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The World's Largest Pyramid Scheme

By Boris Kagarlitsky

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The United States managed to avert a default, and that is good news. But the partisan battle in Congress sent the stock market plunging, and the decision by Standard & Poor's to downgrade the country's credit rating has made matters far worse.

Party ambitions alone did not cause the bitter standoff in Congress. At stake is not just the size of the national debt or state expenditures but the entire social and political structure of the United States.

Democrats have traditionally championed social welfare programs, while Republicans put more emphasis on private business and the free market. So why do most working people in the Midwest vote Republican and members of the New York financial elite vote Democrat?

The answer lies in the way the U.S. social welfare system is organized. Unlike European countries, where the welfare state is financed with high taxes, the U.S. government keeps taxes comparatively low and goes into debt to finance a large part of its social expenditures.

Wall Street banks are also large recipients of welfare, only it's called corporate welfare. Funds are dished out to banks even during the best of times, not only during economic crises.

These same banks lend money to the government, which helps it maintain its social welfare programs. The result is a classic pyramid scheme — one in which welfare recipients and the banking elite who finance the system both have a vested interest in maintaining.

The U.S. system of social benefits is complicated, expensive, ineffective and, most important, selective. European countries provide equal rights and identical access to all social programs, but the U.S. system serves only individuals who meet specific criteria. This is a brainchild of the Democratic Party, whose voter base includes welfare recipients.

Under this system, workers earning low wages often have a lower standard of living than welfare recipients or members of an "oppressed minority" who receive government handouts. In California and New York, for example, immigrants typically accept the low-paying unskilled jobs, but in the Midwest and northern states, that burden falls on members of the lower middle class. The problem is that these workers receive little or nothing from social programs, which is one reason the majority of them are Republican.

The world places trillions of savings and investments in dollars, but when the dollar is devalued, so is the world's savings and investments. There is a limit to how far this global financial pyramid can grow.

The United States' only option is to prop up the pyramid with new tax revenues. But any attempt to do so is met with resistance from that part of the business community that derives no direct income from the federal pyramid.

In the recent debt-ceiling standoff with Congress, U.S. President Barack Obama lost his nerve and caved in to the Republicans. It is a death sentence for an economy sustained by the infusion of state funding. Worse, nobody was satisfied with the compromise. Rating agencies wanted twice as many budget cuts, and the markets crashed.

The United States is on the brink of a recession, which makes the likelihood even greater that the next U.S. president will be a Republican.

Boris Kagarlitsky is the director of the Institute of Globalization Studies.

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