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'America the Perplexed': The Economic Reality Show

Arthur Jones | Sep. 19, 2008

The Wall Street dike springs leaks faster than Treasury Secretary Hank Paulson can stick federal funds in the holes. No sooner is a $180 billion plug urged for the `risky loan fund? font of anxieties than the soggy money market funds spring a leak. Then Bush raises the ante to $500 billion.

Spraying taxpayer-funded reassurance like air freshener to calm the panic, Washington bungs money market insurance into the new breach.

Trouble with air freshener is it never fully masks reality.

True, the financial world?s Masters of the Universe have been brought back to earth. Their $12,000 bottles of wine at dinner in New York and London are but bitter memories for their unsecured old age, for they are jobless. Certainly the political fall-out is fun, the Republican *ancien regime* is a house divided: *The Wall Street Journal* attacks John McCain for suggesting that Wall Street?s ?greed? has brought us to this pretty underpass.

Imagine it?s as if the Gospel writers attacked Saint Peter.

For guidance, I offer a sainted economist, Harold Underwood Faulkner. In 1924 he wrote that bar two minor minerals, rubber and coffee, the United States ?produces everything necessary for her own consumption and manufacture, and much to export.?

There?s sufficient food to support a much larger population, said Underwood (1924: 114 million; 2007: 300 million), who added (my italics)?*this country could be blockaded for centuries without fatal suffering*.? Wanna bet? We import most of what we eat. Oil? You know already.

Eighty years ago America produced more than half the world?s copper, oil, corn, cotton, coal, and iron and steel, with only 6 per cent of the global population and 7 per cent of the world?s land.

Today we have 5 per cent of the world?s population and 7 per cent of the world?s land and all the coal we can eat. The other resources have mainly gone the way of the $12,000 bottles of wine, and for the same reason: consumption without concern for tomorrow.

By 1976, the country swallowed 30 per cent of the global oil barrel and had 6.8 per cent of the world?s known oil reserves. Today, it?s 40 per cent of the global oil production barrel, 3 per cent of the reserves.

Why 1976? That?s when I wrote *The Decline of Capital* (T.Y.Crowell/Harper). *Decline* wasn?t perfect -- future-gazing never is. The book was right where it mattered for today -- the resources and trading status part was dead right. It also said capitalism would hand its problems over to government.

Paul Erdman, the Swiss banker turned novelist, said of *Decline*, ?(Jones?) basic point is `merely? that the curve of our national economy, which throughout our history has allowed for universally rising expectations, is no longer ascending. That our economic future has already begun?signaled by the 1971 devaluation of the dollar, and confirmed by the 1973 oil embargo.?

Erdman noted *Decline* did not predict a downturn that would ?culminate in a catastrophic collapse, but rather something much less exciting, something quite tedious and trying: a future which, in Jones? words, `recession is permanent? ? note recession, not depression?and where inflation is ever present, a boring process of slow but constant erosion of wealth.? Continued Erdman, ?From that basic proposition?the end of growth?Jones then states the corollary: `where there is no growth, there is no capitalism.??

Americans mindlessly emptied their vast natural resource chest, and then lived off accumulated fat, not income (and that?s not capitalism). Trade went into the red as imports exceeded exports (though U.S. arms sales accelerated). Incredibly, Americans began borrowing while *increasing* their consumption of goods they no longer produced and couldn?t ? and can?t -- afford to pay for.

Down to today, borrowing delayed the inevitable. U.S. government borrowing, corporate borrowing, and personal indebtedness achieved a scale unimagined by economic and financial writers thirty years ago.

Worse, nothing few resources left to sell and exports stagnating, America began using its future tax base as collateral (U.S. Treasury bonds and notes) with equal profligacy. Yet the government refused to tax where taxation was essential ? *taxing the people and institutions with money*. Instead, it relied heavily on taxing those who were surviving on credit.

What happened in September, 2008 was that, vulture-like, all the debt ? governmental, corporate/financial, and personal -- came home to roost the same week. Over a two-week period, we?ve watched the decline of capital on television, the truest of the reality shows. The pain will never erode as it did in the early 1970s, the resource and exports cupboards are bare; the U.S. economy suspect and out of kilter. There?s still a pot of money in America; maldistrbuted.

There?s more to all this of course, but that?s enough for one day. Meanwhile, you can still get a reasonably decent wine for under $10 a bottle.

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