The "DOLLAR GLUT" FINANCES

AMERICA'S GLOBAL MILITARY BUILED-UP

**By**

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 Michael Hudson wrote the following article in the "Global Economic Crisis"1:

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 a 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 countries 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 is the kind of "international equilibrium" that the U.S. Officials love to see.

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 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.

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. 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.

So the ultimate question turns out to be what countries can do to counter this financial attack. 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 counter-

parties 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 along 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 lunches for their financial constituencies.

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 Word debtor countries. The experiences 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.

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 60s. 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 (sometimes various exchange rates for different import and export categories) and another 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 and 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.

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