Greater Depression for U.S. Rebuts 'Recovery' Talk

October 20, 2009

It has gone from irritating to nauseating listening to media market-pumpers talking about an "U.S. economic recovery" which has supposedly already begun. Indeed, the hype has gone from a debate about whether the "recession" is over, to an inane debate about whether the U.S. is experiencing a "V-shaped recovery" or may suffer a "double-dip recession" or W-shaped "recovery".

In the *real* world, however, all that has occurred is that an U.S. economic collapse, which was in a near-vertical drop, has eased to a more moderate rate of decline. The "double-dip" talked about by some semi-realistic analysts is in fact nothing more than the ongoing collapse regaining downward momentum. There is no "debate" here. It is a matter of simple arithmetic that the U.S. economy **cannot** recover.

First of all, in the "big picture", the U.S.'s $11-trillion economy (all that remains once statistical "padding" is removed) is much too small to service the more than $57 **trillion** in *existing* public and private debt. Even if we pretend the U.S. still has a $14 trillion economy (despite the government's own numbers that this economy has shrunk by more than 10%), it is still much too small to service its debts. Meanwhile, lurking in the near future are roughly $70 trillion in *additional* "unfunded liabilities".

As I have pointed out on a number of occasions, the U.S. can *never* afford to raise interest rates again (at least not until *after* the inevitable national default on its massive debts). Every 1% rise in U.S. interest rates drains over $500 **billion** per year from the U.S. economy, equivalent to roughly a 5% drop in GDP for *every* 1% rise in interest rates. It is also inevitable that the bond market will *impose* much higher interest rates on the U.S. economy – as deficits get more out-of-control (and myopic U.S. creditors finally *see* the total insolvency of the U.S. economy). Thus, the U.S. is *guaranteed* to go bankrupt – the only issue is *when*.

The Obama stimulus package is *far* too small to stop the current collapse in the U.S. economy. Keep in mind that the same propagandists who claim that Obama's stimulus package would "save" the U.S. economy were saying the same things about the much smaller *Bush* "stimulus package" - little more than a year ago.

The *fact* is that the U.S. consumer economy has lost somewhere in the neighbourhood of **$2 trillion** per year in spending power. A the peak of the U.S. housing bubble, home-equity financings injected $840 billion into the economy in one year. Not only has such cash-flow into the U.S. economy completely evaporated, but *now* the debtors have to pay back the *trillions* in debt which they squandered.

Contrary to the absurd jobs propaganda, the U.S. economy has already lost somewhere in excess of 15 million jobs already – subtracting *at least* $1 trillion per year in spending from the economy once the "multiplier effect" is factored in. This disconnect from the real world reached its peak this summer, symbolized by a Reuters article that *actually stated* that while U.S. unemployment was "improving at the national level" it was getting *worse* on a state-by-state basis (see **"BLS jobs numbers contradict BLS jobs numbers"**).

Obviously the U.S. economy is represented by the collective economic performance of its 50 states. Yet in the fantasy-world of U.S. economic propaganda, we are supposed to believe that *nationally* the U.S. economy can be improving, while *state-by-state* the economy continues plummeting downward. The only **difference** between the U.S.'s "national economy" and the "state-by-state economy" is that the federal government has incorporated far more statistical contrivances to distort the numbers.

If the real condition of the U.S. economy is not already evident to people from the information above, certainly the following graphs and data on state tax revenues make things crystal-clear. The *Rockefeller Institute* (.pdf) recently went back as far as data was available (nearly 50 years) and discovered that the current collapse in state revenues is **unprecedented** – evidenced by the sickening plunge in these charts.

Figure 1. State Taxes Are Faring Worse Than Local Taxes

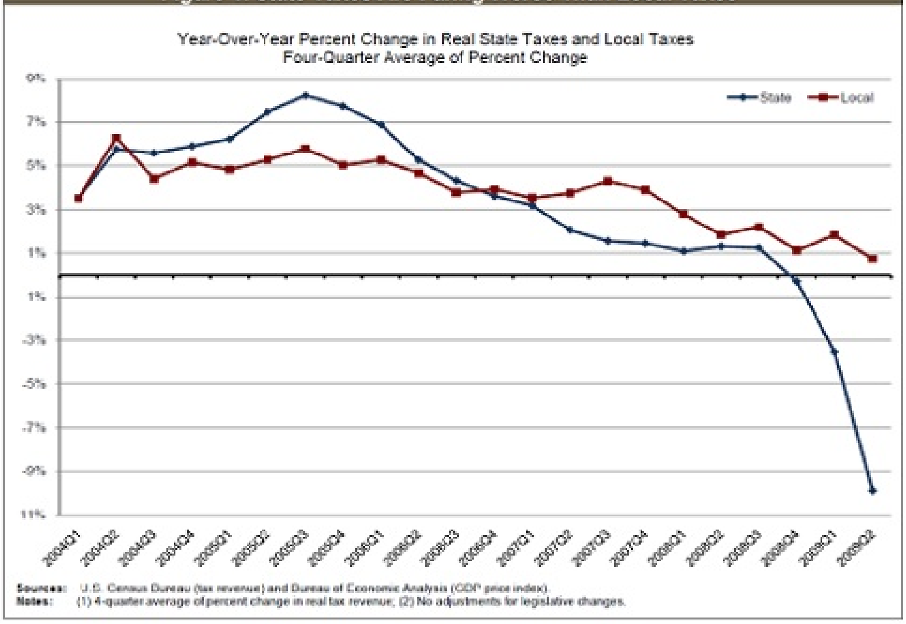
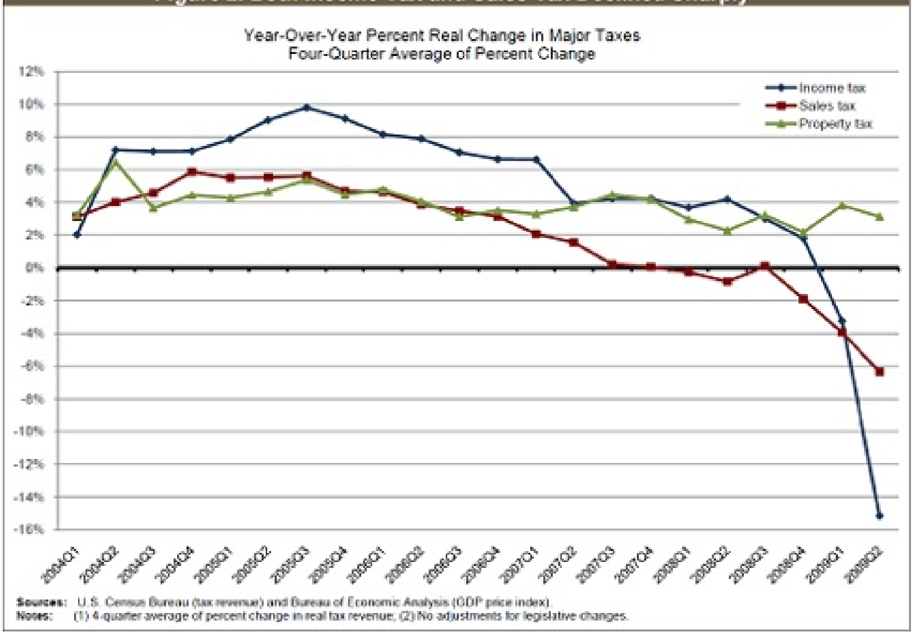


Figure 2. Both Income Tax and Sales Tax Declined Sharply



Again, it is a matter of elementary arithmetic that with U.S. states suffering the worst collapse in revenues on record (and with most states *already* maximizing their annual borrowing) that only two things can happen. Either U.S. states will have to engage in the most-punishing combination of tax-increases and spending cuts (i.e. lay-offs) on record *or* the Obama regime will have to *dramatically* increase federal hand-outs to the individual states.

Currently, in the most-recent fiscal year (ending in June of this year), declines in U.S. state revenues were more than *double* the amount of “stimulus” they received from the Obama regime. What makes this situation *worse*, most of this so-called “stimulus” involved either *increasing* the duration of unemployment insurance in the most-devastated regions and/or providing funds to states whose unemployment benefits were *completely spent*. There was virtually *no money spent on creating jobs* (contrary to the promises and claims of the Obama regime).

Given that shortfalls in unemployment insurance funding will be *much worse* in the current fiscal year, the Obama regime could **double** “stimulus” hand-outs to the states and still create **zero** jobs – doing nothing but keeping unemployment insurance payments flowing to the jobless.

This still leaves U.S. states with somewhere around $100 billion in *increased deficits* which will need to be covered in the current fiscal year (above and beyond their pre-existing structural deficits). Keep in mind that the *entire* amount of “stimulus” reaching the economy from the Obama “stimulus package” was only about $250 billion this year (using the government's own numbers). Overall, this replaces little more than **10%** of the lost spending power from this economy.

The numbers are unequivocal. There is no “economic recovery” taking place in the U.S. This year is much *worse* than last year – and 2010 will be much worse still. The only thing *currently* preventing the debt-implosion of the U.S. economy is the Bernanke printing press, and continued, excessive “monetization” of debt is a guarantee of hyperinflation. All claims to the contrary represent wishful thinking or deliberate deceit.

http://seekingalpha.com/article/167538-greater-depression-for-u-s-rebuts-recovery-talk?source=feed