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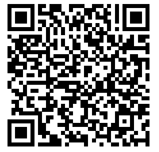

Written by **Staff** on July 23, 2024
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The True State of the U.S. Economy

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Of the millions of articles on economics, the U.S. budget, and government economic and fiscal policy, very few treat together the most important issues and policies. Still fewer are written by reputable economists on the issues that actually matter to normal U.S. citizens. Our polarizing politics are imposing strong limitations on which ideas can be published and publicized. Enormous pressure by elite schools and their corresponding supporting foundations and institutions do not allow some of the more controversial issues, including new populist takes, to be heard.

Have you seen any prominent economists weigh in on the implications of our $35 trillion national debt and the long-term impact that it will have on our productivity and economy? Have you seen any articles on the border invasion and the “net impact” of immigration on you and your family? Have you seen any analysis of the full costs, economic and social, of America’s many forever wars?

Don’t forget China. China is currently involved with most of our huge firms, particularly in the technology sector, and these firms have lobbyists who can meet with U.S. representatives, senators, and even the president at a moment’s notice.

All of these, and many other factors, are not merely threatening to weaken the U.S. economy; they might, if left unaddressed, lead to an economic end of days for the United States, an event that could permanently dethrone not only the U.S. dollar, but American political dominance as well.

An Overview

The U.S. economy is in deep trouble — deeper than many of us dare imagine — and will likely remain so for decades to come. Let’s look at some of the evidence, starting with an overview of the major economic issues of our day, including debt, inflation, the Federal Reserve’s monetary policy, and the dollar’s status as the global reserve currency. These things are all interrelated, and are connected to the major drivers of economic growth and to the most important issue in economics — our overall productivity.

A few months ago, the website ZeroHedge, which does an outstanding job of posting the latest economic statistics on all fronts and is one of the few sources that links together many of these major issues, had this to say about the dollar’s global status: “Several days ago, we were the first to point out two new striking developments in the Dollar’s crusade to lose reserve currency status: i) after hitting $1 trillion in late 2023, interest expense on US debt rose to a record $1.1 trillion in late March, and ii) while US debt is now rising at a pace of $1 trillion every 3 months, US interest expense is rising at a just as torrid $100 billion every 4 months (this interval will also shrink to three months very soon).”

ZeroHedge also observed that “if total interest does rise to $1.6 trillion by year-end, that it will become

the single biggest US government outlay by the end of the fiscal year; as a reminder, in fiscal 2023, Social Security spending was $1.354 trillion, Health was $889 billion, Medicare $848 and national defense, a paltry (by comparison) $821 billion."

As these rapidly rising expenditures make clear, the interest alone on our national debt will be unsustainable in the long run. The source of the problem is our inability to control spending. The government and politicians are simply unwilling say "no" to the American people, for fear of losing their next election. We all want to reduce spending, but not any of the spending that benefits us!

Our debt is currently about $34 trillion. The debt is the sum of all the deficits we run from year to year. So, if the deficit is roughly $2 trillion this year, that means that the debt rose from $32 trillion to $34 trillion.

In addition, the Congressional Budget Office (CBO) has our debt at $50 trillion in 10 years. At five-percent interest rates, the interest on the debt will by then be about $2.5 trillion per year. When I was in Congress in 2014-2018, I voted against budgets that had a $1 trillion deficit. The budgets back then were about $4 trillion — until we hit Covid and ratcheted up spending massively with the economy shut down. Now, after Covid, we are still running Covid-style $7 trillion U.S. government budgets. And please note: This is without any new endless wars blowing up, which would add an additional trillion in emergency funding.

In short, the rest of the world can see what is coming, and so can any honest analyst. That is why the BRICS countries (Brazil, Russia, India, China, South Africa, Iran, Egypt, Ethiopia, and the United Arab Emirates) are now trying to form a new currency to compete with the U.S. dollar and one day, perhaps, take over our global reserve currency status. Since World War II, the United States has been a safe haven for business investments, and our Treasury bills, notes, and bonds have been considered 100-percent safe. We will not likely default, but in the past four years, thanks to inflation, the U.S. dollar has lost 20 percent of its purchasing power, and the rest of the world sees that.

In order to pay off our debt, the Federal Reserve, instead of defaulting, will likely maintain high inflation so that it can pay back our huge debt with cheaper dollars. Americans have already lost 20 percent of the purchasing power in their retirement accounts, and if they pull that money out, it will purchase only 80 percent of what it could have bought four years ago. The rest of the world is in the same position, and they don't like it, so they are selling U.S. Treasurys and starting to acquire other assets even as they strengthen their own currencies. No one would think of investing in China or Brazil or the other BRICS countries, as their economies are historically much riskier than the United States. However, if those countries can back their currency with gold or some other standard, and also use blockchain technology to give absolute privacy and safety, they might achieve a real currency solution, and the United States could be in trouble.

Fire up the presses: Reckless money-printing is the cause of permanent rising prices in the United States. Inflating the currency is a sure way to weaken, and eventually collapse, a nation's economy. (spawns/iStock/Getty Images Plus)

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Monetary Inflation Leads to Price Inflation

There has been a massive increase in inflation since America left the gold standard in 1971. Indeed, since 1913, the U.S. dollar has lost about 3,000 percent of its purchasing power. If incomes had risen by the same amount, then we would break even as individuals. You can rest assured, however, that average American wages did not go up by 3,000 percent over this period (only our elites can pull that off).

According to Milton Friedman, who won a Nobel Prize in economics for his work on monetary policy, “Inflation is always and everywhere a monetary phenomenon,” meaning it is caused by printing money. This is true. Some claim that supply chains and other factors such as energy shocks “cause” inflation as they drive costs and prices up. While such factors can drive up prices selectively and temporarily, inflationary rising prices, which take place across the board and on a permanent basis, cannot happen unless our Federal Reserve system “accommodates” those temporary higher prices by printing money. But if the Fed doesn’t print money, and the price of oil goes up for non-monetary reasons, then other prices, such as food and housing, will go down, and overall price levels will remain more or less the same. However, the Fed has a terrible track record of trying to manufacture good news, and prints more money when the economic fundamentals require hard choices instead. Most of the time, it is best to let the free-market pricing system do the hard work, and require us to make choices as consumers.

For example, John Taylor of Stanford University, a standard-bearer for sound monetary policy following Milton Friedman, has shown that the massive financial crisis of 2007-2008 was “caused” by the Fed printing too much money in 2004 and 2005. The economic wizards at the Fed were trying to “fine tune” the economy, and they failed spectacularly. All of that new money had to go somewhere, so it went into the real-estate sector, and you know the rest of the story: NINJA loans and mortgages for people with “No Income, No Jobs, and No Assets.” As a result, seniors lost half of their retirements as the stock market experienced unheard-of losses.

One would think those at the Fed would have learned their lesson, but they did not. Instead, they doubled down. They kept interest rates near zero for about a decade. The interest rate is the price you pay to get money. With such a low interest rate, the rich and the investors were happy as could be. People trying to retire with zero-percent interest rates on their savings were not happy. Today, the top 10 percent of the wealthy own 90 percent of stocks, bonds, and pensions, according to the Federal

Reserve. This is one reason why the American people are so upset and populist sentiment is now sweeping the United States (and Europe as well, where the elites have also left the people behind).

The Fed has printed too much money over the past 10 years, and now has about $8.5 trillion on its balance sheet. That causes inflation. To illustrate what this means, imagine that the Fed produced an inflation rate of 10 percent one year, and then decreased it to "only" five percent for each of the next two years. Well, inflation would be going down, so that's good — that, at least, is what the financial news media and the politicians will say (and have said, in defense of the supposed decline in inflation over the last three years). In reality, people lost 20 percent of their purchasing power over those three years. Inflation might be going down, but prices are still going up. At no time in the last decade have overall price levels gone down, to the detriment of savings, earnings, and purchasing power everywhere. Most of us understand this, and it is another reason people are so upset.

Illegal-immigration Tsunami

Another major economic issue is unemployment and underemployment. Despite the rosy claims of Biden administration apologists, America's job situation is bleak. A major contributor to the employment crisis is the ongoing tsunami of illegal immigration. More than 10 million illegals have entered the country in the past four years alone, with estimates of 30 million in total over the last several decades. This is not due to bureaucracy or mismanagement. Huge facilities have been built to house and feed and provide medical care and legal services to these illegals. The mayors of both New York City and Chicago have warned that these policies are destroying their cities. Crime is out of control, and overdoses from fentanyl have killed more Americans than died in the Vietnam War. The list of atrocities could go on. Big corporations do not pay the tab for any of this; they just get lots of cheap labor.

All so-called job gains in the last year have been part-time workers. Meanwhile, the full-time job market is shrinking. Even more shocking, nearly all new jobs have gone to foreign-born workers. Since 2018, there has been zero job creation for native-born workers. Polls show that Americans are not feeling happy about the current economy or their future prospects — this is a big part of the reason why.

Some politicians have the nerve to claim that immigration is a "net positive" for our economy. It is true that when more workers come to a country, the gross domestic product (GDP) will go up. But in all of economics, it is taught from Day 1 that people want to maximize their own happiness, not the total GDP of the country. In other words, their primary concern is GDP *per person*. Moreover, they care about immigrants arriving with, say, two children and an adult making $20,000 per year — a family that will pay very little in taxes, but whose two children will cost at least $40,000 in education per year. Those education costs come from your local and state taxes. The feds only pay about 10 percent of the bill. And the same goes for crime and other social and psychological costs that will also be imposed on society. So "on net," the average American is much worse off, and knows it. This is not a partisan issue, by the way. It pits the rich, cheap-labor globalists clearly against the vast majority of the American people.

So what is the real story of why and how the United States has become so weak and developed such awful symptoms of economic and social decline?

Robert Solow won the Nobel Prize in economics for his model of growth. Greg Mankiw of Harvard later improved upon that model, and his results fit the data from the real world amazingly well.

Mankiw showed that economic growth is caused by three main factors, and that each factor is responsible for about one-third of that growth. These factors are capital, human capital (education), and technology (which is very hard to measure).

Mankiw's model ultimately explains the causes of productivity. Productivity is how much "stuff" you make per hour, and is related to your wages and pay. If you can pack a million people into an auditorium and/or in front of the TV to watch you play basketball, then you are hugely productive, and you will be paid richly for this work.

Declining Productivity

The major economic problem we have in this country is that productivity has been declining for the past 70 years. This figure comes from the best economist in the world on productivity, Robert Gordon of Northwestern University, who has produced the same findings for decades. There is nothing new here. Even worse, the Congressional Budget Office foresees us losing productivity over the next 30 years as well, so in total, we are looking at 100 years of declining U.S. productivity.

U.S. labor productivity — a measurement of the increase in output per hours worked — was about five percent in 1950, and has since fallen to below two percent. "Real hourly compensation" is also much lower than it was in 1950. Productivity is the main determinant of wages and incomes, and also determines overall well-being. GDP per capita is strongly correlated with health, life expectancy, civil liberties and political rights, and education. The main driver of all of these things has been declining for 70 years, and so have some of its correlates, such as education quality.

And, as noted above, this trend is expected to continue for the next 30 years.

According to the CBO's projections, the average annual growth of real GDP (that is, GDP adjusted to remove the effects of inflation) slows from 1.9 percent in the first decade of the projection period (2022 to 2032) to slightly less than 1.6 percent in the second decade (2033 to 2042), to just over 1.5 percent in the third decade (2043 to 2052). In other words, we will have about 1.5 percent growth over the next two decades, because productivity keeps declining.

Capital De-accumulation

Why does productivity keep going down? Because we are having problems with the three variables from the Mankiw model: Capital accumulation, human capital, and technological growth. These are the ultimate causes of the U.S. decline. The good news is that they can be fixed.

But the current political will does not seem to be strong enough to get it done.

Regarding capital accumulation, it used to be the case that when you put capital in the hands of Americans, good things would happen (think of Henry Ford and the assembly line, for example). But when U.S. elites began to export business, jobs, factories, and capital to China and other cheap-labor destinations, our American workers were left with less capital to work with.

Capital accumulation in the United States, the U.K., Japan, and Germany is in decline, while in China it is on the rise. The Chinese understand how important capital accumulation is, and they have grown at amazing rates for the past 30 years, sacrificing consumption and investing about 40 percent of their total GDP for many years. The United States is closer to 20 percent, and today, we count "green" spending and some other government programs as investments! Hence the low productivity; you cannot

fudge productivity numbers with fanciful government statistics.

It might shock the reader to know that the Communist Chinese totalitarian surveillance state has a smaller share of the economic pie than the U.S. government. China's government sector is 14 percent of GDP, while the U.S. government's share is 18.4 percent.

China's capital stock is going up like a rocket ship at an exponential rate. Currently, the Chinese have $100 trillion worth of capital to work with. That makes their people very productive.

On the other hand, U.S. capital stock is rising, but at a decreasing rate and is flattening out over time. Because we have failed to save and invest, the United States only has $70 trillion in capital to work with, and we are a much older and more mature economy. We should be far ahead, but instead, we are far behind.

Overall, capital is the most important factor in economic growth, but the United States is failing to accumulate it as it once did.

Regarding human capital and education, the leading researcher in the field, Eric Hanushek of Stanford University, has demonstrated one simple fact: Increasing education spending does not produce higher test scores!

While total spending on education has gone up in the United States, student test scores have gone down. Interestingly, what has also gone up is the number of education employees and bureaucrats who are tasked with doing everything except teaching reading, writing, and arithmetic. Liberals used to profess to care about education, but the new tech billionaires on the Left do not seem to be making any attempt to improve the workforce they claim to care about so much. Why invest in education when we can just import 10 million more illegal workers, who can then be hired much more cheaply? By neglecting and even sabotaging education, we are doing great damage to our children, and to our future economic growth, which depends on human capital.

Importance of Technology

Technological growth is the third factor in economic growth and productivity. Most experts and news commentators are saying that technological growth-fueled progress is everywhere. Not so, according to top expert Gordon. Instead, during the dot-com explosion back in 2000 or so, he pointed out, despite the technology boom, the decline in productivity continued apace.

In one of his most pessimistic papers, Gordon showed that we could approach zero productivity growth over the next few decades. Here's a quick summary of his arguments:

• Our starting point is an optimistic 2.0

percent … until we subtract headwinds.

• Baby-boomer retirement (demography) brings us down to 1.6 percent.

• The failure of education takes us to 1.4 percent.

• If income inequality continues to rise, as it has over the last two decades, income for the bottom 99 percent of the income distribution will grow about half a point more slowly than 1.4 percent, bringing us down to 0.9 percent.

• Globalization could continue to hollow out middle-level jobs, bringing the rate down to 0.7 percent.

• Higher energy taxes could bring the rate down to 0.5 percent.

• A combination of consumer debt repayments, income tax increases, and reduced transfer payments could plausibly bring us down to a 0.2-percent annual rate.

If we want to zoom in on "technological growth" itself, a recent Brookings Institution paper gives us a good sense of why and how the technology piece of the puzzle is not generating larger effects on economic growth and productivity in general.

The authors of the paper note that technology drives productivity, and productivity drives economic growth. But as digital technologies have boomed, productivity growth has slowed rather than accelerated. This is a great paradox of our time.

With Gordon, the authors agree that "Productivity growth has slowed significantly in advanced economies since the 1980s." In addition, they note that income inequality has risen in all major advanced economies since the 1980s.

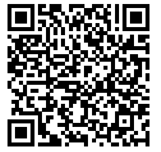
They also point out several reasons why this is happening. For one thing, even an economy at the digital frontier — the United States — may be reaching only about a fifth of its digital potential. This means that even in the United States, with all of its technological prowess in Silicon Valley and beyond, the real breakthroughs are not making their way to all businesses, but in fact are only reaching about 20 percent of firms.

Huge firms have many built-in advantages. They possess first-mover advantages and strong economies of scale and network effects, receive preferential government treatment, and have the leverage of big data, encouraging the rise of "superstar firms." In America, the so-called Magnificent 7 firms (Apple, Microsoft, Alphabet, Amazon, NVIDIA, Tesla, and Meta) have a market capitalization greater than any European stock index combined. In other words, these seven American firms are worth almost what all European firms are worth.

In advanced economies, international trade and offshoring also have contributed to the shift in income by putting downward pressure on wages, especially of lower-skilled workers in tradable sectors.

Recent research underlines the central role that automation has played in widening disparities. At least half the rising gap in wages among American workers in the last 40 years has come from the automation of tasks once done by people, says MIT economist Daron Acemoglu, another major leader in the field. This is "not an act of God or nature," he added. "It's the result of choices corporations and we as a society have made about how to use technology."

Paul Romer, who won a Nobel Prize in economic science for his work on technological innovation and economic growth, has expressed alarm at the runaway market power and influence of the big tech companies. "Economists taught: 'It's the market. There's nothing we can do.'… That's really just so wrong."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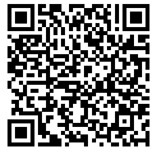
Robbing the future: The United States spends a massive amount of money on education, but student test scores are falling while education bureaucracy grows. Lack of proper education today will lead to economic weakness in the future. (AP Images)

Time to Change Course

In conclusion, productivity has been falling steadily for 70 years. The experts see another 30 years of subpar productivity and economic growth coming as well. The United States has fallen behind in capital accumulation, education, and technological growth. These trends have in turn led to short-run tricks that kick the can down the road. We build up massive debt. We import illegal immigrants to get cheaper labor to make firms appear productive and profitable while Americans foot the bill. We have sent our manufacturing jobs with high wages abroad and have allowed China to break all of the free-market and free-information rules that we must live by. We have massive government spending and deficits that make it look like we are growing, while instead we are just stealing from the next generation and calling it growth.

The good news is that we can change. But we must first know the truth, and I have laid out the major pieces of our economic story that must change in order for us to get back to American greatness. A lot of this can be done at home. Our children can be educated, stay at the technological frontier, invest in capital, and do very well. Much of this is cultural, but that is a topic for another day. Please share this work with others so that we can start to turn the ship around and chart a great new course.



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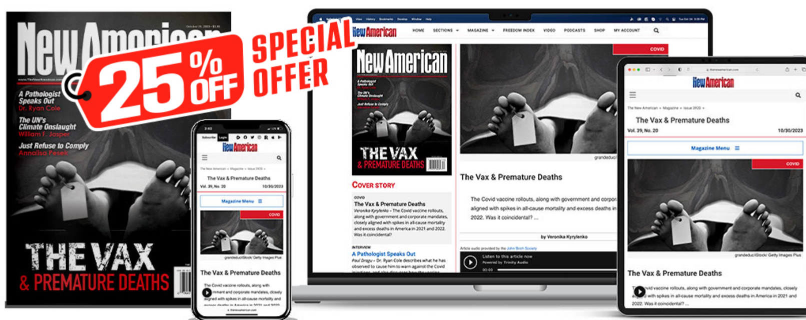

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