Economic Meltdown: The "Dollar Glut" is What Finances America's Global Military Build-up

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I am traveling in Europe for three weeks to discuss the global financial crisis with government officials, politicians and labor leaders. What is most remarkable is how differently the financial problem is perceived over here. It's like being in another economic universe, not just another continent.

The U.S. media are silent about the most important topic policy makers are discussing here (and I suspect in Asia too): how to protect their countries from three inter-related dynamics: (1) the surplus dollars pouring into the rest of the world for yet further financial speculation and corporate takeovers; (2) the fact that central banks are obliged to recycle these dollar inflows to buy U.S. Treasury bonds to finance the federal U.S. budget deficit; and most important (but most suppressed in the U.S. media, (3) 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 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" (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.

Here in Europe there is a clear awareness that the U.S. payments deficit is much larger than just the trade deficit. One need merely look at Table 5 of the U.S. balance-of-payments data compiled by the Bureau of Economic Analysis (BEA) and published by the Dept. of Commerce in its Survey of Current Business to see that 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 now 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 the equivalent of Japanese investors being steered into spending $1 billion for Rockefeller Center, on which they subsequently took a 100% 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 neglect 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 shrinkwrapped $100 bills adding up to tens of millions of the 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 $2 trillion 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 U.S. Treasury bonds yielding about 1%. 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 S.C.O. The only people who seem not to be drawing this connection are the American mass media, and hence public. I can assure you from personal experience, it is being drawn here in Europe. (Here’s a good diplomatic question to discuss: Which will be the first European country besides Russia to join the S.C.O.?)

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 the 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.

So the ultimate question turns out to be what countries can do to counter this financial attack. A Basque labor union asked me whether I thought that controlling speculative capital movements would ensure that the financial system would act in the public interest. Or is outright nationalization necessary to better develop the real economy?

It is not simply a problem of “regulation” or “control of speculative capital movements.” The question is how nations can act as real nations, in their own interest rather than being roped into serving whatever U.S. diplomats decide is in America's interest.

Any country trying to do what the United States has done for the past 150 years is accused of being "socialist" and this from the most anti-socialist economy in the world, except when it calls bailouts for its banks "socialism for the rich," a.k.a. financial oligarchy. This rhetorical inflation almost leaves no alternative but outright nationalization of credit as a basic public utility.

Of course, the word "nationalization" has become a synonym for bailing out the largest and most reckless banks from their bad loans, and bailing out hedge funds and non-bank counterparties for losses on "casino capitalism," gambling on derivatives that AIG and other insurers or players on the losing side of these gambles are unable to pay. Such bailouts are not nationalization in the traditional sense of the term bringing credit creation and other basic financial functions back into the public domain. It is the opposite. It prints new government bonds to turn over along with self-regulatory power to the financial sector, blocking the citizenry from taking back these functions.

Framing the issue as a choice between democracy and oligarchy turns the question into one of who will control the government doing the regulation and "nationalizing." If it is done by a government whose central bank and major congressional committees dealing with finance are run by Wall Street, this will not help steer credit into productive uses. It will merely continue the Greenspan-Paulson-Geithner era of more and larger free lunches for their financial constituencies.

The financial oligarchy's idea of "regulation" is to make sure that deregulators are installed in the key positions and given only a minimal skeleton staff and little funding. Despite Mr. Greenspan's announcement that he has come to see the light and realizes that self-regulation doesn't work, the Treasury is still run by a Wall Street official and the Fed is run by a lobbyist for Wall Street. To lobbyists the real concern isn't ideology as such it's naked self-interest for their clients. They may seek out well-meaning fools, especially prestigious figures from academia. But these are only front men, headed as they are by the followers of Milton Friedman at the University of Chicago. Such individuals are put in place as "gate-keepers" of the major academic journals to keep out ideas that do not well serve the financial lobbyists.

This pretence for excluding government from meaningful regulation is that finance is so technical that only someone from the financial "industry" is capable of regulating it. To add insult to injury, the additional counter-intuitive claim is made that a hallmark of democracy is to make the central bank "independent" of elected government. In reality, of course, that is just the opposite of democracy. Finance is the crux of the economic system. If it is not regulated democratically in the public interest, then it is "free" to be captured by special interests. So this becomes the oligarchic definition of "market freedom."

The danger is that governments will let the financial sector determine how "regulation" will be applied. Special interests seek to make money from the economy, and the financial sector does this in an extractive way. That is its marketing plan. Finance today is acting in a way that de-industrializes economies, not builds them up. The "plan" is austerity for labor, industry and all sectors outside of finance, as in the IMF programs imposed on hapless Third World debtor countries. The experience of Iceland, Latvia and other "financialized" economies should be examined as object lessons, if only because they top the World Bank's ranking of countries in terms of the “ease of doing business.”

The only meaningful regulation can come from outside the financial sector. Otherwise, countries will suffer what the Japanese call “descent from heaven”: regulators are selected from the ranks of bankers and their “useful idiots.” Upon retiring from government they return to the financial sector to receive lucrative jobs, “speaking engagements” and kindred paybacks. Knowing this, they regulate in favor of financial special interests, not that of the public at large.

The problem of speculative capital movements goes beyond drawing up a set of specific regulations. It concerns the scope of national government power. The International Monetary Fund’s Articles of Agreement prevent countries from restoring the “dual exchange rate” systems that many retained down through the 1950s and even into the Œ60s. It was widespread practice for countries to have one exchange rate for goods and services (sometimes various exchange rates for different import and export categories) and another for “capital movements.” Under American pressure, the IMF enforced the pretence that there is an “equilibrium” rate that just happens to be the same for goods and services as it is for capital movements. Governments that did not buy into this ideology were excluded from membership in the IMF and World Bank or were overthrown.

The implication today is that the only way a nation can block capital movements is to withdraw from the IMF, the World Bank and the World Trade Organization (WTO). For the first time since the 1950s this looks like a real possibility, thanks to worldwide awareness of how the U.S. economy is glutting the global economy with surplus “paper” dollars and U.S. intransigence at stopping its free ride. From the U.S. vantage point, this is nothing less than an attempt to curtail its international military program.