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America’s Military Expansion Funded by Foreign Central Banks

Preview from "The Global Economic Crisis: The Great Depression of the XXI Century"

By Prof Michael Hudson
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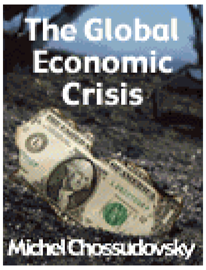
The following is a preview of a chapter by Michael Hudson in the latest book by Global Research, “The Global Economic Crisis: The Great Depression of the XXI Century.”

The Global
Economic Crisis


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Large amounts of surplus dollars are pouring into the rest of the world.Central banks have recycled these dollar inflows towards the purchase of U.S. Treasury bonds, which serve to finance the federal U.S. budget deficit. Underlying this process is the military character of the U.S. payments deficit and the domestic federal budget deficit. Strange as it may seem and irrational as it would be in a more logical system of world diplomacy, the “dollar glut” is what finances America’s global military build-up. It forces foreign central banks to bear the costs of America’s expanding military empire: effective “taxation without representation”.

Keeping international reserves in “dollars” means recycling their dollar inflows to buy U.S. Treasury bills, namely, U.S. government debt issued largely to finance the military.

To date, countries have been as powerless to defend themselves against the fact that this compulsory financing of U.S. military spending is built into the global financial system. Neoliberal economists applaud this as “equilibrium”, as if it is part of economic nature and “free markets” rather than bare-knuckle diplomacy wielded with increasing aggressiveness by U.S. officials. The mass media chime in, pretending that recycling the dollar glut to finance U.S. military spending is showing their faith in U.S. economic strength by sending “their” dollars here to “invest”. It is as if a choice is involved, not financial and diplomatic compulsion to choose merely between "Yes" (from China, reluctantly), "Yes, please" (from Japan and the European Union) and "Yes, thank you" (from Britain, Georgia and Australia).

It is not "foreign faith in the U.S. economy" that leads foreigners to "put their money here". This is a silly anthropomorphic picture of a more sinister dynamic. The "foreigners" in question are not consumers buying U.S. exports, nor are they private-sector "investors" buying U.S. stocks and bonds. The largest and most important foreign entities putting "their money" here are central banks, and it is not "their money" at all. They are sending back the dollars that foreign exporters and other recipients turn over to their central banks for domestic currency.

When the U.S. payments deficit pumps dollars into foreign economies, these banks are being given little option except to buy U.S. Treasury bills and bonds which the Treasury spends on financing an enormous, hostile military build-up to encircle the major dollar-recyclers: China, Japan and Arab OPEC oil producers. Yet these governments are forced to recycle dollar inflows in a way that funds U.S. military policies in which they have no say in formulating, and which threaten them more and more belligerently. That is why China and Russia took the lead in forming the Shanghai Cooperation Organization (SCO) a few years ago.

In Europe there is a clear awareness that the U.S. payments deficit is much larger than just the trade deficit. The deficit does not stem merely from consumers buying more imports than the United States exports as the financial sector de-industrializes its economy. U.S. imports are now plunging as the economy shrinks and consumers are finding themselves obliged to pay down the debts they have taken on.

Congress has told foreign investors in the largest dollar holder, China, not to buy anything except perhaps used-car dealerships and maybe more packaged mortgages and Fannie Mae stock. This is the equivalent of Japanese investors being steered into spending one billion dollars for the Rockefeller Center, on which they subsequently took a one hundred percent loss, and Saudi investment in Citigroup. That's the kind of "international equilibrium" that U.S. officials love to see. "CNOOK go home" is the motto when it comes to serious attempts by foreign governments and their sovereign wealth funds (central bank departments trying to figure out what to do with their dollar glut) to make direct investments in American industry.

So we are left with the extent to which the U.S. payments deficit stems from military spending. The problem is not only the war in Iraq, now being extended to Afghanistan and Pakistan. It is the expensive build-up of U.S. military bases in Asian, European, post-Soviet and Third World countries. The Obama administration has promised to make the actual amount of this military spending more transparent. That presumably means publishing a revised set of balance of payments figures as well as domestic federal budget statistics.

The military overhead is much like a debt overhead, extracting revenue from the economy. In this case it is to pay the military-industrial complex, not merely Wall Street banks and other financial institutions. The domestic federal budget deficit does not stem only from "priming the pump" to give away enormous sums to create a new financial oligarchy; it contains an enormous and rapidly growing military component.

So Europeans and Asians see U.S. companies pumping more and more dollars into their economies, not only to buy their exports in excess of providing them with goods and services in return, and not only to buy their companies and "commanding heights" of privatized public enterprises without giving them reciprocal rights to buy important U.S. companies (remember the U.S. turn-down of China's attempt to buy into the U.S. oil distribution business), and not only to buy foreign stocks, bonds and real estate. The U.S. media somehow neglects to mention that the U.S. Government is spending hundreds of billions of dollars abroad, not only in the Near East for direct combat, but to build enormous military bases to encircle the rest of the world, to install radar systems, guided missile systems and other forms of military coercion, including the "color revolutions" that have been funded and are still being funded all around the former Soviet Union. Pallets of shrink-wrapped hundred-dollar bills, adding up to tens of millions of dollars at a time, have become familiar "visuals" on some TV broadcasts, but the link is not made with U.S. military and diplomatic spending and foreign central-bank dollar holdings, which are reported simply as "wonderful faith in the U.S. economic recovery" and presumably the "monetary magic" being worked by Wall Street's Tim Geithner at Treasury and "Helicopter Ben" Bernanke at the Federal Reserve.

Here's the problem: the Coca-Cola Company recently tried to buy China's largest fruit-juice producer and distributor. China already holds nearly two trillion dollars in U.S. securities, way more than it needs or can use, inasmuch as the United States government refuses to let it buy meaningful U.S. companies. If the U.S. buyout would have been permitted to go through, this would have confronted China with a dilemma:

Choice #1 would be to let the sale go through and accept payment in dollars, reinvesting them in what the U.S. Treasury tells it to do. With U.S. Treasury bonds yielding about one percent, China would take a capital loss on these when U.S. interest rates rise or when the dollar declines, as the United States alone is pursuing expansionary Keynesian policies in an attempt to enable the U.S. economy to carry its debt overhead.

Choice #2 is not to recycle the dollar inflows. This would lead the Renminbi to rise against the dollar, thereby eroding China's export competitiveness in world markets.

So China chose a third way, which brought U.S. protests. It turned the sale of its tangible company for merely "paper" U.S. dollars, which went with the "choice" to fund further U.S. military encirclement of the SCO. The only people who seem not to be drawing this connection are the American mass media, and hence U.S. public opinion. I can assure you from personal experience, it is being drawn in Europe. (Here's a good diplomatic question to discuss: Which will be the first European country besides Russia to join the SCO?)

Academic textbooks have nothing to say about how "equilibrium" in foreign capital movements, speculative as well as for direct investment, is infinite as far as the U.S. economy is concerned. The U.S. economy can create dollars freely, now that they no longer are convertible into gold or even into purchases of U.S. companies, inasmuch as America remains the world's most protected economy. It alone is permitted to protect its agriculture by import quotas, having "grandfathered" these into world trade rules half a century ago. Congress refuses to let "sovereign wealth" funds invest in important U.S. sectors.

So we are confronted with the fact that the U.S. Treasury prefers foreign central banks to keep on funding its domestic budget deficit, which means financing the cost of America's war in the Near East and encirclement of foreign countries with rings of military bases. The more "capital outflows" U.S. investors spend to buy up foreign economies' most profitable sectors, where the new U.S. owners can extract the highest monopoly rents, the more funds end up in foreign central banks to support America's global military build-up. No textbook on political theory or international relations has suggested axioms to explain how nations act in a way so adverse to their own political, military and economic interests. Yet this is just what has been happening for the past generation.

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