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Shape of Things to Come?

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April 1, 2013 – Unemployment is approaching 25 percent, inflation is close to 40 percent, major portions of the U.S. are having power "brownouts," and Americans are forced to go to foreign countries for timely and quality medical care. How did the world's largest and most prosperous economy fall into such a morass in only a very few years?

Collapse of the American economy in 2013 began with several major policy mistakes by the Fed, the "Bush 43" administration, and Congress in the years from 2004-08, which were compounded with even greater policy mistakes by the Obama administration, Congress and the Fed from 2009 thereafter.

The Fed had created much of the housing and commodity bubble of 2004-08 by allowing excessive monetary growth. Both the Republican and Democratic Congresses had failed, despite many warnings, to reform Fannie Mae and Freddie Mac and the Community Reinvestment Act, which led to the subprime mortgage crisis.

Both the Bush administration and Congress engaged in excessive federal spending growth, culminating in the ill thought out and counterproductive bailout "TARP" scheme in late 2008. And finally, even though almost everyone knew Social Security and Medicare needed fundamental reform, Congress refused to seriously deal with it.

After promises of "change," the new Obama administration, the Democratic Congress and the Fed only made changes for the worse. Despite an extensive history and strong empirical evidence - some of it coming from Mr. Obama's own economists - going back to the Great Depression of the 1930s that spending stimulus programs did not work and that tax rebates and credits were ineffective (as contrasted with marginal rate cuts), Congress and the Obama administration, in early '09, embarked on a record high spending "stimulus" program, along with a tax credit and rebate program for low-income people, many of whom had not paid any income tax.

Before these programs went into effect, the economy began to slowly recover, in part, because of the big injection of money by the Fed in the previous months. However, unemployment continued to rise, and thus the Fed continued to keep interest rates at record lows.

At the same time, Congress passed "card check" to make it possible for unions to gain control without a secret ballot. Congress also passed measures to make it easier for trial lawyers to sue employers for alleged discrimination, which further discouraged employers from hiring new workers. Congress also enacted into law a national health-care scheme, which essentially socialized all medical care in the United States, and passed measures to prohibit the construction of any new coal power plants.

As the 2010 election approached, the Obama administration, faced with not meeting its employment goals, decided to embark on a massive government employment program. This program further dampened the economy as government jobs (and in many cases totally unproductive jobs) were substituted for more productive jobs in the private sector. (Note: The private sector had to be drained of money to pay for the jobs in the public sector.)

Meanwhile, much of the rest of the world - particularly China and Southeast Asia - was growing again because their governments had not engaged in destructive economic policies. This global growth caused an increase in commodity prices, and coupled with the growth in U.S. government spending, caused a rise in inflation.

Despite the rise in inflation, the Fed was being pressured by the administration and Congress to continue to keep interest rates low, and Fed Chairman Ben Bernanke was replaced by a partisan Democratic economist who was in favor of bigger government.

As the 2012 elections approached, the Democrats were in a panic because the U.S. economy continued to be stagnant with still rising unemployment. They then decided to put even more people on government payrolls, making them beholden to the Democratic Party. The major TV networks and most newspapers, like the New York Times, continued losing money, so Congress and the Obama administration decided to give them low-interest, non-recourse loans, which all but assured very biased and positive coverage for the Democrats during the campaign.

Congress also reinstated the so-called "fairness" doctrine, which shut down much of the conservative talk radio opposition. Finally, Congress made it clear - without explicitly saying so - to much of corporate America that if the companies and their executives gave campaign funds to the Republicans, the companies would be cut off from potential government contracts (Chicago-like "pay to play").

Despite the growing economic disaster, President Barack Obama narrowly won re-election in 2012, but by early 2013, the consequences of the open-ended federal checkbook, unrestrained money growth, and unleashed trial lawyers and environmentalists became apparent to all. Unemployment rose even more rapidly, and inflation rates began to make the United States look like a Third World country.

Americans found, as other countries had experienced, that national health insurance resulted in massive queuing and a steep drop in quality. Those who could still afford it, and had sufficient time, traveled to other countries (including the newly democratic and capitalist Cuba) to go to private, high-quality hospitals and clinics.

Companies were leaving the United States in droves because of higher taxes, power shortages, and endless harassment by trial lawyers, environmentalists and unions, along with growing protectionism, which increased their raw material and component costs.

Fortunately, it is only January 2009, and none of the above needs to occur - if Mr. Obama listens to some of the better economists he has appointed. But if the Obama administration and the Democratic Congress let themselves be captured by their big government, high tax, environmentalist, union leader and trial lawyer allies, the above scenario is as certain as was the end of the subprime mortgage bubble

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