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U.S. Economic Overstretch and Military/Political Imperial Blowback?

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IMF forecasters, and also those of the OECD and the U.S. government are and have never been right, as demonstrated by comparison between their published [also their internal un-published?] estimates and subsequent real world events. They have always been over-optimistic, because over-optimism is built in-to their estimation mechanisms, if only because political economic reasons mandate them to avoid any realism and make un-realistic prognoses that are meant to act as self-fulfilling prophesies, which are also designed to maintain political support for their continued existence. The IMF -which de facto is an arm of the US Treasury Dept but is not accountable to anyone other than the US Treasury - does have some power to make prophesies that are in part self-fulfilling for American and some other big business interests by sinking currencies, economies and income especially in the "Third" and now also the former "Second" world at whose costs the economies in the First world - that yes is first but in another sense - rest much of their own relative prosperity

I and James Tobin [author of the "Tobin Tax" proposal] already in the mid-1980s published and predicted deflation, and "wise" policy makers did ignore this risk [not really risk, but necessary consequence] while continuing their policies designed to fight inflation. Nonetheless, since then commodity prices have fallen sharply and consistently. Moreover in world economic terms, high inflation in terms of their national currencies [pesos, rubles, etc.] and their sharp devaluation against the dollar world currency has been an effective de facto major deflation in the rest of the world. That has reduced their prices and made their exports cheaper to those who buy their currencies with dollars, primarily of course consumers, producers and investors in - and from! - The United States. These additionally, which is hardly ever mentioned!, can and do buy up the rest of the world with dollars that "cost" only their printing and distribution, which for Americans have virtually no cost. [The $ 100 dollar bill is the world's most used cash currency on which runs the entire Russian economy, and there are two to [now?] three times as many of them circulating outside as inside the US]. The American boom and welfare and then "balanced" federal budget 1992-2000 Clinton administration, contrary to its populist claims, only happened to coincide with this boom and the also same 8 year long prosperity of the United States was entirely built on the backs of the terrible depression, deflation and thus generated marked increase in poverty in the rest of the world [during this one decade, life expectancy in Russia declined by 10 -ten - years, infant mortality, drunkenness, crime and suicide increased as never before in peacetime. Since 1997, income in Indonesia declined by half and generated its ongoing political crisis].

All this has among others the following consequences: The US exports from here to elsewhere the inflation that would otherwise be generated by this high supply of currency at home, whose low rate of inflation in the 1990s was therefore no miracle result of domestic "appropriate" Fed monetary policy. The US has been able to cover twin its balance of trade and budget deficits with cheap money, and the deflation/devaluation elsewhere in the world has like a magnet attracted speculative financial capital from the rest of the world - both American owned and foreign owned - which has bought US Treasury certificates [stopping up the US budget deficit] and into Wall Street this feeding and supporting its 1990s bull market, which in turn has increased, supported and spread wider a speculative and illusory in increase in wealth for American and other stock holders and through this also illusory "wealth effect" has supported higher consumption and investment. The subsequent and present bear market decline in stock prices nonetheless is a still a profit boon for enterprises who issued and sold their stocks at bull market high and rising stock prices and are now buying back their own stocks at what for them are bargain basement low prices, which represent an enormous profit for them at the expense of small stock holders who are now selling these stocks at low and declining prices.

The US "prosperity" now rests on the knife-edge not only of an unstable enormous domestic corporate and consumer [credit card, mortgage and other] debt. The US is also vastly over-indebted to foreign owners of US Treasury certificates, Wall Street stock and other assets, which can be called in by foreign central banks who have been keeping reserves in US dollars and other foreign owners of US debt. Indeed, it is the very US policy that has contributed so much to destabilization elsewhere in the world [e.g. through the destabilization of Southeast Asia that undermined the Japanese economy and financial system even more than it would otherwise have been] that now threatens and now soon makes much more likely that especially Japanese and European holders of US debt must cash it in to shore up their own ever more unstable economic and financial systems.

Another major consequence is that the US - and world! - economy is now in a bind from which it most probably can not extricate itself by resorting to Keynesian pump priming and much less to full scale macro-economic policy and support of the US and Western/Japanese economy, as the Carter and Reagan administrations did. Milatary Keynesianism, disguised as Friedman/Volker Montarism and Laffer Curve Supply-Sideism, was begun by Carter in 1977 and put into high gear in 1979, when the Fed was run by Carter appointee Paul Volker, who in October 1979 switched Fed monetary policy from high money creation / low interest price thereof to attempted low money creation / high interest [to 20 percent monetary!] to rescue the dollar from its 1970s tumble and attract foreign capital to the poor US. In that he then succeeded. At the same time, Carter began Military Keynesianism in June 1979 by un-doing the Nixon-Brezhnev detente and starting the Second Cold War with a NATO member countries' real 3 percent a year [adjusted for inflation] increase in military spending [at the same time he began the "two-track" policy of stationing high altitude Pershing missiles in Germany and low altitude Cruise missiles as well to bargain with greater strength with the Soviet Union].

The alleged re-initiation of the Cold war by the Soviet invasion of Afghanistan in December 1979 has been a US myth from the beginning, since Carter re-initiated the Cold War in June and the Soviets did not invade Afghanistan until December 1979. Personally, I have always argued that the latter was a Soviet response based in part on the - it turned out mistaken - supposition that the US had already escalated about as much as it could. The US super-escalation response was unexpected but designed - I argued - in part, as was also the new shift to a right wing economic policy strategy, in order to take the wind out of Ted Kennedy's challenge to Carter for the coming Democratic Party nomination. Brzezinsky now reveals that he deliberately raved up Afghanistan in order to provoke Soviet reprisal and permit a US counter-reprisal, in which he succeeded. In a word, the Second Cold War and Military Keynesianism were launched by Carter [in the UK Thatcherism was launched in 1976 by Labour PM Callaghan], and Star Wars Reaganomics were only its continuation/ further escalation. The former was designed to force the SU into bankruptcy and the latter to support not only the US but the entire Western - also European and Japanese - world economy after the 1979-1982 recession. Both policies succeeded, but they avoided bankrupting the US as well only because the resulting US twin trade & budget deficits were shored up by capital inflows from forced Latin American debt service [a result again of Volker"s creation of the Debt Crisis by pushing the interest rate from nothing to 20 percent] and by massive capital inflows from Europe and Japan - especially into Treasury Certificates - after the US switched from being the world's largest creditor still in 1985 to becoming its largest debtor ever since 1986. Otherwise, the US would have gone bankrupt with endless inflation, just as the SU did, which however had no one to bail it out as the US did. Moreover, the SU external account was wiped out in the 1980s after the 1981 sharp decline in the world price of both oil and gold from which the SU derived 90 percent of its foreign exchange. As a net importer of oil, the US - although not its oil interests - benefited instead.

Why do I now recount this ancient history? Because today and tomorrow the US would need to do the same for itself and its allies, now but it cannot do so! The US may [should? must ??] now attempt a repeat performance to spend itself and its allies [now minus Japan but plus Russia?] out of the present and much deeper world recession and threatening depression. The US would then again resorting to massive Keynesian deficit [using September 11 as a pretext for probably military] reflationary spending. Moreover, to settle its now enormous and ever growing foreign debt, the US may chose also to resort to inflationary reduction of the burden to itself of that debt and its also ever growing foreign debt service. But even the latter could - in contrast to the above summarized previous period- not avoid generating a further super trade balance particularly if market demand falls further and pressure increases abroad to export to the US demand/er of last resort. But this time, there will be no capital inflows from abroad to rescue the US economy. On the contrary, the now downward pressure to devalue the US dollar against other currencies would spark a capital flight from the US, both from US Government bonds and from Wall Street where significant stock price declines generate further price declines and deflation in world terms even if the US attempts domestic inflation.

The price of oil is yet another fly in the political economic ointment, whose dimension and importance is inversely proportional to the health or illness of the ointment itself. And today that is quite sick and deteriorating already. The world price of oil has always been a two edged sword whose double cutting edges can be de-sharpened with the help of successful alternative economic and price policies. On the one hand, oil producing economies and states and their interests need a minimum price floor to produce and sell their oil instead of leaving it underground and also postponing further oil productive investment while waiting for better times. Thus, a high oil price is economically and politically essential for important states like Russia, Iran and especially Saudi Arabia, as well as US oil interests. On the other hand, a low price of oil is good for oil importing countries, their consumers including oil consuming producers of other products, and supports state macro economic policy, eg in the US. These days, the high/low price line between the two seems to be around US$ 20 a barrel - at the present value price of the dollar! But nobody seems to be able to rig the price of oil at that level. The present conflict, long since no longer within OPEC, is primarily between OPEC that now sells only about 40 percent of the world supply and other producers that supply 60 percent, today especially Russia but also including the US itself as both a significant producer and a major market, although that is increasingly shifting to East Asia. Recession in both and the resultant decline in demand for oil drags its price downward.

But US Keynesian spending reflation as well as inflation can no longer put the floor under the price of oil needed today and tomorrow. Only a recovery generated demand that economic policy cannot now provide and a future world economic recovery and limitations in the supply of oil could again raise, or even prevent a further fall, in the price of oil - and of its deflationary pull on other prices. And further deflation in turn will increase the burden of the already vastly over-indebted US, Russian and East Asian, not to mention some European and Third World, economies.

Thus the political economy of oil is likely to add to further deflationary pressure. That would - indeed already does - again significantly weaken oil export dependent Russia. But this time it would also weaken US oil interests and their partners abroad, especially in Saudi Arabia and the Persian Gulf. Indeed, the low price of oil during the 1990s has already transformed the Saudi economy from erstwhile boom to a bust. That has already generated middle class unemployment and a significant decline in income that has also already generated widespread dissatisfaction and now threatens to do so even more at precisely the time when the Saudi monarchy is already facing destabilizing generational transition problems of its own. Moreover a low oil price would also make new investment unattractive and postpone both new oil production and eliminate potential profits from laying new pipelines in Central Asia.

All of these present problems and developments now threaten to [will?] pull the rug out from under US domestic and international political economy and finance. The only protection still available to the United States still derive from its long since and still also only two pillars of the "New World Order" established by President Bush father after "Bush's Gulf War" against Iraq and the dissolution of the Soviet Union in 1991. President Bush son is now trying to consolidate his father's new world order [no doubt with the latter still as a power behind the throne] beginning with the war against Afghanistan [and perhaps once again against Iraq] and the Bush-Putin effort now also to construct a US-Russian Entente -- or is it Axis.

The two pillars of this new world order remain the same: 1] the dollar as the international reserve currency and medium of payment and 2] the US military might is right to lord it over the rest of the world. The US does so cover using such pretexts as "defending humanitarianism" to trample on and destroy it as in the NATO war against Yugoslavia, " defending civilization" by destroying two of its most precious achievements, international law and institutions abroad and liberal democracy and civil rights at home, on pretext of "fighting terrorism" by using and generating still more terrorism.

However, the dollar pillar is now threatening to crumble, as it already did after the Vietnam War but has so far remained standing through three decades of remedial patchwork. But as we have seen, the US is now running out of further economic remedies to maintain the dollar pillar upright. It's only protection would be to generate serious inflation in the short run by printing still more US dollars to service its debt, which would then undermine its strength and crack the dollar pillar and weaken the support it affords still more.

That would leave only the US military pillar to support US political economy and society. But it and reliance on it also entails dangers of its own. Visibly, that is the case for such as Iraq, Yugoslavia, and Afghanistan and of course all others who are thereby deliberately put on notice to play ball by US rules in its new world order on pain of eliciting the same fate for themselves. But the political blackmail to participate in the new world order on US terms also extends to US - especially NATO - allies and Japan. It was so exercised in the Gulf War [other states paid US expenses so that the U.S. made a net profit from that war], the US war against Yugoslavia in which NATO and its member states were cajoled to participate, and now by the War against Afghanistan as part of President Bush's policy pronouncement [using the early Cold WAR terminology of John Foster Dulles] that "You Are Either With Us Or Against Us"]. But US reliance on this, the then only remaining, strategy of military political blackmail can also lead the US to bankruptcy as the failing dollar pillar fails to support it as well; and it can come also to entail US "overstretch" in Paul Kennedy terms and "blowback" in CIA and Chalmers Johnson terms.

In summary and plain English, the US has only two assets left to rely on, both admittedly of world importance, but perhaps even so insufficient. They are dollar and its military political assets. For the first, the economic chickens in the U.S. Ponzi-scheme pyramid of cards are now coming home to roost even in the United States itself.

The second pillar is now in use to prop up the new order the world over. Most importantly perhaps is the now proposed US/Russia entente against China instead of [or to achieve?] a US defense against a Russia/China [and India?] entente [the NATO War against Yugoslavia generated moves toward the latter, and the US War against Afghanistan promotes the former]. God/Allah forbid that any of these nor their Holy War against Islam blow us all up or provoke others to do so. However that may be, US imperial political military blackmail may still blowback on the United States also, thus not out of strength but out of weakness.

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