

**RAVI BATRA**

**THE  
GREAT  
AMERICAN  
DECEPTION**

**What Politicians Won't Tell You  
About Our Economy  
and Your Future**

# THE GREAT AMERICAN DECEPTION

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YOU ABOUT OUR ECONOMY  
AND YOUR FUTURE

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**Ravi Batra**



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# **THE GREAT AMERICAN DECEPTION**

*Also by Ravi Batra*

The Myth of Free Trade

Surviving the Great Depression of 1990

The Great Depression of 1990

The Downfall of Capitalism and Communism

The Theory of International Trade Under Uncertainty

Studies in the Pure Theory of International Trade

*To My Toddler Rishi*

# *Acknowledgments*

**S**ome ventures are more cooperative in spirit than others. This book is one of them. With most manuscripts, the author's spouse is often last on the list of those receiving thanks. This work, however, is an exception. My wife Sunita is first on my list. She has been enthusiastically involved at every stage of the publishing process.

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RAVI BATRA

*Dallas, Texas*  
*June 15, 1996*

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## CHAPTER 1

# *Introduction: America, What Is Wrong?*

The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else.

*John Maynard Keynes, 1936<sup>1</sup>*

Americans have a nagging feeling today that something is wrong with their economy and society. They have been groping for answers since the beginning of the 1990s, but, in the absence of rational explanations, they are very confused. They have repeatedly thrown incumbents out of office to express their anger and frustration, but the pall of gloom continues to thicken. The new leaders have no better answers than the old.

In 1992, voters dethroned President George Bush, the hero of the Persian Gulf War, in which the reputation of the U.S. military, sullied in the debacle of Vietnam, was restored. In 1994, they vented their anger over Congressional Democrats, who had been controlling the House for the past forty years. Voters hoped the Republicans would offer fresh ideas to counter the nonideas of the new President, Bill Clinton. Instead, the GOP has offered stale old wine in a new bottle—the trickle-down version of economics, wherein prosperity seeps through little by little, drop by drop, from the rich to the poor.

Strange events seem to be multiplying today. Whenever a company lays off workers by the thousands, its directors shower

the management with raises, bonuses, and perks. Whenever the economy sinks, the stock market soars. Whenever jobs abound, share prices nosedive.

This is not how our system is supposed to function. This is not how our economy has operated in the past. Share prices were then a leading indicator of prosperity. A thriving stock market meant that a boom was around the corner. Today, the opposite is true. Soaring share prices nowadays herald a feeble economy.

A strong economy generates a variety of investment opportunities—gold, real estate, antiques, and stocks—in which people can park their savings, maintain a diversified portfolio, and earn respectable returns. In a feeble economy, however, interest rates are low and few desirable avenues other than shares are available to investors. The stock market is then the only game in town.

Share prices vary inversely with interest rates, which tend to rise when business is robust. News of a healthy economy today tends to depress the stock market, whereas the market zooms at every whisper of a slowdown. Booming stock exchanges in America since January 1991 are actually a manifestation of paltry growth and the continuing crisis of the 1990s.

Meanwhile, thousands of skilled and talented people are being fired by robust corporations. Yet, the rate of unemployment, at 5.4 percent in April 1996, was the lowest since 1974. Under such circumstances in the past, businesses would hoard labor and hold on to their experts. Today, nobody seems to care—neither the companies nor the political leaders.

Our economy is very sick today. Its sickness is new; nothing of this kind has been seen in the past. It needs a fresh diagnosis and prescription. Old cures are not working and will not work, no matter how often they are renamed and reintroduced.

The purpose of this book is to examine America's economic ills and offer new but effective medicine. We need to overhaul the system, not just tinker with it and indulge in wishful thinking that the economy will heal itself.

The economic illness of the 1990s is not a surprise to me. I have been predicting it since 1978 in a number of books and articles. Unfortunately, as I was always on the opposite side of official policy, my alarms went unheeded.

As recently as 1993, when I participated in many debates on the North American Free Trade Agreement (NAFTA), my statements were frequently ignored on both sides of the aisle. I opposed NAFTA on the grounds that it would cripple Mexico and hurt the United States. Even the opponents of NAFTA had few doubts about Mexico benefiting from the treaty. But I argued that NAFTA would destroy our southern neighbor and damage U.S. real earnings, which are wages adjusted for inflation. I discuss the subject in detail in Chapter 9, but here is a snippet from my book, *The Myth of Free Trade*, published in the Spring of 1993:<sup>2</sup>

NAFTA will simply compound the ills created by the administration's policy. . . . Mexico would face great disruption as a result of opening its borders. . . . U.S. productivity would, of course, rise as the emigrating firms reduce their costs, but real earnings would tumble. . . .

Mexico's industrial structure is also monopolistic, and initially a large number of domestic plants would shut down, thereby further worsening the current depression. *Things could get really ugly before they get better.*

This is exactly what has happened; things have gotten ugly in Mexico. NAFTA went into effect in January 1994; and in less than two years the Mexican economy collapsed. Unemployment and inflation soared while real wages and economic growth plummeted. In his recent book, *Bordering on Chaos*, Andres Oppenheimer, a Pulitzer Prize winner and the chief Latin American correspondent at the *Miami Herald*, aptly describes the state of Mexico today. The country is undergoing "a gradual meltdown."<sup>3</sup>

Similarly, in *The Great Depression of 1990*, first published in 1985, I forewarned the American public that, because of growing wealth disparity, a great depression would start as a

recession in 1990 and would linger over the whole decade.<sup>4</sup> Depression is not too strong a word. In the past, any downturn in income or employment that festered for six or more years has been termed by historians a great depression.

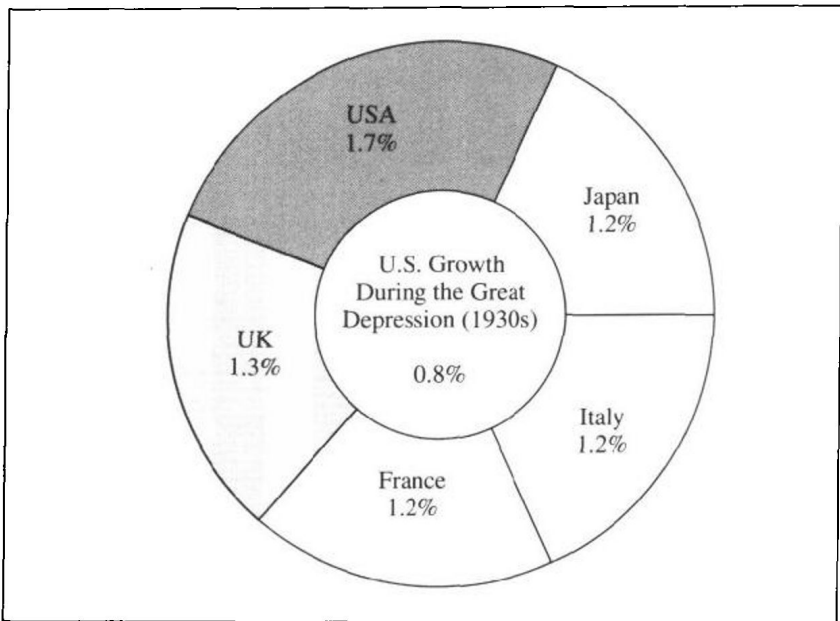
Experts are now divided on this point. Some think we are currently in a depression; others say we are not. But few venture that life has been normal in the 1990s. My own view, presented in detail in Chapter 10, is that we have been in a quiet depression ever since 1990. It has not been as concentrated and dramatic as the Great Depression of the 1930s. But it has afflicted a far greater portion of the population. It has been spread out among almost 100 million people; they have suffered quietly, waiting patiently for it to end. Now they are becoming vocal about it because they see no light at the end of the tunnel.

True, unemployment has been low in the 1990s, but the rate of growth in America and Europe has been the worst since the 1930s. Annual growth averaged 0.8 percent in the 1930s; it has been around 1.2 percent in Europe and no greater than 1.7 percent in America between 1990 through 1995. (See Figure 1.1.)

The quiet crisis in the 1990s has been, in some ways, worse than the calamity of the 1930s. At the end of the 1930s, real wages had actually risen—by 17 percent. So far in the 1990s, real family income has tumbled by 6 percent. In five out of the six years, 1990 through 1995, real family income has dropped—for the first time since the Great Depression. (See Figure 1.2.)

The quiet crisis of the 1990s is clearly the worst in sixty years. No wonder Americans today are furious and confused. Democratic pollster Celinda Lake concedes that a lot of people are incensed with President Clinton. Her voter surveys reveal that “1996 makes 1992 look like voters were happy. The anger out there and the frustration are palpable.”<sup>5</sup> In the May 6, 1996 issue of *Time*, Jill Smolowe offers a true portrait of the public agony today: “for millions of Americans, each week becomes a stressful triage between work and home that leaves them feeling guilty, exhausted and angry.”<sup>6</sup>

In terms of unemployment, Europe and the United States have switched places. In 1933, America suffered from a debilitating 24 percent jobless rate, but Europe fared much better.<sup>7</sup>

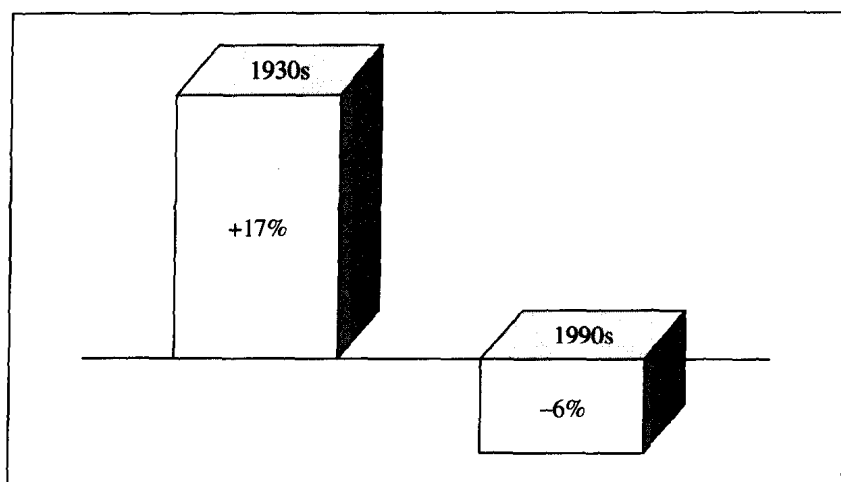


**FIGURE 1.1 U.S. annual GDP growth during the depression of the 1930s relative to growth in some G-7 countries in the 1990s.** Average annual economic growth in the G-7 countries of America, Japan, Italy, U.K., and France in the 1990s has not been much above that of the 1930s, when the world was trapped in the worst ever depression. There is thus a quiet crisis around the world masked by booming stock markets in North America. In fact, U.S. GDP growth in the 1990s is less than half of the normal long term rate of growth. (Source: Appendix Tables A.10 through A.29.)

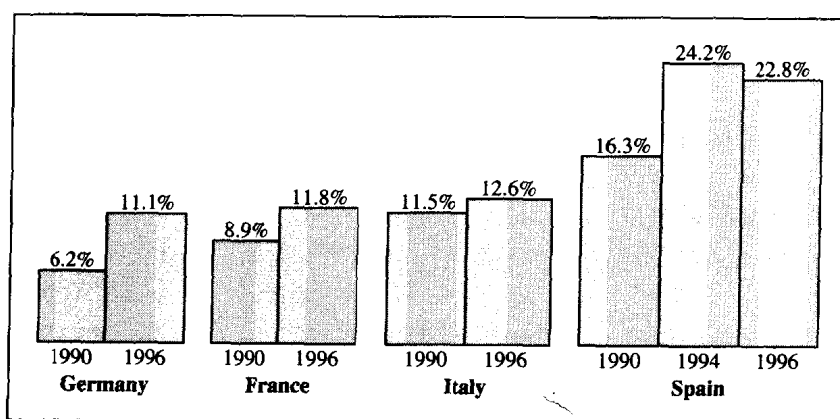
In France, for instance, the jobless rate did not exceed 4.2 percent in the 1930s; yet output fell for a few years—an indication that depressions can coexist with low joblessness, as in America today. Now, when Western Europe has a much higher rate of unemployment, America is afflicted only by underemployment or millions of part-time jobs. Figure 1.3 displays the jobless rates in Germany, France, Italy, and Spain between 1990 and 1996. In all four countries, the rate of unemployment was very high, at double-digit rates, by April 1996. Spain suffered a 24 percent rate in 1994, the same rate as in America in 1933.

What has masked the gravity of the situation in the United States and Europe are the booming stock markets in North





**FIGURE 1.2 Real family income or wages in America, 1930s vs. 1990s.** In some respects the quiet American crisis of the 1990s has been worse than that of the Great Depression in the 1930s. At the end of that decade, real wages had jumped 17 percent. In the 1990s (1990–1995), however, real family income has dropped in five out of six years by a total of 6 percent. (*Source:* Tables 10.2 and 10.3 in Chapter 10.)



**FIGURE 1.3 Unemployment rates in the 1990s in Europe.** In terms of unemployment, America and Europe have switched places in the 1990s. In the 1930s, U.S. unemployment rate was as high as 24 percent, but Europe fared much better. In the 1990s, by contrast, America has mostly lower wage employment, but some parts of Europe have had unemployment as high as 24 percent. (*Source:* Appendix Tables A.17 through A.29.)