Subject: Bush's tax cut and the U.S. economic situation
A friend who subscribes to *Le Monde* -- which you can't get on line unless you subscribe, sent the whole April issue, which I've been working my way through. All articles I've read so far are very informative -- and scary, but this one it seemed important to send on despite length because of its very important information relevant to Bush's tax cut and economic policies.

See Also: The End of Empire, by William Greider, 9/23/02
The following comes from within: http://MondeDiplo.com/2003/04/05usfinance

Collateral Damage From An Illegal War
United States: unsecured dollars

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The United States relies on the rest of the world to finance its public and private debts. But the markets worry about the unsustainable imbalances. The US may not be able to support its wild military spending much longer.

UNITED STATES military spending, at roughly $400bn annually, now rivals the combined total military expenditure of all other major nations. But cracks in the US financial system are raising questions about the continuation of funding at this level. Since the 1990s, the US, which likes to see itself as all-powerful, has been shocked by revelations of criminal acts by some key financial players in the system, including the world's biggest investment banks, the Big Five auditing firms (now down to the Big Four after the Arthur Andersen/Enron accounting scandal), media conglomerates and prestigious law firms.

High debt levels are the most disturbing sign of the financial distress of the US. In 2001 the US debt equalled 31% of its gross domestic product (GDP), against 26% for the European Union and 12% in Japan. In the current climate of shrinking production and trade, all three must now contend with the prospect of deflation. With the exception of China, worldwide industry is now operating at 65% of capacity. Stock markets have been in free-fall for three years. The Conference Board's consumer confidence index dropped from 145 in early 2000 to 80 at the beginning of this year (1985=100). Since January 2002 the US dollar has dropped by 12% against a basket of currencies; it has depreciated by 26% against the euro since 2000, one of the steepest declines since the end of the second world war. Considering rising unemployment, stagnant incomes and tentative consumer spending, the picture is gloomy.[1]

The enormous debt load of the US includes compound interest, which means that the prospect of deflation would make debt repayment even more onerous. US debt has three main components: the current balance of payments; net official foreign debt; and the debt accrued over the past 40 years. The latter includes public, household, corporate, non-financial sector, and combined domestic/foreign financial-sector debt.

Increases in total US debt are staggering. Between 1980 and 2002 levels tripled, from

$10,000bn to $30,000bn. The most striking feature has been the phenomenal rise in companies' internal financial-sector debt, which soared from $53bn to $7,620bn (72% of GDP). This may be attributed partly to frenzied, debt-financed mergers and acquisitions, especially between 1980 and 1998. This was particularly evident in the banking sector, where increased concentration after mergers has not yet reached its upper limit. In this sector assets relating to mergers and acquisitions total $2,400bn.

In the entire history of capitalism such voracious corporate expansionism, financed with cheap credit, is unprecedented in scope and pace. But this phenomenon is wildly uneven in distribution: only 16 companies from developing countries (84% of the world's population) appear on the top 500 list of the *Financial Times*. Dramatic increases in total household debt confirm that US consumers are living on credit. Between 1964 and 2002 household debts rose from $200bn to $7,200bn, representing 26% of personal incomes in 1985 and 40% in late 2002.

Plummeting savings are another symptom of the decline of US capitalism, since savings and investment are the main engines of capital accumulation. According to the New York-based investment bank, Morgan Stanley, the US net savings rate -- that is, the total savings of households, businesses and governments, expressed in terms of GDP -- fell to a mere 1.6% in the third quarter of 2002, its lowest level ever. This was less than one third of the average rate in the 1990s and only one sixth of the rates in the 1960s and 1970s. The Bush administration's mounting budget deficits will drive down rates even more.[2] The figures are illuminating: in the first quarter of 2000 the US federal budget surplus was equivalent to 2.3% of GDP and the savings rate was 6.4%. But in the third quarter of 2002 the US budget was showing a deficit of 1.8% of GDP.

The key factor in the overall picture is the rapid decline in the US current balance of payments, which may prove to be its worst weakness.[3] In this respect the US is comparable to the British empire at its height, before 1914. In the decades before the first world war Britain's current surplus was equivalent to 4% of GDP. But because of its fragile financial system, the US empire has chronically high current deficits, 5% of GDP.

In the 1990s the US accommodated surges in domestic demand by using foreign debt to finance its imports. After climbing steadily for 15 years, US imports now represent 42% more than US exports. Reducing this imbalance is almost impossible because US products have no true competitors in the world, despite the plunging dollar. To offset its $500bn current deficit, growing by 10% every year, the US needs $2bn in capital inflows every working day, 76% of the current worldwide surplus. This pace is hard to sustain, even short term. Still, foreign capital is pouring into US financial markets, though at a greatly reduced rate: total foreign private investment began to rise in the mid-1990s, reaching a peak of $1,000bn in 2000, the year the Nasdaq market crashed; it has since fallen to $500bn.[4]

Preliminary signs indicate that foreign capital is beginning to flow out of US financial markets. This trickle may become a wave owing to George Bush's war plans for Iraq, the rest of the Middle East, and elsewhere. The US, like a drug addict, has become wholly dependent on inflows of foreign capital to finance its generous programme of tax cuts. Foreign investors now hold more than 18% of long-term US equity securities and 42% of US treasury bills. But these investments could leave the US instantly with a few computer keystrokes. So foreign investment in 2003 must rise to at least 6% of GDP to accommodate US budget deficits and current deficit.

Since returns on investment have traditionally been highest in the US, investments in US securities have helped to finance its current deficit. But such investments are beginning to look less attractive. The US is uniquely privileged: it alone can issue dollars, and thus reduce its own debt, a step that it has taken several times. The US government prints dollars, paying for imports with empty promises. No other nation has this advantage, though the benefit may prove fleeting in the current shrinking financial markets. Ballooning deficits are undermining the US net foreign official position (foreign assets less foreign liabilities). Between 1999 and 2002 the deficit rose from $1,900bn to $2,500bn because of mounting current deficits.

None of this has reduced rampant economic inequalities in the US. Although the stock market crash did have an impact on the wealthy, the net worth of the 10,000 richest families in the US is now equivalent to that of the 20m poorest families. In the companies on the Fortune top 500 list, the ratio of CEOs' salaries to workers' wages jumped from 40:1 in 1970 (adjusted for inflation) to 531:1 in 2003, according to Proxinvest, the French research firm. In 1950 corporate income taxes provided 25% of federal revenues; in 2001 this had fallen to 8.9%. Unbridled debt and glaring inequalities are not aberrations, but indicate the sick state of US society. The markets are worrying about the financial health of the US, with the dollar exchange rate a useful thermometer.

Christian de Boissieu, a professor at Paris-1 University and vice-president of France's council for economic analysis, says of the dollar: "Something happened in spring 2002. Suddenly the market pattern started to shift. The markets were worried about the US's unsustainable imbalances -- its long-standing current deficit and recent budget deficits, caused by lower tax revenues and higher government spending. This year economic growth in the US should be double that in France, even though there are still concerns about deficits. But a psychological threshold has been crossed. At some point pessimism relating to these imbalances will prevail over any economic optimism".[5] President Bush, who has already called on Congress to boost military spending, seems unaware the threshold has been crossed.

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1. The official unemployment rate, massively understated, rose from 4.4% in February 2000 to 6.4% in February 2003, according to US labour department figures.
2. US budget deficit estimates range from $304bn to $375bn in 2003, and $307bn to $425bn in 2004, not including expenditures relating to the war on Iraq.
3. The current balance of payments reflects the difference between exports and imports of goods and services. When countries buy more abroad than they sell abroad, they must borrow money to pay for the shortfall, adding to their foreign debt.
4. The Nasdaq index (primarily hi-tech stocks) peaked at 5,048 on 10 March 2000, and has since fallen to under 1,300.
5. See Christian de Boissieu, "Voila que les marches redecouvrent les deficits americains", *Le Figaro Economie*, 19 March 2003.