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Is the United States Going for Broke?

By Kelly Patricia O Meara

An elite group of fiscal experts gathered to review world finances turned their attention to the implications of, and possible alternatives to, America's 'debt economics.'

While British legislators met to decide whether it is in that nation's best interests to join the European Union, a small but elite group of private wealth managers, economists, and institutional and hedge-fund managers gathered blocks away at London's Institute of Directors to participate in a decidedly unique review of the world's increasingly shaky financial stability. Much of the discussion revolved around the politics and financial policies of the United States.

JASON REED/REUTERS
Bush, Koizumi, German Chancellor Gerhard Schroeder and French President Jacques Chirac met at the G8 Summit in June.

Chris Sanders, founder of Sanders Research Associates (SRA), a London-based consulting firm specializing in analysis of the global political economy, organized the conference in conjunction with the British Helsinki Human Rights Group, the Gold Antitrust Action Committee and the Göteborg University School of Public Administration. Sanders tells Insight that "what we try to do here is make sense of what is happening politically on a global level and how it affects economies."

According to Sanders, "Periodically there are times in history that are defining moments - turning points - in the broad sweep of events, and I believe this is one of those moments. We can either continue down the road of further concentration of wealth and incomes, economic stagnation and war, or we can pause and reflect about the consequences of what we are doing. Former chief of Citibank Corp. Walter Wriston once said, apropos of developing country debt, that countries don't go broke. He was wrong at the time and still wrong today."

As Sanders sees it, "The debt numbers represent a staggering burden for the American economy to bear. For real GDP [gross domestic product] to grow at what is today considered to be a modest level of 2 percent per annum will require domestic demand growth of 10 to 11 percent in the American economy in four years' time. With interest rates only just above 1 percent, and with money growth in double digits, the implications of this are sobering. Federal Reserve Chairman Alan Greenspan in recent testimony before the Joint Economic Committee responded to a question from Sen. Paul Sarbanes (D-Md.) about the stability of the dollar, saying other countries already have too many dollars to contemplate selling them. This was followed a few days later by a meeting between President George W. Bush and Japanese Prime Minister Junichiro Koizumi, in which Bush said to Koizumi that the U.S. believes in a strong dollar."

This, continues Sanders, "is strange because at the same time Treasury Secretary [John] Snow is saying just the opposite with respect to the euro. The meaning couldn't be clearer: There is one dollar policy for those regions that the U.S. needs to borrow from, and another for those regions from which it does not. The Federal Reserve, the name of which has nothing to do with the function of the bureaucracy it labels, sounds as if it has something to do with the government and something to do with reserves, which hints at stability and wealth. In truth the Fed is a private corporation, and the connection with the slippery term 'reserves' and its connotations of stability is belied by the fact that ever since it was created the purchasing power of the American currency has declined."

The London analyst takes aim at the repressive measures that have been instituted in the fight against terrorism, saying: "Whatever our job or political inclination, it is painfully obvious that there will be opportunities to make money, but identifying them is going to become much more challenging. The foundations of social democracy themselves are threatened by the ossification of the institutions that form its framework, making the task of moving forward so much harder, and increasing the temptation for government to turn to repression instead of freedom, control instead of liberalism and the big lie rather than the simple truth. Even totalitarian systems rely on the consent of the governed to survive because it is far easier to fool the ruled than it is to bludgeon them. Success is finding the appropriate balance between the two."

Although Sanders set the tone of the conference, the experts he brought to London covered the political and financial spectrum, including Catherine Austin Fitts, a former assistant secretary of the U.S. Department of Housing and Urban Development and president of Solari, a locally controlled databank and investment adviser for a neighborhood. The Solari idea is to encourage neighborhoods to have a family of mutual funds that would allow local communities to access both local and global stock-market investments. As the Solari spokesman sees it, "the U.S. economy has a negative return on investment. That is, if the U.S. economy were a stock, it would go down every year. This is happening because government is draining community resources by using the federal credit, and the U.S. position as reserve currency of the world, to shift economic and political power to corporations and large investors."

The Solari analyst explains, "The solution is for locally controlled Solaris to re-engineer government transparency and investment at the grass-roots level in a manner that offers global capital a way to profit from healing the environment, improving education and reducing organized crime. Imagine if every place in America financed with equity. We could buy Washington and New York [City] in our 401(k) or pension plans. That means if pollution goes down the value of your stock would go up, and global investors and local politicians would have an incentive to reduce consumption and extraction. They could make money on it."

This economic alternativist tells Insight that the way "to transform our addiction to organized crime and warfare is to do it in a way that makes a great deal of money. I come to London, to the SRA conference, to present alternatives and because London is the most important financial capital on the planet, and people who come to the conference are the most astute observers of the 'real deal' - where people come to invent what's next."

Walter Cadette, senior scholar at the Levy Economics Institute of Bard College and former vice president and senior economist of J.P. Morgan & Co., focused on the coming shortfalls in Social Security and health care. He started his presentation by saying, "My message today won't give anyone pleasure - especially those of us who thought a few years ago that the country [the United States] had a good shot at a sensible long-run fiscal strategy."

According to Cadette, "Today the population over 65 years of age [when federal Medicare takes over as primary health insurer and when full Social Security pensions become payable] is 12 percent of the total. Trustees of the two programs expect that number to rise to 18 percent by 2025 and to continue to climb for decades thereafter. So it is possible to make reasonably good estimates of the added strain on the budget and resources. The outlays of Social Security and Medicare combined are expected to rise to 11 percent of GDP by 2030, which is 4 percentage points higher than now. Add to that another 1 percent for Medicaid's cost of care for nursing-home residents, and in sum it becomes 5 percent of GDP - some $500 billion a year in today's money that must be financed either through higher taxes or added borrowing. Alternatively, all other activities of government must be slashed - from paying the electric bill at the White House to fighting fires in national forests."

"A hike in taxes," Cadette says, "in a country whose leaders cannot talk honestly about the need to pay for government and, more, who find political advantage in play-acting and demagoguery on the issue, will not be easy to enact. And those who would privatize Social Security, giving it features of a 401(k) plan, just don't get it. Success in financing Social Security in years to come requires a larger pie. It is not, as the privatizers claim, the financing mechanism that counts. It is the volume of resources available to pay pensions and meet all other societal demands at the same time. When the pie shrinks, table manners change."

Cadette concludes, "Under the best circumstances, financing the baby boomers' Social Security benefits and its medical care under Medicare and Medicaid would tax a Solomon. But the large deficits that now lie ahead after major tax cuts, a recession and a massive military buildup would drive even God Almighty to the wall."

Perhaps it will take input from alternative economists such as those who attended the SRA conference to "invent" an alternative to debt economics. Based on the data presented by these experts, and short of a new financial road map, table manners will indeed change and are likely to get ugly.

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