with dollars. In attempts to reduce the rate at which they are

accumulating dollars, foreign governments and investors are diversifying into other traded currencies. As a result, the dollar prices of the Euro, UK pound, Canadian dollar, Thai baht, and other currencies have been bid up. In the 21st century, the US dollar has declined about 33 percent against other currencies. The US dollar remains the reserve currency primarily due to habit and the lack of a clear alternative.

The data used in this article is freely available. It can be found at two official US government sites: http://www.bea.gov/international/bp_web/simple.cfm?anon=71&table_id=20&area_id=3 and <http://www.bls.gov/news.release/empst.t14.htm>

The jobs data and the absence of growth in real income for most of the population are inconsistent with reports of US GDP and productivity growth. Economists take for granted that the work force is paid in keeping with its productivity. A rise in productivity thus translates into a rise in real incomes of workers. Yet, we have had years of reported strong productivity growth but stagnant or declining household incomes. And somehow the GDP is rising, but not the incomes of the work force.

Something is wrong here. Either the data indicating productivity and GDP growth are wrong or Karl Marx was right that capitalism works to concentrate income in the hands of the few capitalists. A case can be made for both explanations.

Recently an economist, Susan Houseman, discovered that the reliability of some US economics statistics has been impaired by offshoring. Houseman found that cost reductions achieved by US firms shifting production offshore are being miscounted as GDP growth in the US and that productivity gains achieved by US firms when they move design, research, and development offshore are showing up as increases in US productivity. Obviously, production and productivity that occur abroad are not part of the US domestic economy.

Houseman's discovery rated a Business Week cover story last June 18, but her important discovery seems already to have gone down the memory hole. The economics profession has over-committed itself to the "benefits" of offshoring, globalism, and the non-existent "New Economy." Houseman's discovery is too much of a threat to economists' human capital, corporate research grants, and free market ideology.

The media has likewise let the story go, because in the 1990s the Clinton administration and Congress overturned US policy in favor of a diverse and independent media and permitted a few mega-corporations to concentrate in their hands the ownership of the US media, which reports in keeping with corporate and government interests.

The case for Marx is that offshoring has boosted corporate earnings by lowering labor costs, thereby concentrating income growth in the hands of the owners and managers of capital. According to Forbes magazine, the top 20 earners among private equity and hedge fund managers are earning average yearly compensation of \$657,500,000, with four actually earning more than \$1 billion annually. The otherwise excessive \$36,400,000 average annual pay of the 20 top earners among CEOs of publicly-held companies looks paltry by comparison. The careers and financial prospects of many Americans were destroyed to achieve these lofty earnings for the few.

Hubris prevents realization that Americans are losing their economic future along with their civil liberties and are on the verge of enserfment.

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