

# Chapter One – The Decline of America

Ask millions of Americans about the economic crisis that began in the fall of 2008, and they will undoubtedly describe it in very grim terms. From the factory worker who lost a job, to the homeowner who lost a house, to the Wall Street trader who saw stock gains rapidly slip away, each will surely provide a frightening scenario.

As the severity of the recession became apparent, it had become evident that the American economy was in critical condition. The United States, once a leading creditor to the world was now a debtor nation. States and municipalities were running out of money. Businesses were closing and individuals were losing their spending power. Why was this happening in a country that was once the world's unrivaled economic leader?

In many ways, discussions of the economic meltdown are like those that occur on the Monday morning after the big football game. Everyone has an opinion on the scope and the minute details of what took place on and off the field. The fan who attended the game will have one perspective while



the expert quoted in the media may have one that is completely different. While they all know who won the game, the nuances of their perceptions can vary widely. Regarding the discussion of our economy, we find ourselves experiencing the same dynamic.

Many believe that the economic downturn is the result of the natural ebb and flow of economics. Unfortunately, there are greater systemic problems that must be addressed to reverse the U.S. decline.

As the reality of the U.S. and global economic crisis

was revealed through the media, we heard the opinions of many self-proclaimed experts and government officials. Their explanations of the causes of our financial problems were often extremely complex as we were introduced to new phrases like “credit default swaps.” We listened to our government leaders tell us we were faced with the greatest financial crisis since the Great Depression of the 1930s. We were told to take hope in the fact that Americans have faced dire obstacles like this before and have overcome them. However, the common underlying message was that we were merely experiencing an unpleasant swing of the natural ebb and flow of macroeconomics triggered by the housing bubble. We were told that, given enough tweaking, some time, and over a trillion dollars of stimulus spending, things would get better again. We were told to remain hopeful and rely on the strength of the American system to ride out the economic downturn. Unfortunately, hope is not a viable long-term strategy.

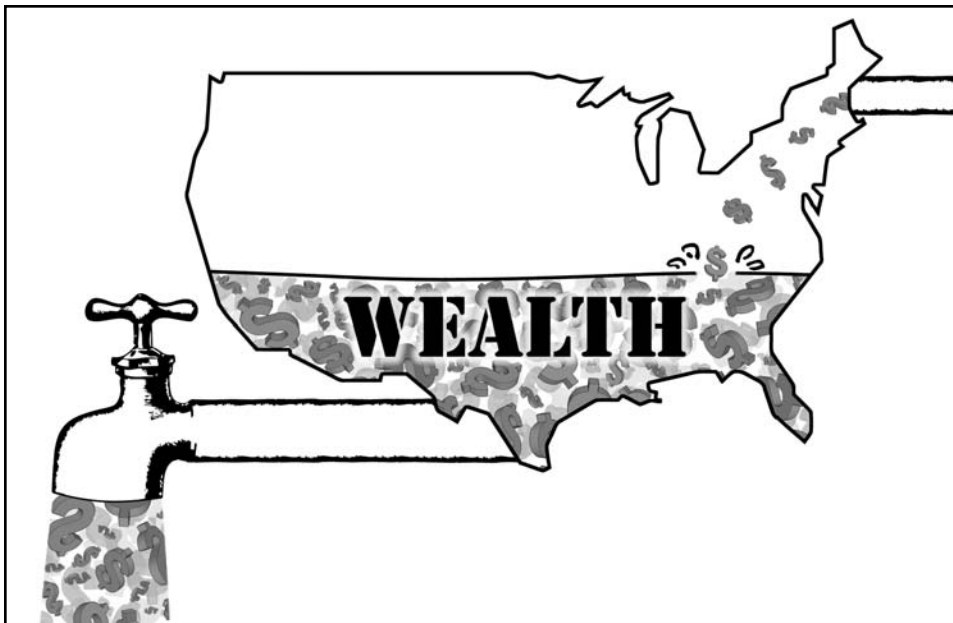
### **Identifying the Root Cause**

As with any problem, there is a root cause. And if the problem is to be effectively corrected, the root cause must be clearly identified. But has the true root cause of this economic crisis been addressed in the national debate and in the government’s proposed corrective actions?

In an emergency move, the Treasury and Congress acted in the fall of 2008 with the \$700 billion bailout package to rescue the nation’s financial system. Within weeks, the Federal Reserve introduced \$800 billion of “printed money” for the primary purpose of providing consumers with access to credit as a means to stimulate spending. The speed and trillion dollar magnitude of these actions indicate that Washington genuinely feared the unthinkable possibility of a widespread financial collapse. In the shadow of



The Federal government has committed unprecedented levels of cash to correcting the national economy. While a potential short-term fix, the funding is not addressing the root cause of the problem.



The root cause of America's economic problems stem from the depletion of U.S. wealth, facilitated by years of trade deficits.

these unprecedented government actions there are important questions to ask. Can we depend on these bailouts, or future injections of money, to serve as a corrective action that can fully rectify the economy? Will this massive amount of funding address the root cause of the problem, or is it merely a very expensive short-term fix that ignores the root cause - only delaying a more serious economic crisis in the future?

In all of the discussions on the issue of our economy, the actual root cause is not only being overlooked – it is being virtually ignored. The collapse of financial institutions on Wall Street may have been a high profile symptom, but it was not the root cause. Some would point to the implosion of the sub-prime mortgage market, but this too was only a symptom and not the root cause.

**The root cause of the economic crisis is that America's wealth is being depleted and everyone is being affected – citizens, businesses and government.**

What is so surprising about the failure to acknowledge this root cause is that the process of depleting our nation's wealth is neither a secret nor is it difficult to understand. The most basic of all economic principles is this - when you spend more than you earn, you will eventually run out of money. It would appear that the U.S. has ignored this principle.

We have an overwhelming trade deficit, we depend heavily on foreign oil, we pay massive amounts of interest to foreign entities on our national debt, we contribute funds to foreign governments for global welfare and political objectives, and our military is spread around the world at a staggering cost.

American wealth is not an infinite resource, but we are operating like the supply will never end - sending our wealth offshore at an alarming rate just as we have been doing for decades.

While it is true that the U.S. economy is massive in its size, the capability of American business to generate national wealth is being seriously compromised.

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As we saw with the freezing-up of credit markets in the fall of 2008, a large volume of our nation's financial transactions are based on the dynamics of borrowing and lending. Unfortunately, these are not transactions that generate national wealth. In terms of a national economy, this is more akin to robbing Peter to pay Paul as existing money is merely passed back and forth.

The industrial mix of the U.S. has also been transformed in past decades. Service industries now predominate. As with the business of borrowing and lending, the service sector also does not generate wealth by adding new capital to the national economy.

As a result of these factors, we are not generating new wealth in sufficient volume to match the wealth that is leaving our country at an inconceivable pace in the form of payments to foreign oil producers, foreign lenders, foreign governments, and foreign manufacturers of consumer products.

This process of bleeding our wealth has been escalating for decades, and we are arriving at the point where the outpouring of American wealth is no longer sustainable. We are now being left with a shortage of funds that impacts nearly every aspect of American life, and we are experiencing the effects of this shortage as financial suffocation.

How does a country generate wealth? Let us look at China. Over the past decade, China has emerged onto the world scene as an economic power house. How has it done this? The answer to this question is simple. Take a look around your home or office for any

recently purchased consumer product. Then check the label for its country of origin. Most likely, the label will read, "Made in China." Therein lies the key to China's rise to industrial power and growing national wealth...Manufacturing!



China has used the export of manufactured products to acquire massive levels of wealth in a relatively short period of time.

Manufacturing is a primary source from which a company, and a country, generates wealth. Simply defined, manufacturing is the process in which an organization engages in the mechanical, physical, or chemical transformation of materials, substances, or components into new products. At one time, the United States was the world's top manufacturer. But this position has been eroding non stop for nearly 40 years.

In this assessment, it is important to understand the difference between American-based manufacturing and American-owned manufacturing. While it is true that American-owned manufacturing companies are among the world's top producers in many industries, they are accomplishing this primarily through the use of low-cost labor from other areas of the world. While the profits and stock

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values of these transnational corporations may be significant, the manufacturing jobs that these enterprises provide are foreign, and the wealth generated from these jobs is not retained by the U.S.

The hard fact is that while American-owned manufacturing has done very well, American-based manufacturing is now a shell of what it once was in terms of diversity and global market share. In view of this transition, why is it that the connection between the U.S. domestic industrial base and the health of our economy does not receive attention in the discussion of our economic crisis? This omission is very troubling because the connection between manufacturing and a country's wealth has been proven repeatedly throughout modern history.

### **Remaining on Our Current Course**

There are not many Americans living today who remember life during the Great Depression with much detail and clarity. The generations of us who came later have a misguided impression that the American way of life is somehow guaranteed to continually improve. We assume we will always find a way of doing better than our parents and that this trend will continue forever.

It is not surprising that so many post Depression-era citizens share this perceived assurance of a better life. Since the 1950s, we have enjoyed the luxury of living in the richest nation on earth. While, poverty has continued to exist in the U.S., millions of Americans have lived an opulent lifestyle



While it is true that many Americans enjoy an abundance of consumer products, a vast amount of these items have been purchased through debt.

when compared to other times in our history, and certainly in comparison with the way much of the world has lived.

Today, nearly every home has a high-definition, large screen TV. We have new cars, cell phones, iPods, digital cameras, computers,

and a surplus of clothing. Through advertising we are told that we must have the newest and the best. If we lack the cash for such items we comply with the call of advertising by financing our purchases through debt.

Let us imagine life in the United States if it continues down the path of wealth depletion. We see a country with widespread poverty, there are few decent jobs, there are food shortages, crime is high, and new consumer products are now an elusive luxury. The days of big houses, saving for retirement, paying for college, and enjoying health care are replaced with an ongoing struggle merely to survive.

Making matters worse, the federal government is faced with a declining tax base. With a multi-trillion dollar debt load, paying the interest alone is becoming difficult. This in turn makes it impossible for the U.S. to borrow additional funds to finance the creation of jobs, infrastructure improvements, vital social services, and the American military.

If this scenario of a future America sounds impossible – it is not. In fact, much of the world is living in deplorable conditions such as these today. We as Americans would be mistaken to consider ourselves immune to serious financial hardship if the depletion of our country's wealth continues.

It is most certain that no American would welcome this possible scenario. So what can be done to ensure it does not happen?

The answer lies in the U.S. once again becoming a substantial producer of products for the global market. The answer does not lie in hoping for better days or relying on government to somehow make the right spending choices with the diminishing tax base that remains or with more borrowed money.

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**We need to rebuild the American industrial base and restore its capability for generating wealth through manufacturing. This is the only option for stopping our dependence on foreign manufacturing that is bleeding our country of its wealth.**

The purpose of this publication is to spread the message of manufacturing's vital role in reversing our economic decline. In presenting this message, the first logical step is to provide a comprehensive overview of our current economic status and assess just how bad it is. This will be addressed in chapter two.

Unless one has been paying very close attention to the complete landscape of our social and economic problems, the extent of our decline as a nation will most likely be both surprising and disturbing.