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## **The U.S. economy today: between systemic crisis and permanent war**

Rémy HERRERA

2013.18



# THE U.S. ECONOMY TODAY: BETWEEN SYSTEMIC CRISIS AND PERMANENT WAR

Rémy HERRERA \*

## Abstract:

This paper studies the U.S. economy from an original point of view: that of the links existing between crisis and war. The first part analyzes the workings of the current crisis, considered to be a “systemic” one. The second part places the U.S. economy at the very heart of this crisis. The third part emphasizes the limitations of the anti-crisis policies that are being implemented, as well as the “currency war” issue. Then, the central focus moves towards U.S. warfare as a permanent feature. In a fifth part, the author examines the control exercised by finance capital on the military sector, including military-industrial complex and privately owned military companies. And finally, it examines how these links between crisis and war exacerbate the current capitalist contradictions.

## Résumé :

Cet article aborde l'étude de l'économie états-unienne sous un angle original : celui des liaisons existant entre crise et guerre. La première partie propose une analyse des ressorts de la crise actuelle, considérée comme « systémique ». La deuxième replace l'économie des États-Unis au cœur de cette crise. La troisième partie examine les politiques anticrise qui sont menées, ainsi que la question de la « guerre des monnaies ». Le centre de gravité est ensuite déplacé vers l'analyse des guerres militaires engagées par l'hégémonie mondiale et de leur caractère permanent. Puis, dans une cinquième partie, c'est la prise de contrôle du secteur militaire – complexe militaro-industriel et sociétés militaires privées – par la haute finance qui est examiné. Enfin, les liens entre crise et guerre sont étudiés dans leurs effets sur l'accentuation des contradictions actuelles du système capitaliste.

**Key words:** United States, military sector, defence, war, crisis, finance.

**Mots clés :** Etats-Unis, secteur militaire, défense, guerre, crise, finance.

**JEL Classification:** E32, E62, G38, H56, P12, P43.

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# THE U.S. ECONOMY TODAY: BETWEEN SYSTEMIC CRISIS AND PERMANENT WAR

Rémy HERRERA

## Introduction

Finance capital, composed of the most powerful banking and financial oligopolies, which own capital on a worldwide scale, has its center of gravity in the very heart of the hegemonic power of the world system: the United States of America. Historically, finance capital's return to power – consolidated in the last few decades of the nineteenth century, but placed under control of the state after the Great Depression of 1929 – came after the confirmation of the decline in profit rates recorded in the major capitalist countries of the center (United States, Western Europe, Japan) starting in the late 1960s, which then deepened during the 1970s and became an open, widespread capital crisis, with the falling of the whole system into a monetary chaos and exploding inequalities.

The turning point for high finance was linked to the increase in the United States interest rate (or prime rate) in October 1979. The Federal Reserve Bank, influenced by monetarist policies, unilaterally and brutally took this decision. As the “lender of last resort” in the international monetary system, the Fed carried out a “financial *coup d'État*” through which high finance, essentially that of the United States, re-established its power over the world economy. The consequences of this shift were global; they affected both the North, whose strategies bent under the “external constraint” of facing the components of their monetary policies, and the South, by contributing to set up the conditions for an outbreak of the debt crisis.

This financial *reconquista* occurred on the ruins of the ancient pillars of the global system: i) “Fordist regulation” of capitalism in the North, challenged by the stagflation of the 1970s, ii) failed programs of the national bourgeoisies in the South shown by the debt crisis in the 1980s, and iii) collapse of the Soviet bloc in the East with the end of the USSR in the early 1990s. The conjunction of these three major events caused profound changes in the balance of power between capital and labour on the global scale, allowing the neoliberal offensive against the state controls that were previously at the heart of their project of transformation of social formations.

At a national level, the neoliberal dogmas were to attack any form of state control and deform capital ownership in favor of the private sector; this included reducing public spending and imposing wage restraint as a key element in giving priority to avoiding inflation, above all. At the international level, the objectives were to perpetuate the supremacy of the U.S. dollar over the world monetary system, maintaining flexible exchange rates, and to promote unrestricted trade by removing protectionist barriers and liberalizing capital transfers. Such changes moved the center of gravity of power to global finance.

The “normalization” of this strategy of deregulation –i.e., of letting the dominant oligopolies have sole control of “re-regulation”– and of financial globalization –whose effects were magnified by the absence of a supranational political entity controlling the financial markets – was part of the functions of local monetary institutions (“independent” central banks) as well as of the international organizations, under the umbrella of the U.S. military arsenal. The problem is that, today, this global strategy is in deep crisis, both in its economic and military dimensions. This article aims to analyze, in the framework of these two aspects, the origins, characteristics, mechanisms and consequences of the current crisis in the hegemony of the capitalist world system.

## The current systemic crisis of capital

One of the most frequent errors made in interpreting the present crisis is to consider it only a “financial crisis,” which is contaminating the sphere of the “real economy”. It is, in fact, a crisis of capitalism, of which the most visible and publicized aspects has emerged within the financial sphere because of the extreme degree of financialization of contemporary capitalism. We are dealing with a systemic crisis that affects the very heart of the capitalist system, that is to say, in the United States, the power centre of high finance that has been controlling accumulation over the past three decades. The disaster is not due to the combination of conjunctural factors: it is a structural phenomenon.

The series of repeated monetary-financial crises that have successively hit different economies over the past thirty years, since the ‘financial *coup d’État*’ by high finance in the United States in 1979, are part and parcel of the same crisis: Mexico in 1982; the developing countries’ debt crisis in the 1980s; the United States itself in October 1987; the European Union in 1992-1993; Mexico in 1994; Japan in 1995; the so-called “emerging” Asia in 1997-1998; Russia and Brazil in 1998-1999; the United States again in 2000 with the burst of the “new economy bubble”; then Argentina and Turkey in 2000-2001, and so on. This crisis has worsened recently, above all since 2006-2007, starting from the hegemonic centre of the world system and becoming generalized and multidimensional (socio-economics, politics, food, energy, climate...).

For some years now, there have been a certain number of thinkers who maintained that the devalorization of capital was inescapable, and that it would be brutal and on a large scale.<sup>1</sup> Basically this crisis could be interpreted as a crisis of over-accumulation of capital that ensues from the very anarchy of production, and leads to a pressure for the rate of profit to fall tendentially when countering tendencies – including the new ones, linked to derivatives – have dried up. This over-accumulation manifests itself through an excess of sellable production, not because there are not enough people who need or desire to consume, but rather because the concentration of wealth tends to prevent an increasingly large proportion of the population from being able to buy the commodities. Instead of it being a question of a standard over-production of goods, the extraordinary expansion of the credit system makes it possible for capital to accumulate in money-capital which can take forms that are increasingly abstract.

“Fictitious capital” appears to be a very important concept to analyze the current capital crisis (Carcanholo and Nakatani, 1999). Its basic principle is the capitalization of revenues which remain based on future surplus value. This kind of capital is mainly formed within the credit system, connecting capitalist firms to the capitalist state. At this intersection can be found public debts, banking capital and stock exchanges, but also pension funds, speculative hedge funds (located in tax havens), or other similar entities. Nowadays, the most favoured vehicles of fictitious capital are securitization, which transforms assets into securities, and the exchanges in derivatives.

Fictitious capital, both unreal and real, is a complex notion. Despite its partly parasitical nature, such a capital benefits from a distribution of surplus value – its liquidity gives its owner the power to convert it, without any loss of capital, into the ‘liquidity *par excellence*’: money. So, it nourishes an accumulation of additional fictitious capital, as a means of remunerating itself. Analyzing fictitious capital leads to the concept of “expanded reproduction,” together with the exorbitant development of ever more unreal forms of capital, as sources of autonomized valuation that are apparently more separate from surplus value or appropriated without labour, as ‘by magic’. Speculation is not an “excess” or “error” of corporate governance: it is a remedy against the structural evil of capitalism, a remedy that counteracts the tendency for the rate of profit to fall, and it provides outlets to the masses of capital that are no longer able to be invested profitably – the bursting of the “financial bubbles” being the price to be paid.

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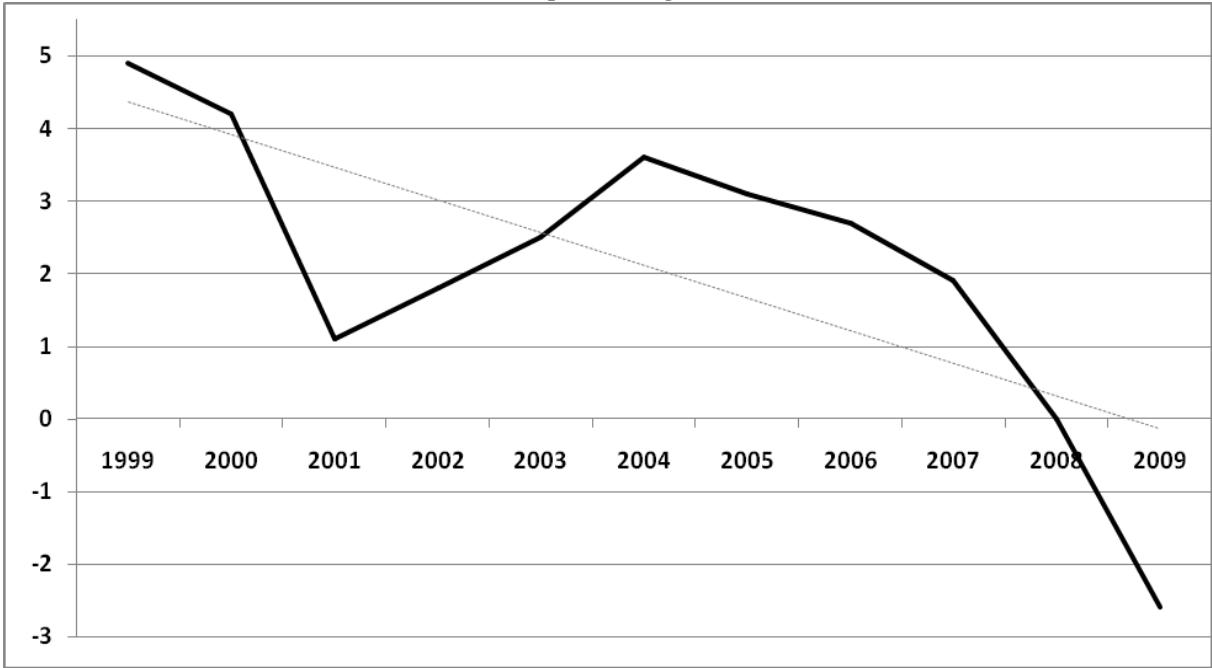
<sup>1</sup> For a discussion of these arguments, from theoretical and empirical points of view, read: Herrera (2010a, b).

As a result, the amounts corresponding to the creation of fictitious capital have quickly and broadly overtaken those amounts destined to reproduce directly productive capital. For example: in 2006, the annual value of world exports was equal to three days of trades in over-the-counter (OTC) contracts, called “off-exchanges”, which are thus not recorded on balance sheets, and created with almost no precautionary restrictions, with 4,200 billion dollars traded per day. It is above all the credit derivatives, with their complex arrangements of credit default swaps (CDS) or collateralized debt obligations (CDO), that have created problems by changing the traditional vision of credit and bringing into play several degrees of fictitious capital. These 4.2 *teradollars* are traded by a very restricted number of financial oligopolies, the “primary dealers”, referred to by the Fed as the “G15”: Morgan Stanley, Goldman Sachs and 13 others.

The crisis that broke out in the subprime section of the U.S. housing market had been prepared for by decades of over-accumulation of such fictitious capital. One must understand it within the context of a long period of worsening dysfunction in the regulation mechanisms of the capitalist world system, at least since the over-accumulation of money-capital in the 1960s, linked to internal and external deficits of the United States – partly caused by the Vietnam war –, to untenable strains on the dollar and to a proliferation of eurodollars, then petrodollars, on the inter-bank markets (Herrera and Nakatani, 2008).

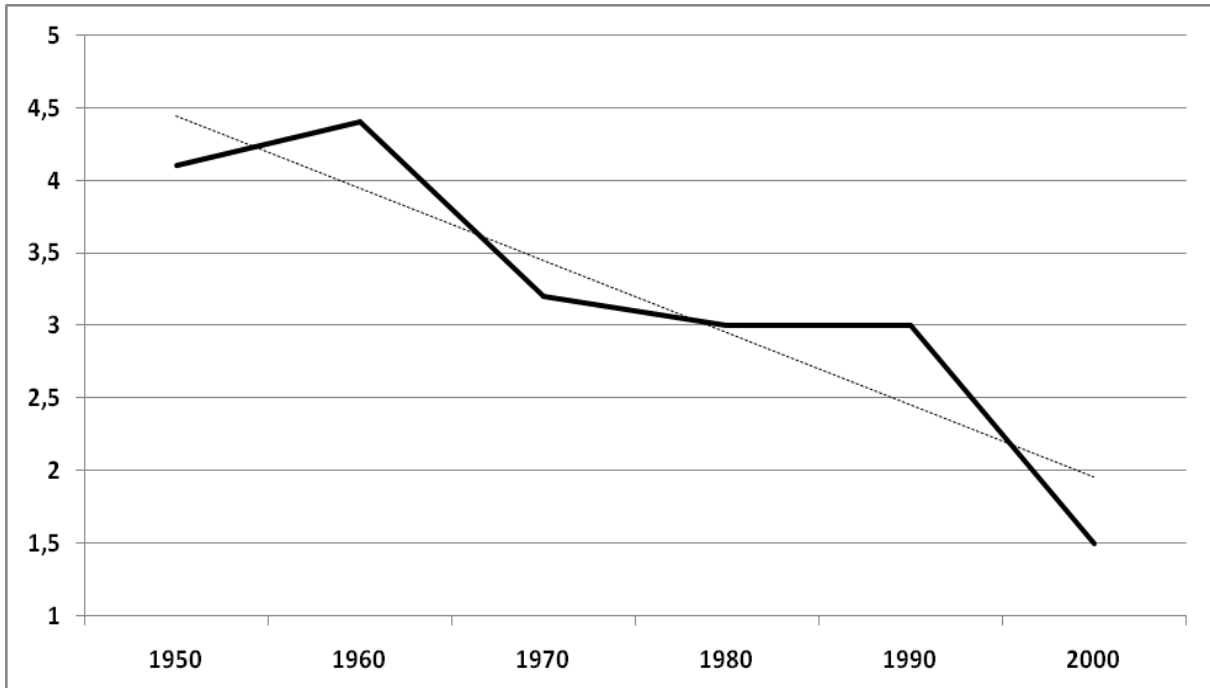
Thus, the contradictions that this crisis has revealed have long-term roots in the exhaustion of the motors of expansion that operated after World War II, which has led to these financial transformations. In the real sphere, the forms of extraction of surplus value and the organization of production had reached their limits; they had to be replaced by new methods and a redynamization of technological progress (like information technology, robotics, Internet...), modifying the social bases of production by substituting capital for labour. After an over-accumulation concentrated in the financial sphere, excess supply has accentuated the pressures lowering the rate of profit that has been observed since the 1960s.

*Figure 1. Annual GDP growth rate in the United States from 1999 to 2009 (in percentage)*



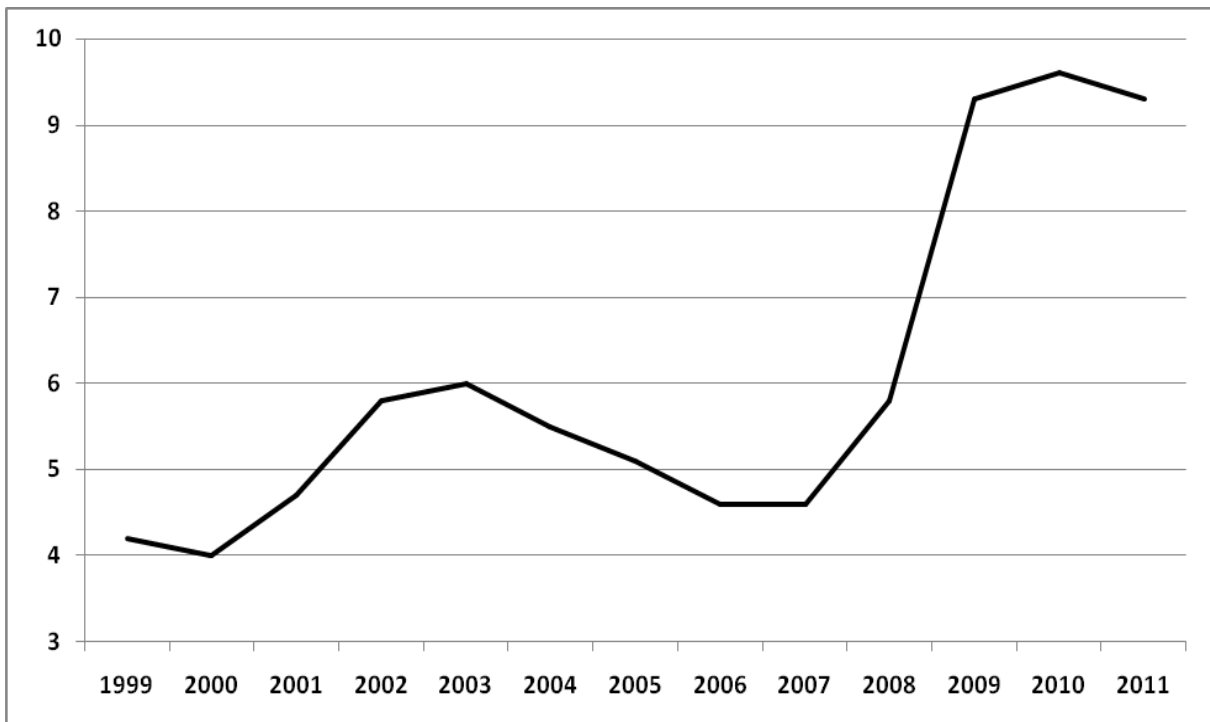
*Source:* Chart prepared by the author and based on data taken from the World Bank (various years).  
*Note:* GDP growth rate on annual average and at market prices, in constant dollars (base 2000).

**Figure 2. GDP growth rate in the United States since 1950**  
(in ten-year average percentage)



*Source:* Chart prepared by the author and based on data taken from the World Bank (various years).  
*Note:* GDP growth rate on annual average and at market prices, in constant dollars (base 2000).

**Figure 3. Unemployment rate in the United States from 1999 to 2011**  
(in percentage of labor force)



*Source :* Chart by the author based on data from the Bureau of Economic Analysis (various years).  
*Note:* Database of National Economic Accounts.

## The United States at the heart of the crisis

The crisis has been caused by the dynamics that lie at the heart of the U.S. economy itself. On the one hand, there is a re-balancing of these internal and external imbalances by the draining off of foreign durable capital on an international scale. This can be seen as an operation by the dominant U.S. classes, sucking up wealth from the rest of the world. On the other hand, it has brought the greatest concentration of wealth within the country for a century. This can be shown by some statistics: out of total revenues in the United States, the share of income monopolized by the wealthiest 1 per cent was 10 per cent in 1979; in 2009, it was 25 per cent; the proportion of the wealthiest 10 per cent was one-third of the total revenues thirty years ago; now, it has risen to a half. The tremendous rise in financial profits – via the accumulation of fictitious capital – by the dominant classes deformed the U.S. economy taken as a whole. The rate of savings, for example, had become negative just before the crisis (Herrera, 2011b).

Some of the major factors explaining the crisis are “real” and linked to austerity: the subprime crisis, in which many poor families found themselves in default, can also be analyzed by the austerity policies conducted for over 30 years, which have diminished wages, made employment flexible and precarious, extended mass-scale unemployment, degraded living conditions – policies, called neoliberal, that have slowed down the engines creating demand and made them artificial, thus unsustainable. Thus, this regime had maintained growth by boosting demand for private consumption, while releasing and increasing credit lines. This unprecedented boom in the credit system revealed the crisis of over-accumulation in its current version. In a society where a growing number of individuals are excluded or left without rights, expanding opportunities available to owners of capital could only delay the devaluation of surplus funds invested in financial markets – but not avoid it.

One of the manifestations of the crisis was a brutal destruction of fictitious capital. In 2008, the capitalization of the world stock exchanges dropped from 48.3 to 26.1 millions of millions dollars. This descending spiral in the asset values was accompanied by a loss of confidence and a situation of illiquidity on the inter-banking market – the most probable explanation being an insolvency of many banks. Consequently, in a context where the prices of composite derivatives and the risks carried were increasingly badly assessed, the problems moved from the subprime housing sector to that of the credits of credits, then to solvent loans (primes), before the bursting of the bubble of the tools linked to housing mortgages contaminated the other sectors of the financial markets, and from there, the money market itself.

Beyond the destruction of fictitious capital leading to the sharp falls in market capitalization,<sup>2</sup> it is the whole system of financing of the economy that became blocked. Thus, the economies entered into depression conjuncturally as from 2007 – but also, for structural reasons, in a world where the peak had been reached for certain strategic natural resources (among them, oil) and where the search for new sources of energy poses objective limits to growth; all this giving rise to pressures to wars. As a result, the economic indicators have been affected: falls in the GDP growth rate (Figures 1 and 2), in household consumption and in external trades, deficits of exploitation for numerous enterprises, unemployment, losses in housing, etc.

Business bankruptcies multiplied and affected some leaders in industrial sectors registering abysmal losses (General Motors, for example). Hence the explosion of the unemployment rate to over 10 per cent of the workforce in the fourth quarter of 2009. Following its official and quite restrictive definition, unemployment hit nearly 15 million people in 2010 (Figure 3). And its structure deteriorated: the proportion of long-term jobseekers increased sharply from the second half of 2008; the traditional production sectors were the most severely affected (industry, construction, agriculture); and African-Americans and Hispanic communities – or

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<sup>2</sup> Examples: -33.84 per cent registered for the Dow Jones Indus, -39.76 per cent for the S & P 500 and -40.54 per cent for the NASDAQ between January 1<sup>st</sup>, 2008 to January 1<sup>st</sup>, 2009.

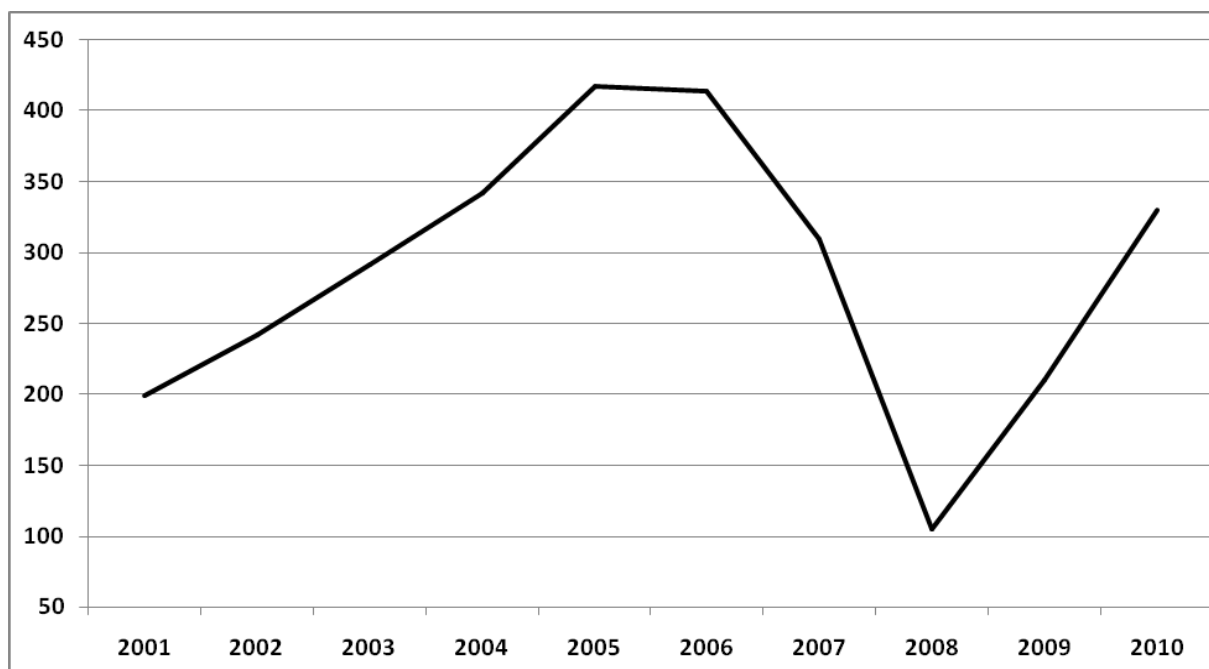


“races”, according to the standard U.S. administration vocabulary – suffered more than others. Simultaneously, total corporate profits appropriated by all the U.S. oligopolies of high finance – i.e., using the same terminology, the domestic financial institutions, including finance, banking and insurance sectors – recovered very quickly, returning in 2009 to the same level as in 2001, then, by the end of 2010, to the same level of profits as just before the crisis broke out (Figure 4).

One of the main features of the neoliberal path was, until the economy imploded, a low rate of accumulation in the United States. In 2000, following the surge in value driven by the new technologies of information and communication, the busting of the “new economy’s” bubble burst, causing a marked slowdown in economic activity. During George W. Bush’s mandates, GDP growth was never more than 2.5 per cent rate in any year. This rate declined further during the summer of 2007, and collapsed in the second half of 2008, with the “financial crisis” in the real estate sector spreading to the entire economy. Since the end of 2006, productivity gains recorded after the temporary increase during the “new economy” episode have decelerated and converged towards their much more moderate long-run trend.

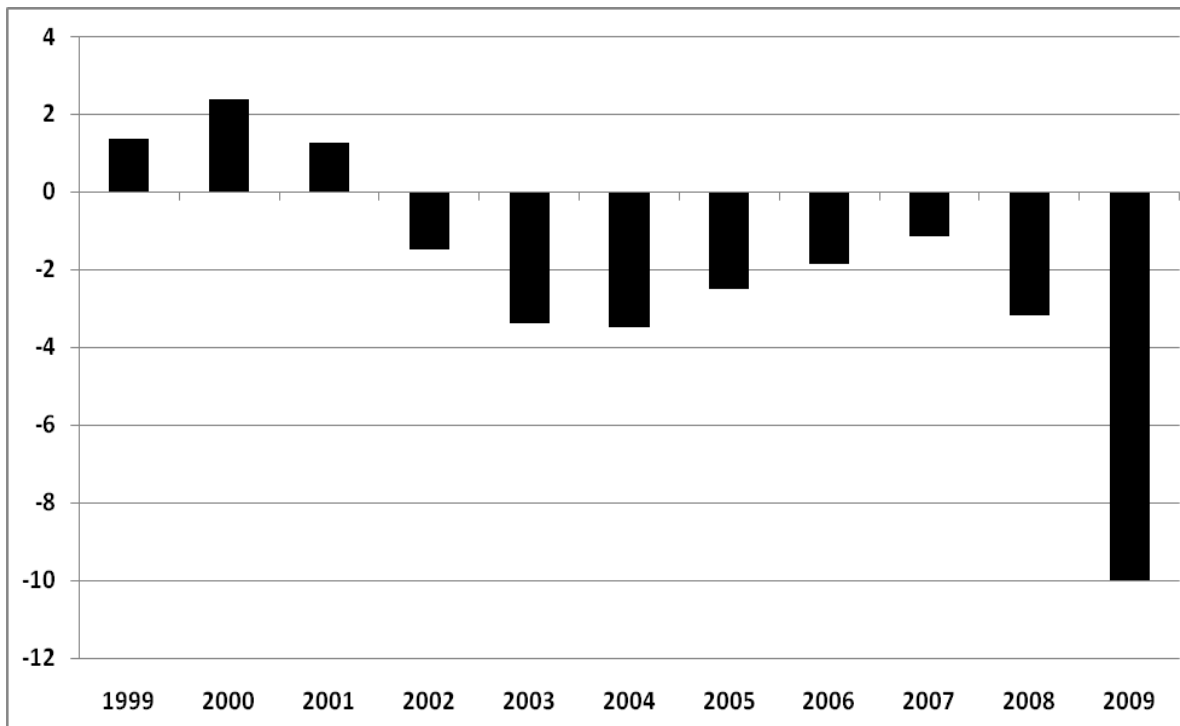
Some worrying aspects of the crisis are linked to the high public debt, particularly that of the federal government, which partially “nationalized” private debts. There is also the external counterpart of this process driven by the massive indebtedness, that is, the deterioration of the U.S. balance of payments, especially the current account deficits. This involved a pronounced depreciation of the dollar compared to the euro and the yen. External imbalances of the United States, which still has at its disposal the currency of the international monetary system, have been compensated by the ever-growing streams of sustainable capital inflows from the rest of the world, China included. Up until now, Washington has been able to force everyone – from its partners of the North (Europe and Japan) to its potential rivals of the South (like the BRICS, and especially China) – to send capital to the United States; but for how much longer?

*Figure 4. Profits of the financial institutions in the United States from 2001 to 2010*  
(in billion dollars)



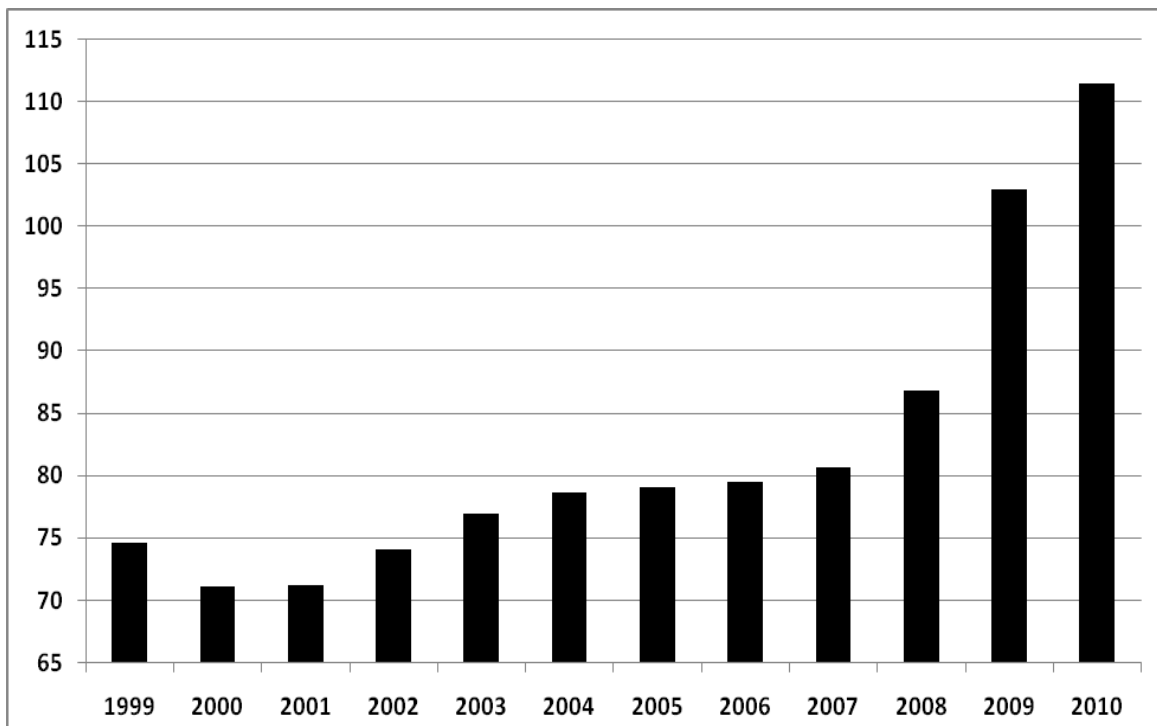
*Source:* Chart by the author based on the U.S. Department of Commerce NIPA Tables (various years).  
*Note:* Line 12 “corporate profits – other financial – domestic industries” in Table 6-16D.

**Figure 5. Federal state's fiscal deficit in the United States from 1999 to 2009**  
(in percentage of GDP)



Source: Chart by the author based on data taken from U.S. Government Spending (various years).

**Figure 6. Public debt in the United States between 1999 and 2010**  
(in percentage of GDP)



Source: Chart by the author based on data taken from U.S. Government Spending (various years).

## Anti-crisis policies and currency war

The U.S. government's first attempt to counteract the crisis consisted in coordinating the actions of the central banks to inject liquidity into the inter-banking market. It did this by creating primary money, by offering special lines of credit to the primary-leader banks, and by reducing interest rates. A turning point had occurred after the monetary authorities avoided intervening during the bankruptcy of Lehman Brothers in mid-September 2008. Within a few hours, the U.S. Treasury and the Federal Reserve Bank made a 180° reversal: a number of financial institutions in danger (like the insurance company AIG) were nationalized – usually without the government's obtaining the right to vote or any increased control –; short sells were temporarily suspended in Great Britain, then in the United States; the Fed opened huge lines of credit to the primary dealers in special conditions, with interest rates almost zero; the government helped these private establishments organize the take-over of bankrupt groups and to re-capitalizing them...

In other words, the federal government strongly supported the financial oligopolies' efforts to concentrate the ownership and control of capital, leading to hyper-centralization: Citigroup took over Lehman Brothers, Bank of America took over Merrill Lynch, Morgan took over the Washington Mutual savings bank, etc. A “*defeasance*” funds for “*bad banks*” was created, so that the state guaranteed ‘toxic’ securities. Finally – this was the crucial measure – in October 2008, the Fed extended its organization of swap lines or “*temporary reciprocal arrangements on currency*” for the central banks in the largest countries of the North as well as of the South (Mexico, South Korea...), rendering them almost “unlimited” (Herrera, 2010b).

Then, there were the Paulson plans No. 1 and No. 2, and the programs for the general support of the U.S. economy (including General Motors, without preventing massive lay-offs) – and, along the way, the recapitalization of the Fed, which was at the end of its resources... However, at the beginning of 2011, the President of the Federal Reserve warned both the Treasury and the U.S. Congress that his institution would not continue to finance extra public deficits, that there had to be a return to greater rigour, and that the interest rates had to be increased...

Nevertheless, a rise in the interest rate would involve two major risks: for the United States, that the burden of public debt became still heavier and its dynamics uncontrollable; and for the rest of the world, that capital flows leave and return to finance the deficits in the United States, enabling it to continue to live once again above its means.

Among the most striking effects of the current crisis is the exacerbation of a “currency war”. In a highly uncertain environment, the massive creation of money and the fixing of interest rates just above zero, together with huge fiscal deficits – the budgetary deficit corresponding to nearly 10 per cent of GDP in the United States (Figure 6) – and the disproportionate increase of the public debt (Figure 7), all this has brought about a depreciation of the U.S. dollar, and a “currency war”. The latter has for the time being been paradoxically won by the dollar itself, for the fundamental reason that the United States has at its disposal an extraordinary weapon: its central bank can create almost limitless amounts of money which is accepted by all the foreign countries, because the dollar remains until now the world's reserve currency.

This enables the United States to impose on the rest of the world the terms of a capitulation that obliges these countries to pursue neoliberal policies, as well as to support the dollar's rate of exchange that best suits the strategy of U.S. domination – even if this entails an immediate depreciation of the huge currency reserves held by the monetary authorities of other countries, like the BRICS. The problem with such a strategy is that, for years, the U.S. trade deficit and internal production react little to lowering the dollar's value; this results in a weak economic growth in the United States, in a situation that has worsened because the causes of the difficulties now arise from the whole system of financing the economy.

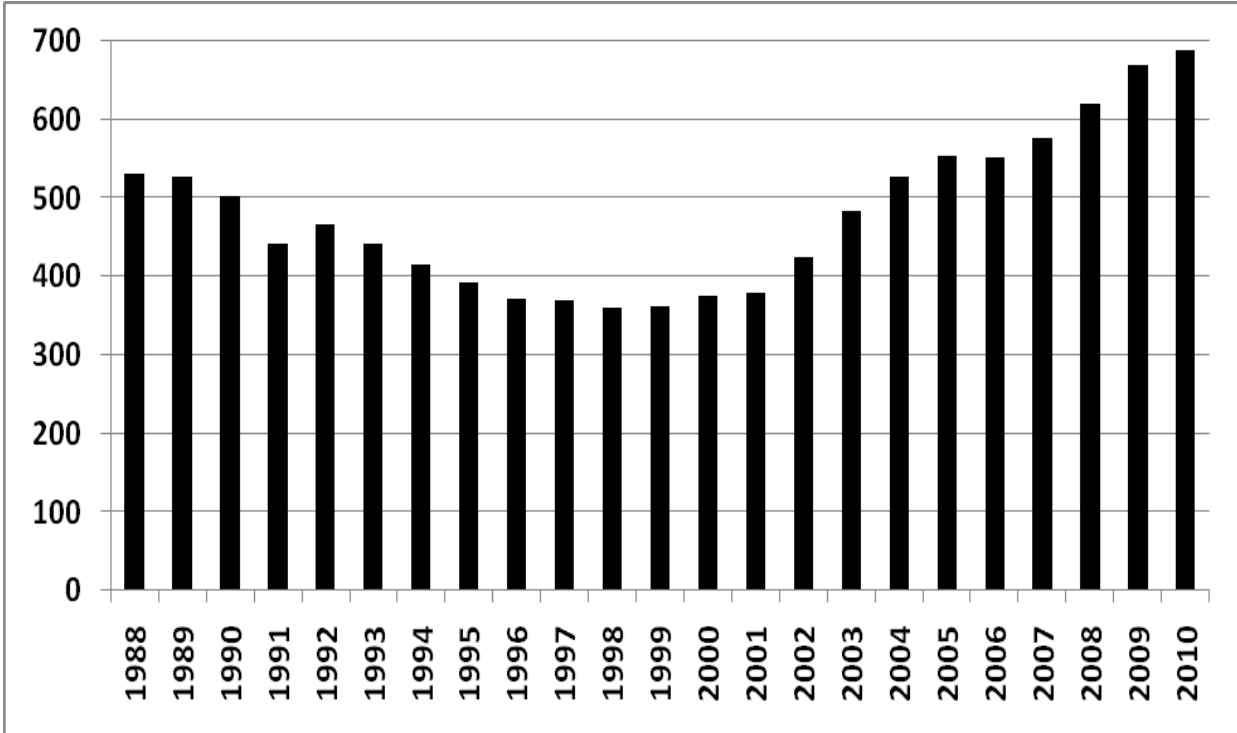
The effects of the current systemic crisis vary according to the characteristics of the economies of the South and the degree of their integration into the capitalist world system. Some countries

are so excluded and stuck in poverty traps that the crisis seems not to be affecting them. But, in reality, it is striking all of them, whether they are “emerging” or not. Fundamentally, it seems that all the conditions are combining so that a major consequence of the crisis could be a deepening North-South confrontation – in spite of the recent G20’s moves to “co-opt” southern countries – in a world where the levels of contradictions are becoming more and more complex.

In the South, a large majority of governments have chosen to continue to keep capitalism – or one of its variants – in place. Nevertheless, our opinion is that this strategy is no solution. It is impossible in the South to resolve the profound contradictions produced by the capitalist system (for example, those due to the refusal of access to land for peasants); and this leads the southern countries to enter into conflict with the powers of the North. This is clearly the case in a period when capital transfers towards the United States are needed, in even greater proportions, to stop the spiral devaluation of fictitious capital.

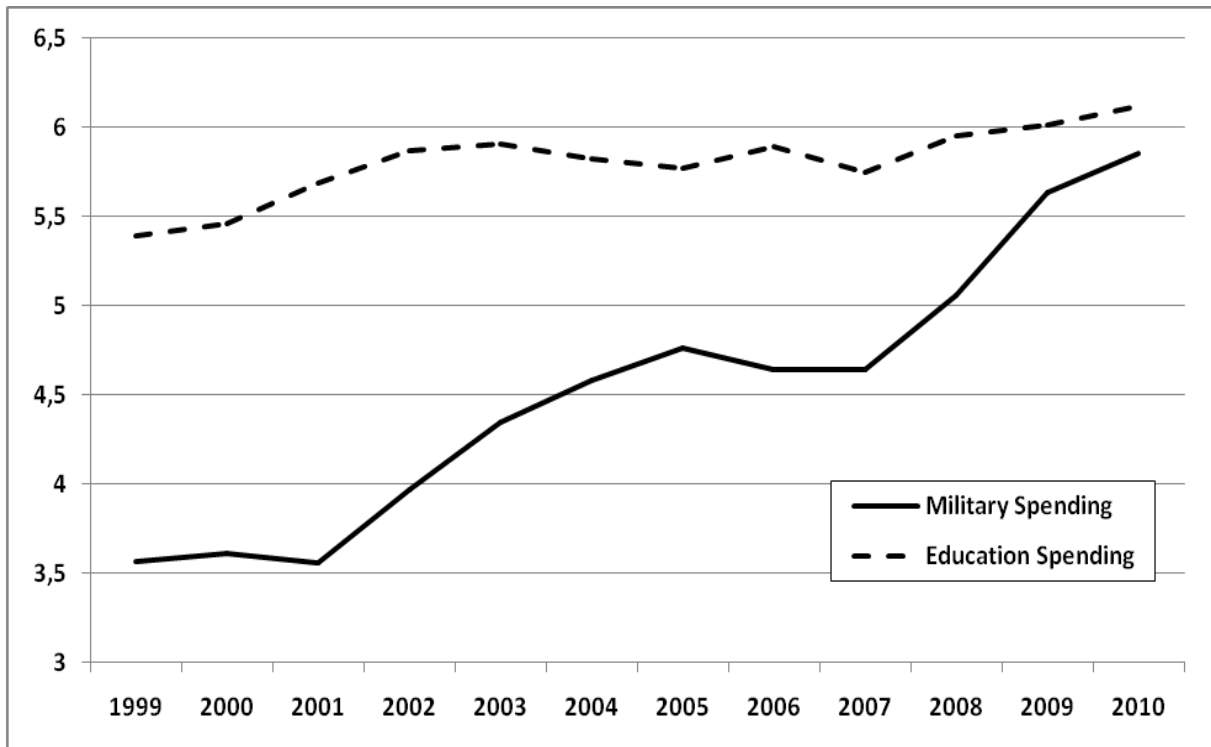
These transfers from the South towards the United States operate through different channels: repatriation of profits from foreign direct investments or from portfolio investments; repayment of external debts, transformation of official reserves into credits (granted to the United States), unequal exchange, but also flights of capital, corruption... (Nakatani and Herrera, 2007). It is likely such transfers will have to accelerate soon to guarantee the rescue of high finance and avoid bankruptcies in the capitalist centers. All this takes place while the United States has the military arsenal necessary to impose this drain of durable capital from the rest of the world (Figures 7, 8, and 9).

*Figure 7. Military expenditures in the United States from 1998 to 2010 (in percentage of GDP)*



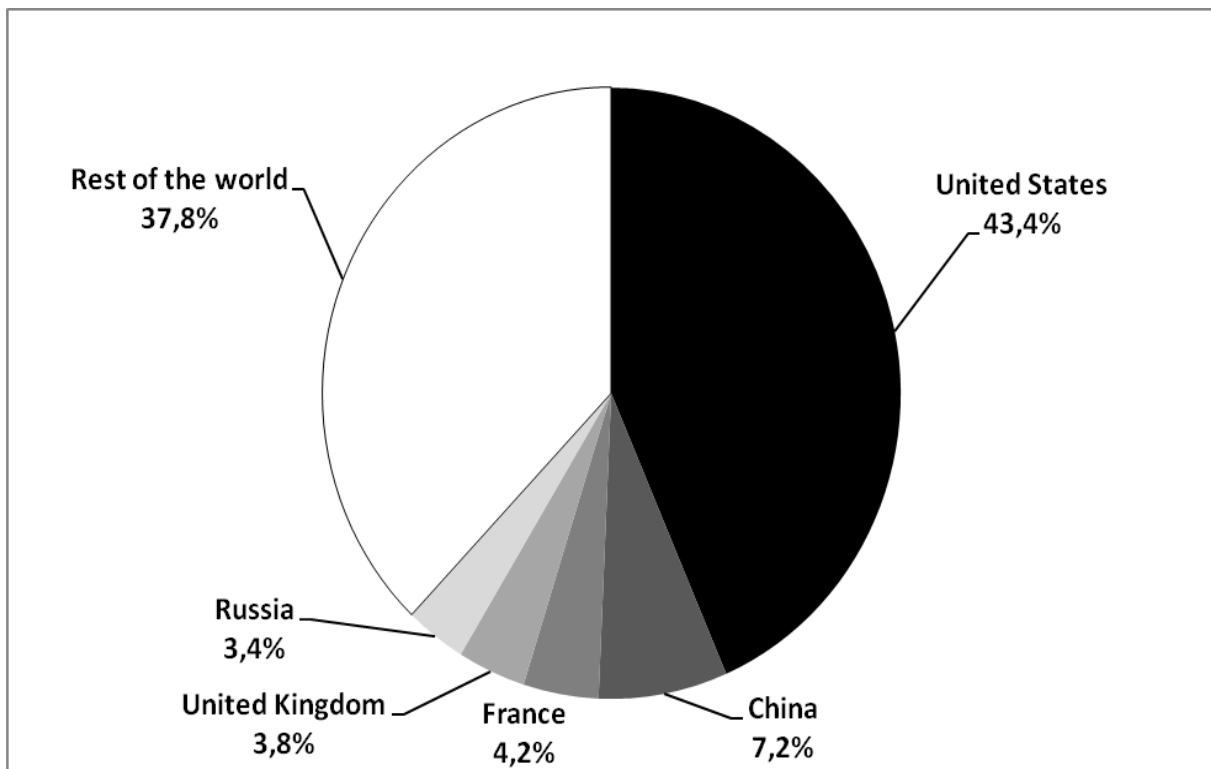
Source: SIPRI (2011).

**Figure 8. Military and educational spending in the United States from 1999 to 2010**  
(in percentage of GDP)



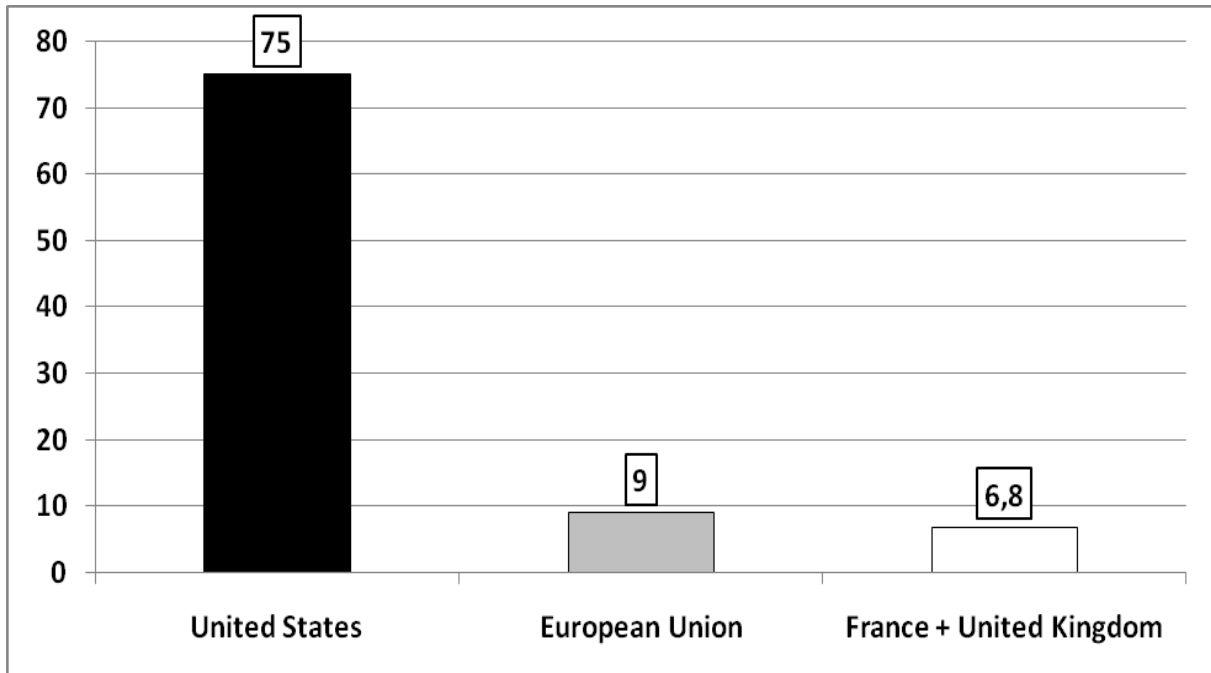
Source: Chart by the author based on data taken from U.S. Government Spending (various years).

**Figure 9. Military expenditure by country in 2010**  
(in percentage of world military spending)



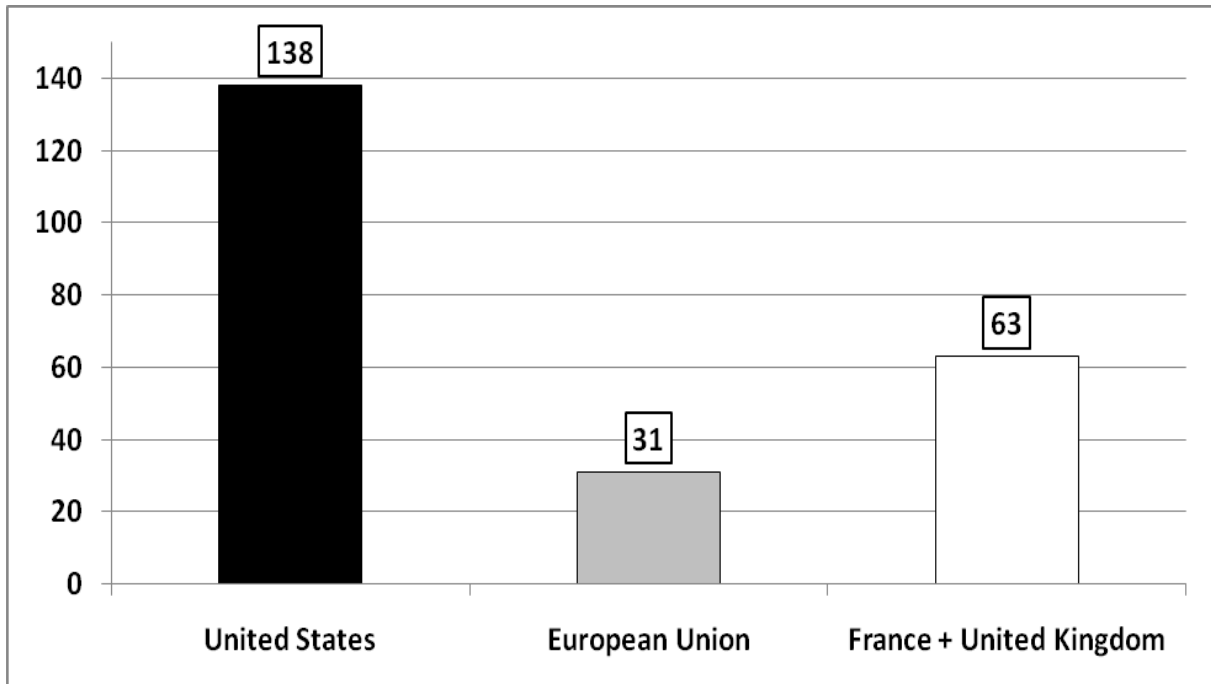
Source: SIPRI (2011).

**Figure 10. Military expenditure in Research-and-Development (R&D) in the United States and the European Union in 2010**  
(in billion dollars, purchasing power parity)



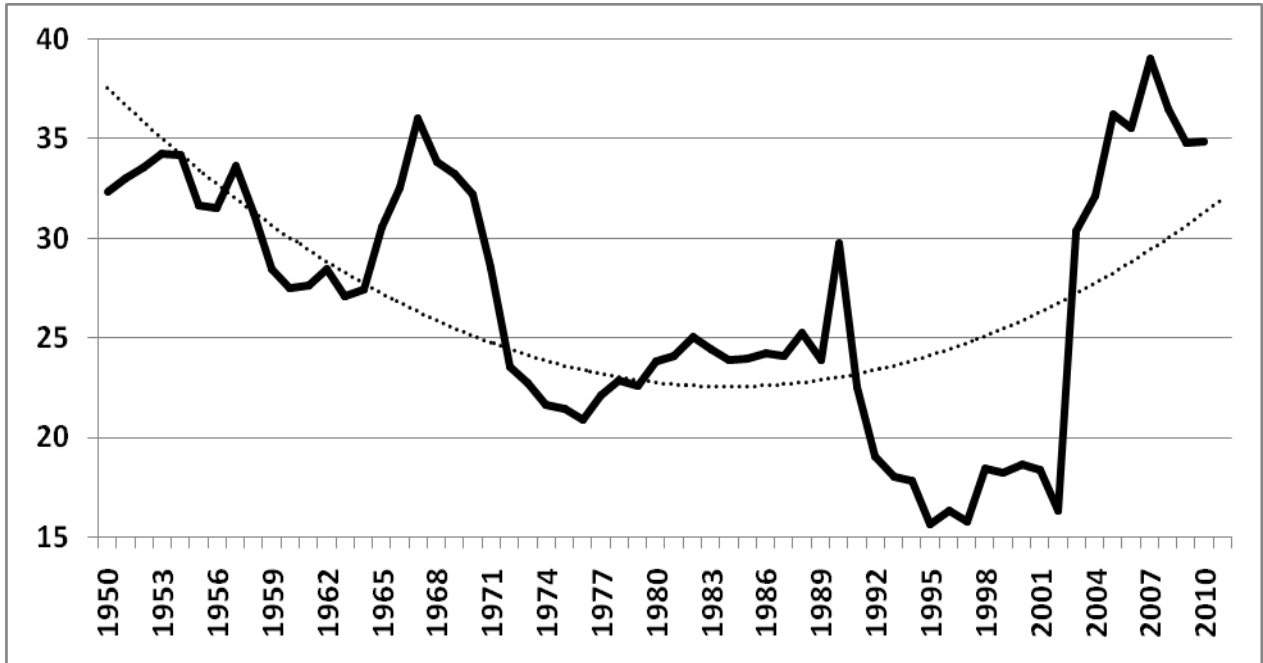
Source: État-major des armées (CPCO) / Ministère de la Défense et des anciens combattants (2011).

**Figure 11. Defense spending in capital by military in the United States and the European Union in 2010**  
(in thousand dollars, purchasing power parity)



Source: État-major des armées (CPCO) / Ministère de la Défense et des anciens combattants (2011).

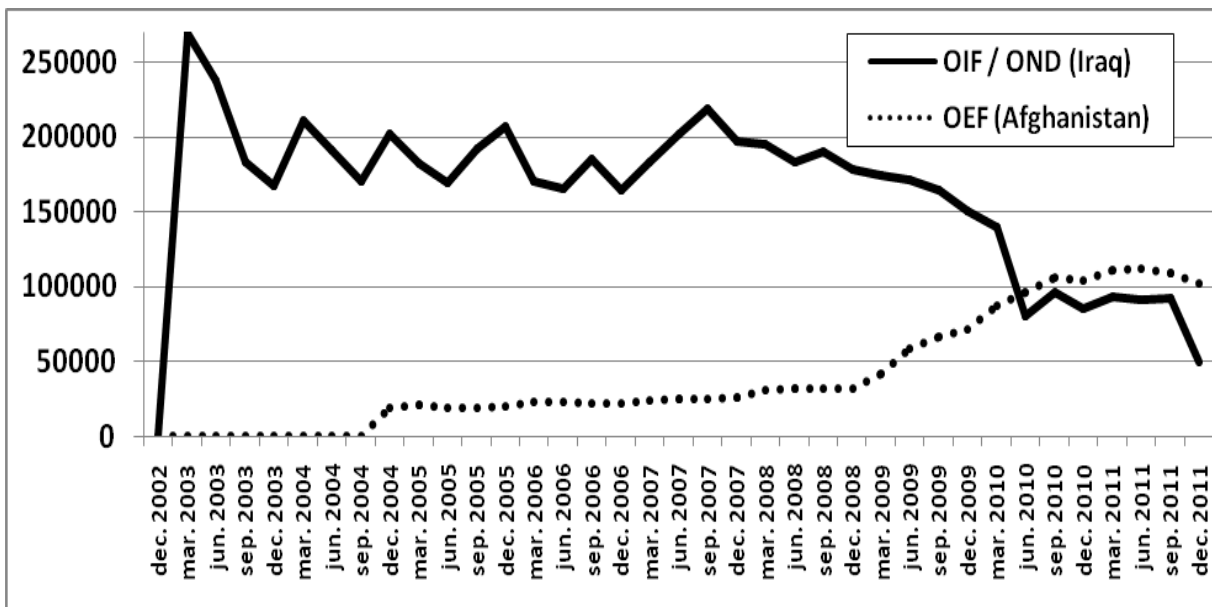
**Figure 12. Proportion of the U.S. military personnel active in foreign countries from 1950 to 2010 – worldwide, including Iraq and Afghanistan – (in percentage of the total U.S. military personnel)**



Source: Calculated by the author from the data of the U.S. Department of Defense (various years).

Note: Component « in Foreign Countries » of the « Active Duty Military Personnel Strengths », plus the military personnel engaged in *Operation Iraqi Freedom* (in Iraq since 2003), *Operation Enduring Freedom* (in Afghanistan since 2004) and *Operation New Dawn* (in Iraq).

**Figure 13. Military personnel of the United States in Iraq and Afghanistan between December 2002 to December 2011 (in person)**



Source: Chart by the author from the data of the U.S. Department of Defense (various years).

Notes: OIF = *Operation Iraqi Freedom* in Iraq (since March 2003); OEF = *Operation Enduring Freedom* in Afghanistan (since December 2004); and OND = *Operation New Dawn* in Iraq (since September 2010).

*Table 1. Main armament companies in the world in 2010  
(in billions of dollars)*

<i>Rank</i>	<i>Company</i>	<i>Country</i>	<i>Turnover in the military sector</i>
1	<b>Lockheed Martin</b>	United States	42.025
2	<b>BAE Systems</b>	United Kingdom	33.418
3	<b>Boeing</b>	United States	31.932
4	<b>Northrop Grumman</b>	United States	30.656
5	<b>General Dynamics</b>	United States	25.904
6	<b>Raytheon Co.</b>	United States	23.139
7	<b>EADS</b>	The Netherlands	15.013
8	<b>Finmeccanica</b>	Italy	13.332
9	<b>L-3 Communications</b>	United States	13.014
10	<b>United Technologies</b>	United States	11.100
11	<b>SAIC</b>	United States	8.400
12	<b>Thales</b>	France	8.032
13	<b>ITT</b>	United States	6.097
14	<b>KBR</b>	United States	5.410
15	<b>Honeywell</b>	United States	5.382

*Source:* News Defence (2011).

### **Permanent war**

The Obama administration plans to reduce the fiscal deficit of the federal government around 500 billion dollars in 2013, thanks to the savings from ending the war in Iraq – which would supposedly exceed the costs of redeploying troops to Afghanistan. Nevertheless, the fact is that President Obama and his team did not reverse the logic of “preventive wars” conducted by his predecessor – contrary to what he had suggested during his electoral campaign –, and that the United States has not stopped “regulating” the capitalist world system by military wars. The crisis is closely linked to these wars (Herrera, 2007, 2010b, 2011b). The latter are integrated into the cycle, from an economic point of view, as extreme forms of capital destruction, but also politically for the reproduction of the conditions of the commandment of the dominant fractions of the ruling classes – i.e., high finance – over the world system. We will see in the next section how the financial oligopolies recently launched an assault on the military-industrial complex in the United States gave them a decisive control over this sector. As a matter of fact, finance capital took over enough shares of publicly traded military-industrial complex corporations to gain control.

Military expenditure has become a major source of profits for capital in a context in which the use of armed forces is the strategy imposed on the world by U.S. high finance as a condition for its reproduction. Militarization is becoming the mode of existence for capitalism. And here, the role of the (neoliberal) state is fundamental for capital – because it is the state that goes to war on behalf of capital, while the governmental agencies allocate the astronomical amounts of military contracts to the transnational armament companies, via their lobbying (Mampaey and Serfati, 2004).

It should be observed that the United States launched its wars against Afghanistan and Iraq at a very specific time. Concerning Afghanistan, the year 2001 was already a time of crisis – just as 1913 and 1938 were depressive years just preceding the World Wars. The current crisis has



emerged just as changes were taking place in the U.S. monetary policy, following the worsening of the internal and external imbalances – the first one, because of the need for financing linked partially to these wars; the second being due in part to outsourcing, above all to China. Thus, following the slowing down of economic growth in 2000, the Fed greatly reduced its interest rate: from 6.50 per cent in December 2000 to 1.75 per cent in December 2001, then to 1.00 per cent in mid-2003, and it was kept at this very low level until mid-2004. It was precisely at this time, when real interest rates had become negative, that the mechanisms of the subprime crisis were set up, with greater and greater risk-taking, especially in the housing sector. Then because of the increased pressure caused by the war effort, the Fed (among other decisions, but significantly) had to raise the interest rate again as from its 1.00 percent in mid-2004 (that is, a year after the beginning of the Iraq war) to 5.25 per cent in mid-2006. And soon after, from the end of 2006 on began a massive defaulting on mortgage payments by debtors – their numbers increasing because of the contraction of growth and the stagnation of the wages.

The Federal Reserve maintained this rather high rate of interest, above 5 per cent, until mid-2007, although the signs of the crisis were already apparent. It was only in August 2007, therefore very late, that the Fed started giving the banks quantities of credit at reduced rates, gift rates, close to zero; this step, however, failed to avert new financial panics. Thus, the crisis exploded when a critical mass of debtors had difficulties in repaying their loans. This was the case at the end of 2006, after the Fed had raised its interest rates to attract the capital for financing the military budgets that had been inflated by the new wars. All that, while there was no military victory for the United States, nor any revival of accumulation though the destruction brought about by these conflicts. On the contrary, the pursuit of such wars, from Libya, via NATO, to Yemen, where in June 2011 President Obama invited the Pentagon and CIA to closely collaborate, is exacerbating the contradictions still further...

The forced march of Iraqi society towards neoliberalism begun as soon as this country was occupied, provides an “ideal-type example” of the economic consequences of this violence. Without any right to Iraq and its resources, the occupation coalition led by the United States (and the United Kingdom) imposed full privatization of public services and a corresponding change in the capital ownership structure of more than 200 companies (in the sectors of water, electricity, telephone, television stations, railways, airports, hospitals...) in order to deliver them to the transnational firms under the pretext of “reconstruction”.

To this goal, Lewis Paul Bremer, the civilian administrator of the provisional authority then appointed by the U.S. President George W. Bush during his 13 months in office some 100 orders (called the “Coalition Provisional Authority Orders”), which served as substitutes of national laws – but beyond any democratic control. The U.S. (and British) transnational companies obtained nearly 85% of all the allocated contracts. In the same movement, a law prohibited the formation of trade unions on Iraqi territory. Order 17 defended the rights of legal occupants and their subcontractors, as supplemented by Executive Order 13303, which protected them against eventual prosecution in the United States. The ordinance exempted the 38 firms in the coalition from import taxes, while Order 39 allowed foreign equity up to 100 per cent in landholdings and Iraqi companies and placed no restrictions on repatriation of financial investments and profits in Iraq. Order 40 allowed foreigners to buy local banks. 81 The order imposed the privatization of biological resources, the patenting of life (for agricultural seeds) and the liberalization of GMOs. By February 2004, Iraq became an observer at the World Trade Organization, before filling its application for membership, in an “emergency procedure”. As a consequence, the Iraq war has turned this country, within months, into one of the most neo-liberalized economies in the world.<sup>3</sup>

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<sup>3</sup> See the reports on this subject written by the Center Europe – Third World (CETIM): <http://www.cetim.ch>.

## High finance and the military

In 2010, defense expenditures in the United States were nearly 700 billion dollars (Figure 7), that is, a little over 5 per cent of GDP, to be compared to 6 per cent for education (Figure 8). This represented about one fifth of the federal budget, and near 44 per cent of the world's military spending (Figure 9). However, the actual burden is significantly greater. Indeed, some estimates consider that the total U.S. military expenditures, including interest payments on debts associated with them, would currently exceed 1.0 or even 1.1 trillion dollars (Foster and Magdoff, 2009). Even with this upward adjustment, the "military burden" (i.e., the proportion the defense expenditure is of GDP) understates the effective importance of the defense sector in the U.S. economy. It is also necessary to evaluate the destructive force and reach of the Pentagon's weapons, including the impact of its worldwide network of military bases. Whatever the criterion chosen to measure the extent of militarization – including defense R&D (Figure 10) or capital expenditures by the military (Figure 11), U.S superiority is clear.

There is no shortage of modern war "profiteers", including senior active and retired military officials, members of Congressional committees on defense spending and top managers of armament companies, whose lobbying activities gained them lucrative military contracts from the various government agencies. Here are, in general, the main transnational firms producing weapons, with astronomical sales, and contracts of several billion dollars each, like Lockheed Martin, Boeing, Northrop Grumman, General Dynamics, L-3 Communications, Raytheon, United Technologies, SAIC, ITT, Kellogg Brown & Root, Honeywell, General Electric, ITT, Computer Sciences, etc. (Table 1); and more specifically, those among them that have benefited from the contracts awarded in Iraq and Afghanistan: KBR again (with 11.4 billion dollars between mid-2002 and mid-2004), Parsons (5.3 billion over the same period), Fluor (3.8 billion), Washington Group (3.1), Shaw Group E&I (3.0), Bechtel (2.8), Perini (2.5), Contrack (2.3), but also Tetra Tech, USA Environmental, CH2M Hill, American International Contractors (with around 1.5 billion dollars respectively), and so on (Herrera, 2010b).

The fundamental point to be underlined here is that finance capital continues to strengthen its recent and quite rapid ascendancy over the U.S. military-industrial complex. This can be seen as institutional investors, themselves dependent on the most powerful U.S. banking and financial oligopolies, take over the structure of ownership of capital of these military companies. At the beginning of the 2000s, the proportion controlled by finance capital reached 95.0 per cent of the capital of Lockheed Martin, 86.5 per cent of that of Engineered Support Systems, 85.9 per cent for Stewart & Stevenson Services, 84.7 per cent for L-3 Communications, 82.8 per cent for Northrop Grumman, 76.0 per cent for General Dynamics, 70.0 per cent for Raytheon, 66.0 per cent for Titan, 65.0 per cent for Boeing, etc.

Similarly, as the government outsources or "externalizes" more and more its defense business, a growing share of private military companies came under the control of finance. For instance, DynCorp was bought by the software company Computer Sciences Corp. in 2003, and, two years later, became the property of the private equity fund Veritas Capital. Earlier, in 2000, L-3 Communications Holdings controlled MPRI. A consequence of these takeovers is that ordinary citizens participate (often without their knowledge) in owing capital of a military company whose activities range from the missions of mercenaries to the "interrogation" of prisoners... By the fall of 2006, their collaboration was rewarded. MPRI obtained a contract to support the U.S. Army in Iraq and Afghanistan; the official prices of the common shares of the affiliated firms and its parent company shot upwards. Another private military company, Vinnell, whose profitability has attracted so much interest that its owners changed several times in recent years, had been previously purchased by the financial group Carlyle... (Cicchini and Herrera, 2008).

The number of agents employed by private military companies in Iraq reached 182,000 in 2008, that is, a number greater than that of U.S military personnel in the Army, the Navy, the

Marine Corps and the Air Force combined (Figures 12 and 13). At that time, the total number of private paramilitary fighters in activity was approximately 75,000, which would make them the second most numerous contingent engaged in the conflict, many more than the foreign troops allied to the United States (approximately 23,000 soldiers). Integrated into the “Total Force”, they are employed by nearly 300 private companies, such as KBR, Blackwater USA, MPRI, Vinnell, DynCorp, Control Risks, Pacific Architects & Engineers, Custer Battle, Titan, ArmorGroup, California Analysis Center, etc. Taken as a whole, these firms would share sales of over 100 billion dollars annually. Their biggest customer is obviously the (neoliberalized) state, which turned both Afghanistan and Iraq into privileged sites of action for this new “war market” that opened after September 11, 2001 and the launching of the “Global War on Terror”.

Nevertheless, such changes have generated new economic and political contradictions, even deeper than those that brought the changes about. The ineffectiveness of this strategy of “privatizing security” is increasingly apparent in Iraq, as well as in Afghanistan; it neither “minimizes costs”, nor does it win these wars. Some economists estimate that the financial costs of these wars are running high...<sup>4</sup> Whatever is saved by recruiting experienced mercenaries – instead of training new recruits – is lost by the high amounts paid the private military firms from public funds. And the scandals are known: overcharging or “cost plus”, absence of competition under the pretext of “secret agreements” with the Pentagon or the CIA, double accounting and payments for services which are not performed, to doubtful collusion of shareholders, in addition to repeated abuses (ranging from torture to unpunished crimes of mercenaries)... Conflicts have even been observed between regular army soldiers and private mercenaries – the latter being better paid, with better “working conditions” and often escaping legal penalties...

### **The exacerbation of the contradictions within the capitalist system**

However, the failure of this new “public-private partnership” is complete; as it is also the case for the permanent war strategy itself. This has not prevented the resurgence of protests and resistances within the army. Today, the opposition to the wars is partly organized in by the “IVAW”, or “Iraq Veterans Against the War”, movement founded by the convention of Veterans for Peace held in Boston in July 2004 in order to bring the voices of active personnel and veterans refusing the Iraq war, but forced under pressure to keep quiet. The rebellion spirit of the old “Resistance Inside The Army” (“RITAs” during the Vietnam war) breathes in their manifesto. Since the beginning of the Iraq war, more than half a million U.S. soldiers have made at least one mission there. According to official statistical data, between March 2003 and July 2008, 4,124 of them had been killed (for a total of 4,438 deaths among all coalition troops). Alternative sources<sup>5</sup>, describing the artifices used by the military authorities to reduce the number of casualties made public, suggest much higher figures...

After having announced the withdrawal from Iraq over 19 months beginning in February 2009, and the redeployment of troops in Afghanistan, President Barack H. Obama’s challenge will be to try to cushion the impact of these decisions within the U.S. society. The effects of effective demand associated with the wars in Iraq and Afghanistan affect essentially the short term, and the technological effects are positive only for the military-industrial complex, which is clearly insufficient to restore sustainable growth. The destruction of capital caused by these wars – considerable for the peoples who suffer these conflicts – will not revitalize accumulation at the center of the hegemonic economy of the capitalist world system, as was the case during the reconstruction driven by the Marshall Plan after World War II. To be able

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<sup>4</sup> See, for example, the estimates (3.0 trillion dollars) proposed by the Nobel-price laureate Joseph Stiglitz.

<sup>5</sup> See the IVAW website: <http://ivaw.org/>. And also the appeal for peace: <http://appealforredress.org/index.php>.

to restart an expansion cycle of capital accumulation of long duration in the North, the crisis would have to “destroy” absolutely gigantic amounts of fictitious capital, most of it being parasitical. However, the deep contradictions characterizing of the capitalist system have now become so difficult to solve that such a devalorization could push it to collapse.

Orthodox thinkers also believe that the present crisis will lead to the collapse of capitalism, like, for example, the analysts of the *Global Europe Anticipation Bulletin*, whose predictions about the worsening of the situation lead to the total geopolitical dislocation of the system, the fall of the dollar, and the disappearances of the bases of the globalized financial system; or, in the United States, those of *Money&Markets*, who foresee the forthcoming deepening of the crisis by a more traditional sequence: hollowing out of the fiscal deficit, swelling public debt, insufficient defence of the dollar by the U.S. monetary authorities... For now, the worsening situation undermines a little more the unipolar hegemony of the United States.

In the light of this, a small but significant minority among dominant currents of thought continue to be more and more radical in their support of ultra-liberal theses, inspired by von Mises, Hayek, or Rothbard.<sup>6</sup> Their analyses of the crisis are based on a reaffirmed faith in the automatic character of market re-equilibrium. This is annoying for the neoliberals, insofar as these ultra-liberals defend the idea that the crisis came about from an excess of interventionism and that the state should not save the banks and companies in difficulty. What needs to be done, according to them, is to put an end to state regulations that limit the freedom of the agents on the markets. These authors are therefore against any anti-crisis plan, and in particular against any regulation of the interest rates by the central bank. The most extreme among them are going so far as to call for a suppression of the state institutions – including the army – as well as a privatization of the currency. Even if they are aware that such measures would push capitalism towards chaos, they think that, thanks to market mechanisms, this chaos would benefit capital, and capitalism would reconstitute itself faster and better than through state interventions in the form of artificial public assistance to enterprises that in any case were doomed to fail.

In parallel, the gravity of the crisis has favoured a return to “reformist” theses (Krugman, 2009). In fact, while ‘Keynesian’ measures were perceptible – including in the G.W. Bush plan of 2008 for example (with its handover of part of the taxes), and above all in the programme of President Obama (infrastructure, etc.) – today, priority is clearly given to neoliberalism to save as much as possible of the over-accumulated fictitious capital. However, the current anti-crisis policies are not Keynesian, and their initiators have not extricated themselves from neoliberal dogmas. Indeed, the Fed and the other central banks of the North continue to create primary currency on a massive scale. But this apparently “Keynesian” monetary policy has in fact fallen into the “*liquidity trap*”, where the strategy of lowering the real interest rate has proven unable to increase the marginal effectiveness of capital and to transfer money-capital from the financial sphere into the productive sphere.

Crises constitute moments in which fractions of capital, generally the less productive and/or innovative ones, are absorbed and embodied into a more concentrated capitalist ownership structure. So far, each reorganization of capital in history has allowed the system to build more effective institutions and instruments to mitigate the worst devastating effects of these crises, but in no way to resolve the profound contradictions of the capitalist system.

## Conclusion

The likelihood of escalation of the current crisis is extremely high today – not only in Europe with the euro zone difficulties and preoccupations caused by public indebtedness, or in Japan, stuck in a conjunction of dramatic problems, but also and above all in the United States itself.

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<sup>6</sup> Read, for example, the comments by Rockwell and Rozeff, from the von Mises Institute.

There is a high probability that the present crisis will become more acute as a systemic crisis of capital, since all the conditions are there for that to happen. Capitalism is in danger, including at the very centre of the system. Obviously, other capitalist crises happened in the past, and the system has always come out of them stronger and more concentrated than ever. It is an illusion to believe that capitalism is going to collapse from the effects of the current crisis.

However, if the structural problem for the survival of capitalism is indeed that of downward pressures on the rate of profit, and if financialization is not a sustainable solution, the only thing that this system will offer, until its agony, will be a constant pressure to increase the exploitation of the labour force, because fictitious capital demands to be remunerated and it obtains this by transferring the surplus of productive capital. The present situation does not resemble “*the beginning of the end of the crisis*” as perceived by some advisers to President Obama. It is not an usual credit crisis, nor yet a temporary liquidity crisis, through which the system will reorganize and reinforce itself, then begin to function “normally”, with a new expansion of the productive forces in a framework of modernized social relations. It looks to be much more serious; that is to say, the beginning of a long-period process of collapse of the current stage or phase of capitalism, which is now oligopolistic and financialized. And this collapsing process is opening up wide prospects of transitions. Therefore, this will make it necessary to reconsider possibilities for alternatives and post-capitalist transformations.

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