Introducing Uncle Sam – Without Clothes

Uncle Sam has just reneged and defaulted on up to 40 percent of its trillions of dollars in foreign debt, and nobody has said a word except for a line in The Economist. In plain English, that means that Uncle Sam runs a global confidence racket with his self-made currency based on the confidence that he has elicited and received from others around the world. It also means that he is a dead-beat in that he does not honour and return the money he has received. How much of a dollar stake we lost depends on how much we, the creditors, originally paid for it. He let, or rather through his deliberate political economic policies, drove his currency down by over 40 percent from one Euro at US$.80 at its highest to now US$1.35 against the Euro in January 2005, and similarly against Yen, Yuan and other currencies. And the US dollar is still declining, indeed apt to plummet altogether.

There was also a spate of competitive devaluations in the 1930s, and it was called the “Beggar Thy Neighbour Policy” of shifting the costs for the neighbour/s to bear. True, with the decline of the US dollar, so too has the real value decreased that foreigners

---

1 The author died in April, 2005. A memoriam is included at the end of this work.
2 This work appeared in Critical Sociology, Volume 32, No 1, 2006, pp. 17–44.
pay to service their debt to Uncle Sam. That works only if they can themselves earn a profit from an increase in value of other currencies against the US dollar. Otherwise, foreigners earn and pay in the same devalued US dollar, plus a loss from devaluation between the time they received US dollars and had to repay it to Uncle Sam. China and other East Asians do earn in and have pegged their currencies to the US dollar, so they have already lost a substantial portion of their world’s by far largest US dollar stake. And they, like all others, will also lose the rest.

Uncle Sam’s debt to the rest of the world already amounts to over one third of his annual national domestic production and it is still growing. That already makes his debt economically and politically unrepayable, even if he wanted to, which he obviously does not. Uncle Sam’s domestic debt, e.g. by consumers on credit cards and mortgages, is almost 100 percent of GDP and consumption, including that from China. Uncle Sam’s federal debt is now US$ 7.5 trillion, of which all but US$1 trillion was built up in the last three decades, the last US$ 2 trillion in the last eight years, and the last US$1 trillion in the last two years. Alas, that costs over US$ 330 billion in interest, compared to US$15 billion spent on NASA.

The “Who Me, Worry?” Congress recently raised the debt ceiling to US$8.2 trillion. To help us visualise, only US$1 trillion in tightly packed US$1,000 dollar bills would match a building 40 stories high, so the US$ 7.5 trillion would be 300 stories or about three times the height of the Empire State Building. Nearly half of that is owed to foreigners. All Uncle Sam’s debt, including private household debt of about US$10 trillion, plus corporate and financial debt, with their options, derivatives and the like, plus state and local government debt comes to an unimaginable US$ 37 trillion. So to help you visualise, imagine 1,480 Empire State buildings high and nearly four times Uncle Sam’s national domestic production.

Uncle Sam’s issue last year of a mere record high US$140 billion in high-yielding junk bonds must seem puny, even if they are so called because they are [only!] the first to be defaulted, after or along with consumer and mortgage debt and business belly ups. Only some of that debt and its coming default can be managed domestically, but with dangerous limitations for Uncle Sam, still to be noted below. That is only one reason I want you to meet Uncle Sam, the dead-beat confidence man, who may remind you of the Meet Joe Black movie. For as we get to know Uncle Sam better below, we will find that he is also a Shylock and a corrupt one at that.