War cannot resolve mounting US economic problems

Nick Beams
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As leading figures in the Bush administration and their acolytes in the mass media hail the "success" of their blitzkrieg against vastly weaker Iraqi forces, the US is facing deepening economic problems for which they have no answer.

There are a number of indications that the collapse of the share market bubble three years ago marked the entry of the US economy into a period of protracted stagnation. The latest job figures, for instance, which showed a decline in payroll employment of 108,000 in March, make clear that the long-predicted recovery in economic growth is not taking place. At least 600,000 jobs have been lost since last November and more than two million since Bush took office in 2001.

Furthermore, a number of statistics point to the fact that the job losses represent the growth of structural unemployment, rather than fluctuations in the business cycle.

As an editorial in the latest issue of the magazine *Monthly Review* pointed out, in the four recessions which preceded that of the early 1990s, the proportion of those who lost their jobs permanently was about equal to those who lost them temporarily. However, in the recession of the early 1990s, permanent job losses made up 70 percent of the total and, in the recession that began in 2000, the figure increased to 87 percent.

The main factor preventing the US economy from entering a sharp recession has been the relatively high levels of consumption spending, fuelled by increases in debt. While credit can function as a kind of economic adrenalin, providing a short-term boost, the driving force of the capitalist economy—the heart which pumps the rest of economic activity—is investment. It is here that growing problems are apparent.

Fixed capital investment declined at an annual rate of 3 percent for the first three quarters of 2002. The investment decline is a result of the "capital overhang" emanating from the excess investment during the share market boom. Tightening market conditions, reflected in the generally deflationary environment, have seen a rise in overcapacity in plant and equipment not seen for 20 years. According to preliminary estimates, manufacturing capacity utilisation is just 73.8 percent—its lowest level since the deep recession of 1982-83.

One of the most striking features of the political economy of the United States is the contrast between its overwhelming military superiority and the deepening cracks that are emerging in its financial structure.

As the investment analyst James Grant noted in an article published in the March 24 edition of the *New York Times*: "The United States at the millennium is a historical oddity, not only a great power but also a great debtor. It consumes much more than it produces. It imports much more than it exports."

With an external debt estimated to be around $2.8 trillion at the end of 2002 and a balance of payments deficit of $500 billion—some 35 percent bigger than the defence budget—the US needs a foreign capital inflow of around $1.5 billion a day.

As Grant notes "unilateralism" in military affairs is one thing, but "the relationship of a debtor nation to its creditors is necessarily multilateral."

An article in the *Guardian* of March 26 by its business editor Mark Tran cites a report by Independent Strategy, a financial research company for institutional investors, which claims that the US is showing "many symptoms of an empire that is cresting."

It predicts a rise in terrorism as a reaction to US unilateralism, warns that military spending will add to the expanding budget deficits and points out that the Washington consensus—the support for free market economics and deregulation—is breaking down.

According to Independent Strategy, the weakening dollar is likely to contribute to the decline of the American empire as it develops the same fault lines as other empires: depending on flows of wealth from the periphery to support the core. “The US no longer earns the return needed to sustain these flows. The costs of war and unilateralism will increase the thirst for capital, but reduce the return earned by it.”

This means, as Tran points out, that while US dependence on foreign capital is increasing, investors may conclude that America is looking weak economically and decide to put their funds elsewhere.

The relationship between growth, indebtedness and the balance of payments is the subject of research by Wynne Godley published by the Levy Economics Institute on February 15. Godley maintains that the US faces a “strategic predicament” as a result of the “exceptionally large and growing balance of payments deficit.”

Godley argues that if the US economy grows fast enough over the next six years to generate some reduction in unemployment, then the balance of payments will increase to about 8.5 percent of gross domestic product (GDP) and the foreign debt will rise to nearly $8 trillion or 60 percent of GDP. Furthermore, the budget deficit would have to increase from about 3 percent of GDP, as projected for 2003, to between 9 and 10 percent by 2007-2008.

“For a number of reasons,” he notes, “this is not a credible scenario—if only because such a position would not itself be a stable one; the rate at which foreign debt would be accumulating would be such as to generate a further, accelerating, flow of interest payments out of the country, requiring even larger budget deficits in subsequent years.”

Accordingly, he concludes that the US will not “recover properly” in the medium term but will rather “enter a prolonged period of ‘growth recession.’” The only lasting solution, he maintains, is if US exports rise faster than imports over a prolonged period. But for this to take place the rest of the world economy would have to grow faster than the US.

However, in the present situation, it would be “madness for the US to base its economic strategy on the assumption that it will be hauled out of stagnation” by such an expansion. This is because “at present, not merely, is the rest of the world itself locked into a stagnation, it is looking to the US economy to be the motor which will fuel it own growth.”

In other words there is a growing contradiction at the heart of the world economy: it is increasingly dependent on growth rates in the US economy, which, if maintained, will inevitably lead to unsustainable budget deficits and external debt.

No doubt one of the motivations for the eruption of US militarism is the belief in ruling circles that this will help maintain the economic dominance of American capitalism over its rivals. While victories on the military front may provide a short-term economic boost, the mounting problems of the US economy, whatever the delusions of the occupants of the White House and the Pentagon, cannot be overcome by war.

This is because they arise from fundamental processes within the capitalist economy, in particular the falling rate of profit and the consequent growth of financial speculation, over-capacity and intensified competition on the world market for resources and profits.

These processes, which have seen the transformation of the US from the world’s leading creditor nation to its biggest debtor in less than two decades, cannot be reversed by Cruise missiles, “smart bombs” and tanks.