Why the U.S. economy CAN'T "recover"

Sep 23, 2009 11:56 AM

The U.S. propaganda-machine now reports on a daily basis that a "U.S. economic recovery" is underway – despite not one piece of evidence to support this "bold assertion" (shameless lie?).

Let's start with a definition of "recovery" suitable to the current, economic context: economic "recovery" means the economy is returning to (or "recovering") a previous level of economic activity. In other words, with an economy which has shrunk by more than 10%, a "recovery" could only be occurring *if* the economy is already growing.

There is still absolutely no evidence that the U.S. economy is growing. Granted, the propagandists already know that the Treasury Department will *report* "economic growth" this quarter – regardless of what is actually happening in the real world. However, contrast this with the extremely cautious attitude of the *same* "experts" and "economists" when the U.S. economy *started* its collapse. Despite enormous volumes of evidence showing that the U.S. economy had started a serious collapse, these shameless shills **refused** to declare a "recession" had started for *many* months after that fact was obvious to the entire world.

When asked to justify their reluctance to apply the label of "recession" to this economic collapse (which is, in reality, a Greater Depression), the reply was the same: formally declaring a "recession" was something which was done in *hindsight* – after enough data had accumulated to justify that backward-looking prognosis.

What a surprising coincidence that these *same* U.S. market-pumpers see absolutely no reason to exercise *any caution at all* when declaring a "recovery" has begun!

One of the chief propaganda tools of these shills is the index of economic "leading indicators". Even if I were to concede these "indicators" were a persuasive tool for predicting future economic activity (which I *don't*), this particular statistic only has relevance if the economy is operating within something close to normal parameters – which it *isn't*.

We have just spent a *year* watching the same buffoons who *couldn't see this collapse coming* telling us about all the "unprecedented" and "unconventional" measures that have been taken to attempt to resuscitate the global economy, in general, and the U.S. economy, in particular.

Why have they had to engage in so many "unconventional" measures (like 0%-1% interest rates around the world) to try to breathe life into the economy? Because the economy did *not* respond to traditional stimulus – as it *always* has in the past. If the economy isn't responding to stimulus in a predictable manner, how can these "experts" and "economists" know that the "leading indicators" they crow about are actually predictive of a "recovery"? Obviously they can't.

This becomes even *more* obvious when we look at some of these "indicators" individually. Rising stock prices are one of them. Gee, if stock prices are going up, that *must* mean that a "recovery" has started. After all, "bear-market rally" is a phrase which I just invented, this moment. Who cares that insiders have been *dumping* their own holdings at an *accelerating rate* for the last six months?

Another "indicator" is "consumer confidence", or as I labeled it in a previous commentary (see **"Time to rename U.S. Consumer Confidence index"**) the "consumer gullibility" index. For the first six months of this year, the propaganda-machine deluged the world with report after report that "a U.S. economic recovery" was on the way. For the last three months, all we have heard is that the economy is "about to recover" and more recently "the recovery has already started".

These propagandists couldn't justify continuing to take their pay-cheques if they hadn't managed to brainwash a large chunk of the population. Of more relevance, as I pointed out previously, it doesn't matter how "confident" Americans are if they have no jobs and no access to credit – to fuel this *consumer economy*. Currently, consumer credit is collapsing at the *fastest rate in history* (see **"Record Plunge in U.S. Consumer Credit in July")**. Is *this* something which would/could/should happen in a "recovering" economy?

"Housing starts" are another leading indicator. However, as I have repeated again and again, there is something seriously wrong with this number – as for nearly two years, "housing starts" have exceeded "new home sales" by anywhere from 50% to 100% *every month*. There are only two possibilities here: either this number has been grossly inflated (and thus is meaningless) *or* U.S. home-builders are simply accumulating more and more unsold inventory. Either way, this "leading indicator" has no merit.

However, the most persuasive means of showing that the U.S. economy *is not* recovering is to show that it *cannot* recover. For this I will offer thanks to Steve Keen (and his *"Debtwatch"* blog) for two, extremely effective metaphors (not to mention the analysis behind it). These effectively point out that the Obama regime has not only *failed* to acknowledge the *real* problem with the U.S. economy, but also chose the *least-effective* form of "stimulus" available.

With respect to the latter point, Mr. Keen observes that there were several choices about which *location* in the "economic pipeline" Obama could choose to inject his stimulus. Under *normal* conditions (i.e. the "borrow-and-spend" paradigm, where "deficits don't matter"), stuffing money into the vaults of the banksters was the most-effective option – since these reckless gamblers have always lent-out *at least* $10 for every $1 they actually hold.

The problem is that this economic collapse was **caused** by providing the banksters with *too much* "easy money" and then allowing them to leverage that *debt* by an average of **30:1**. Even the greedy banksters, themselves, know they have no choice but to *de-leverage.* Thus, when the Obama regime stuffed *trillions* into the vaults of the same banksters who caused all the problems – all the banksters did was "sit on" most of that money to reduce their leverage. Last I heard, the banksters had over **$600 billion** sitting in a "savings account" with the Federal Reserve – collecting 1% interest. Wow! That will sure "stimulate" the economy.

As Keen puts it, the Obama regime is using the wrong "pipe" in the economy. Because it was inevitable that the banksters would use any hand-outs to de-leverage, the "pipe" which pumps money from the banking system into the broader economy has effectively *shrunk.* This means no matter how much or how fast money is funneled to the banksters, the amount of "stimulus" which actually reaches the economy is now severely constrained. "Stimulus" dollars, says Keen, would have achieved a much greater effect by being provided to the *debtors* rather than the lenders, because those "pipes" in the economy had not "shrunk" by nearly as much (since neither U.S. businesses nor U.S. consumers were greedy and/or reckless enough to leverage themselves by 30:1).

Put another way, it was always completely obvious that any and every "stimulus dollar" given to the banksters would help *only* the banksters.

However, as both Keen and myself continue to reiterate regularly, the main problem with measures to fix the U.S. economy is that only the *symptoms* are being treated – not the "disease". Keen equates the humungous U.S. debt-load with a "malignant tumor" - a perfect metaphor. It is something which is rapidly growing in size, and guaranteed to kill the patient unless removed.

Yet, instead of *removing* the tumor, the "cure" being pursued by the Obama regime is the equivalent of "tumor implants" - it is *adding* more tumors (i.e. more debt) to the (dying) patient, to try to improve the *cosmetic* appearance of the patient.

Just as transplanting tumors *into* a patient whom is already dying from a malignant tumor is obviously *harmful*, rather than beneficial, massive debt-injections into an economy literally drowning in debt can only *increase* problems rather than reduce them.

In response to this, the Obama regime, the Federal Reserve, and the propaganda-machine are all reading off of the same script: at some point in the distant future, the U.S. will actually start *repaying* all this new debt – so it's not a problem.

This is utter nonsense! The U.S. economy currently has a "structural deficit" in excess of **$1 trillion per year** – meaning that is the *minimum* amount of new debt the U.S. will incur with the economy operating at full capacity. This is about *double* the level of debt which officially constitutes a "debt crisis" - in an economy with *real* GDP of less than $11 trillion/year.

If the U.S. was actually serious about achieving a "balanced budget" the time to start is today, and not after *trillions* more in debt is piled on top of the existing $57 trillion in total public/private debt (not including **$70 trillion**, or so, in "unfunded liabilities"). The Obama regime, itself, claims it will add on another $9 trillion in debt – before it will (supposedly) achieve a balanced budget.

An economy which could *not* balance its budget during the peak of the recent bubble-based "economic boom" will supposedly be able to do so – after *doubling* the national debt. As if that proposition isn't ludicrous enough already, we have the historic pattern of the U.S. government only reporting *half* of the actual increase in the "national debt" when it reports its "official deficit" (see **"Obama continues peddling fantasy-deficit numbers"**). Thus, when Obama tells Americans he plans on heaping another $9 trillion of debt onto the shoulders of their *children*, what he really means is that another *$18 trillion* (or more) is on the way.

Forget about economics, this is all about arithmetic. *Every* additional dollar of debt heaped on top of the largest mountains of debt in the history of our species, *permanently* removes several pennies from the U.S. economy. It doesn't *sound* that bad – until you multiply that by a trillion. If an economy with a measly $11 trillion per year in GDP is *permanently* squandering over **$2 trillion** per year just paying *interest* on $57 trillion of debt, the best-case scenario is to simply "tread water" (i.e. just try to avoid any further *shrinkage* in the economy).

It is mathematically impossible for this debt-saturated economy to generate *real* economic growth through new debt. The propaganda-machine can churn out any fantasy-numbers it wants. In the *real world*, all we will see are more job-losses, more foreclosures, and more bankruptcies. Not much of a "recovery".