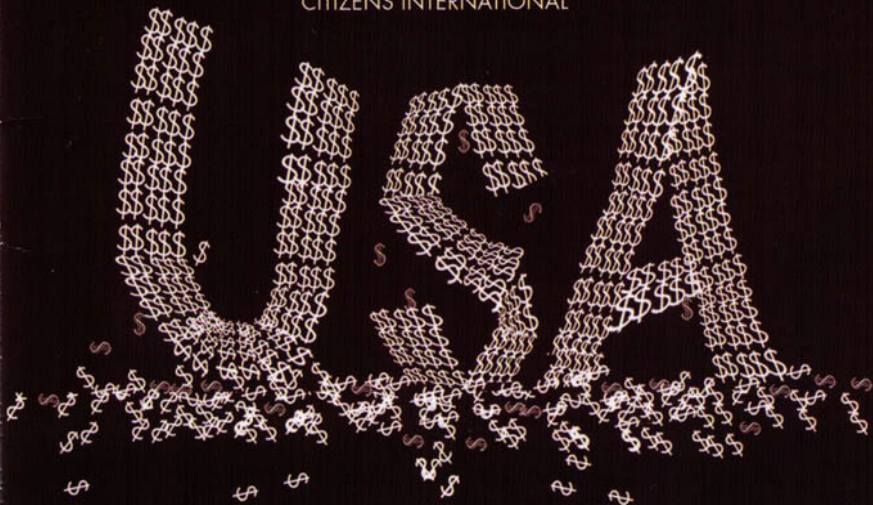




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Frederic F. Clairmont

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USA: The crumbling of empire

Frederic F Clairmont

'The fundamental business of the country, that is the production and distribution of commodities, is on a sound and prosperous basis.'

— Herbert Hoover, October 1929

'A severe economic depression is outside the range of probability.'

— The Harvard Economic Society, September 1929

'I want you to know that the economy is fundamentally strong.'

— George W Bush, July 2002

It may seem at first sight historically perverse, paradoxical and absurdly provocative to label American capitalism a crumbling empire at this crucial juncture of history when its caste oligarchy is gearing the massive resources of American capitalism, combined with those of its irrepressible British jackal and other mercenaries, to unleash what could prove to be one of the most horrendous holocausts of our century. An imperialist empire whose expenditures for war and preparations for war now approximate \$400 billion.[1] A sum, it should be noted, that has no precedence in the annals of warfare, outstripping the

aggregate military expenditures of the next 20 countries. The ideological engineers of empire in their desperate lunge to war are now striving to bamboozle world opinion of the empire's geopolitical, economic and military omnipotence. To crown it all, such an acknowledged imbecile as Bush has even been obsequiously baptised by one leading financial journal as The Man of the Year. The zeal and thunderous repetition of arrogant affirmations of US omnipotence by its corporate manacled press, radio and television media [2] sedulously ignores, however, that the financial edifice of this disease-ridden empire reveals deep cracks and fissures that are daily becoming more discernible and despicable.

Henry Ford made the celebrated but fatuous quip at the zenith of the Great Depression that 'history is bunk.' The recurrence of the second world Great Economic Depression confirms the fallacy of this judgment inasmuch as the march of time is part of an historical process. We cannot hope to understand the present without reference to the historical antecedents that produced the tragedy that capitalism continues to spawn. The central focus of this contribution is to repudiate the pernicious myth of US omniscience, omnipotence and invulnerability by delineating and analysing the extent to which the wholly corrupt, demoralised and criminalised structure [3] of American capitalism is being battered and swiftly undermined by one of the most tenacious world economic upheavals of all time. What the Depression and the ensuing collapse of financial markets once again demonstrate is that the claims of the propagandists of corporate capital that the system is 'a rational allocator of resources' are mendacious. During the

1990s, which experienced the most sustained speculative drive in the history of finance capital, corporate balance sheets proved to be nothing more than barefaced concoctions.

The masters of the corporate universe of which the likes of Bernie Ebbers (WorldCom) are merely the sordid prototype swindled billions and wiped out the life savings of hundreds of thousands of working people. This was not a scandal but is a crime. Researchers Blasi, Kruse and Bernstein have unmasked for us the mechanism of these mass swindles. Executives in the Corporate America 100 have used employee ownership to enrich themselves to an ever-increasing degree. In 1980, the two highest paid executives at a sampling of nearly 5,000 of the largest US corporations earned an average of \$1.35 million each, in today's dollars. Most of their pay came from a base salary, plus annual bonuses. By 2001, their average total pay had multiplied to \$11 million each with 80% coming from stock options. What cannot be ignored is that CEO compensation has vastly outpaced the stock market for many years. The top five executives at the largest 15,000 corporations enjoyed a 650% increase in the value of the options they exercised between 1992 and 2000 and more than 1,000% increase in the paper wealth of their unexercised options. Yet these corporations' total market value rose by only 350% over this period.

The notion of accountability brandished in the corporate balance sheet had ceased to exist even as a fig leaf. The making

of the financial bubble and its subsequent implosion explains much but by no means all. The all-embracing criminalisation of American capitalism included without exception all the world's major investment banks, the world's five mega accountancy corporations (now reduced to four), public relations companies, the advertising giants, and the most prestigious law firms in the US and abroad. It should be fairly obvious that such egregious levels of criminalisation, however, could not have been consummated without the persistent complicity of the leading political caste within the US administration over a long duration.

The unfolding process of the crumbling empire must therefore be visualised in the context of the most protracted business cycle boom that fizzled out in the spring of 2000. Our goal is to investigate certain aspects of the financial structure that is rotting rapidly, undermined by an avalanche of debt. The 'miraculous boom', as it was superciliously labelled by the apologists for unbridled market deregulation, has turned into a bust. Since January 2000, \$7 trillion of wealth was wiped out by the American stock market crash. Worldwide the figure is around \$12 trillion. This is not the ignoble end of the downward spiral that incubates cascading financial losses. The US economy has set the record of being the world's longest and largest reigning debtor with no signs of relinquishing its hegemonic laurels. Global corporate defaults are soaring at a staggering tempo. Creditworthiness is at its lowest ebb since 1945. By the end of last year more giant corporations defaulted than at any time since the end of World War II. According to Standard and Poor's findings 234 major corpora-

tions defaulted to the tune of \$180 billion. More than four times the default of 2000. Or more than eight times the default rate of 1990. They hoisted the black flag of bankruptcy because they couldn't pay their debts.

The sustained mounting level of indebtedness of the USA is of salient national and international significance due to its still paramount position in international financial markets and international trade and the dollar's role (challenged though it now is) as the world's leading currency.

In 2001, it accounted for 31% of world GDP at market prices; the European Union 26% and Japan 15%. Thus the major world regions of imperialism account for 72% of global output. In all of them, albeit at unequal tempos, the depressionary forces are gathering momentum with no glimmers of an upturn in sight. In all of them the spectre of deflation has cast its shadow, conspicuously so in Germany and Japan. [4]

The US financial implosion is occurring against a backdrop of rapidly shrinking world output and trade. World manufacturing capacity, excluding China, is operating at 65%. Certain selected indicators portray the pervasive power of the krach. In the US, the Standard and Poor's Composite Index dived from 1,500 at the start of 2000 to less than 900 at present. For a third consecutive year, world stock markets continued their steep slide, redolent of the worst three-year record since 1929-31 when world stock

markets crumbled by 58.8%. US investor optimism, compiled by the Union Bank of Switzerland, fell from 180 at the start of 2000 to less than 40 at end 2002. The US consumer confidence index of Conference Board tumbled from 145 at the start of 2000 to around 80 at the beginning of 2003.

Indubitably, the equity markets are crashing, but other squalid segments of casino capitalism continue to flourish. The derivative markets are the fullest embodiment of the most predatory and riskiest manifestations of financial speculation. This is the Grand Casino in its most putrid manifestation. According to the Bank for International Settlements (BIS), total outstanding size of the over-the-counter derivatives market was about \$128,000 billion at end June 2002 in terms of notional value: a 15% rise over 2001, an expansionary surge generated by a 16% boost in the volume of interest rate derivatives that reached \$97,000 billion by the middle of 2002, as against \$67,500 billion a year earlier.

The greenback since January 2002 has lost 12% of its value against a trade-weighted basket of other currencies in just one year, its steepest drop in the postwar period. There are no buoyancy factors in international financial markets to sustain it.

What these fragmentary indicators pinpoint is that US capitalism is on the skids: the drop in personal household income and expenditure, vastly diminished consumer and investor confidence and falling consumption. Debt-loaded balance sheets have become the banality and nightmare of corporate boardrooms.

US non-financial debt is surging with unprecedented velocity, already engulfing more than 47% of GDP. Housing construction has dipped to its lowest level in two decades. Unemployment, so characteristic a trait of the hungry 1930s, is rearing its ugly head with a vengeance. The official unemployment count of 6.2%, measured by the household surveys of the Labour Department, is grossly misleading. Millions of jobless Americans have abandoned the quest for a job because of their desperate failure to find one. The bulk of jobs generated are in the service sectors, invariably with wages below the legally established minimum wage. Manufacturing employment has almost stalled. The involuntary dropouts of the labour force are not counted as unemployed, hence the actual level of joblessness is considerably higher. A more accurate count based on other criteria would bring the jobless numbers to around 11 million, a figure in line with the depression years of the New Deal.

The evolution of the current depression and the crumbling of empire are inseparable from the swelling debt tides that permeate every niche of American capitalism. This Himalayan debt has to be repaid at compound interest rates; or it must be repudiated, which appears to be the only feasible outcome on the horizon. In a deflationary universe, into which the US is now entering, debt repayment becomes more onerous. Our analysis will be centred on three aspects of that debt. The first is the movement of outstanding sectoral debt since the mid-1960s to 2002, an interval of four decades. As Table 1 indicates, there are five major items:

government debt, household debt, business debt (non-financial) and business financial debt (domestic and foreign). The second aspect covers the current account deficit (CAD) of the balance of payments, and the third its corollary: the trajectory of net asset liabilities since the 1960s.

Sectoral debt outstanding

The rise of outstanding debt since 1964 depicts the ominous mutations coursing through the major segments of American capitalism. The data was computed from the Federal Reserve Board flow of funds. What it highlights is the sheer size of the aggregate outstanding debt that has become one of the major explosive ingredients of the overall economic debacle, soaring from over \$10 trillion to around \$30 trillion by 2002. A number three times the GDP and growing at an annual rate of 10%. With the quickening of the crisis the differential between GDP and the aggregate debt must inevitably widen in terms of both growth and volume. A mountain of debt, as we have said, that will not and cannot be reimbursed and which becomes more onerous as US capitalism enters the deflationary mode, with the once-almighty greenback pursuing its slide into the abyss of depreciation.

Passing from the aggregate to specific segments of the outstanding debt, one perceives that its most striking trait is the domestic business financial sector, which experienced a 181-fold increase, rocketing from \$53 billion to \$9.6 trillion or 96% of GDP.

One of the major propellants of this giant stride was and is the merger-and-acquisition binge financed by debt. This was clearly evidenced in the two-decade interval 1980-1998, notably the concentration in the US banking sector which obviously has not reached its upper limits. This involved the merger and acquisition of \$2.4 trillion in acquired assets. The drive to concentration was by no means confined to the banking sector. These two decades recorded the fastest growth of mergers and acquisitions. Global M&A rose from \$156 billion in 1992 to about \$3,300 billion in 1999. The size and speed of the corporate annexationism of the 1990s, oiled by easy credit, eclipses by wide margins that of any other period in the history of capitalism.

Corporate concentration with huge debt as its concomitant is occurring not only at a specific phase of the business cycle but spans both intervals of booms and busts. As the research of Nolan and Zhang demonstrates [5], the underdeveloped capitalist world are disadvantaged in this race. With 84% of the world's population, they account for 26 Fortune 500 corporations, 16 Financial Times 500 companies, 15 of Morgan Stanley's list of the 250 leading 'competitive edge' corporations, one of the world's top 100 brands, and none of the world's top 300 firms by research and development expenditure.

Household debt

Sharply rising household debt is a major catalyst accelerating the

Table 1
USA: Debt Outstanding by Sector
(Billions of Dollars)

Year	Total	Govt	House- holds	Business non- financial	Business financial	
					Domestic	Foreign
1964	10278	355.5	289.9	285.4	53.0	35.0
1974	2411.8	566.4	663.4	842.5	258.3	81.2
1984	7439.0	1877.8	1918.2	2355.1	1052.4	235.5
1994	17204.3	4614.0	4426.8	3971.0	3822.2	370.3
1999	25678.7	4933.5	6464.3	6055.7	7607.0	618.2
2000	26497.2	4664.4	6497.4	6529.3	8457.1	746.7
2001	29472.7	4762.0	7088.5	6921.3	9383.8	712.9
2002	29968.4	4806.1	7245.1	6953.2	9617.1	725.2
1964 = 100						
1964	100	100	100	100	100	100
1974	235	159	222	295	487	232
1984	724	528	642	825	1986	673
1994	1674	1298	1481	1391	7212	1058
1999	2498	1388	2163	2122	14353	1766
2000	2578	1312	2241	2287	15958	2133
2001	2867	1339	2445	2425	17705	2034
2002	2915	1353	2449	2436	18146	2072

Source: Computed from data of The US Federal Reserve

downturn, a crucial indicator of the extent to which the American consumer is living on borrowed time and borrowed money. In these four decades, the pace of household indebtedness rose almost 2,400-fold. Personal borrowing leapt from 26% of personal income (1985) to 40% by end 2002. Household indebtedness rocketed from \$290 billion in 1964 to \$7.2 trillion or 72% of GDP. This surge of household indebtedness impacted adversely on the savings rate. Households were deploying their accumulated savings, or better still gambling, in the stock markets using their real estate assets as collateral to finance current consumption.

The ratio of personal indebtedness jumped from 106% of disposable income in 1993 to 138% in 2002. The stunning fall in the savings rate is one of the degenerative symptoms of US capitalism. Savings and investment are the major propellants of capital accumulation. According to the findings of Morgan Stanley analysts, the net national savings rate (i.e. the sum of household, business and government savings after depreciation) plunged to an all-time low of 1.6% of GDP in the third quarter of 2002. This is less than a third of the 1990s average, and one-sixth the rate of the 1960s and 1970s. The ever-expanding federal budget deficit concocted by the Bush junta will further push the savings rate down. In the first quarter of 2000, the budget recorded a surplus of 2.3% of GDP, and the net national savings rate stood at 6.4%. By the third quarter of 2002 the budget fell into a deficit of 1.8%. This signalled a marked worsening in the fiscal balance that led to depletion in national savings since early 2000. Consequently,

with the unremitting rise of these deficits national savings will shrivel even further.

The current account deficit

A key element in US indebtedness, which is proving to be the empire's Achilles' heel, is its rapidly deteriorating current account balance. Of comparative historical relevance is the position of the current account in the heyday of British imperialism before 1914. British historian Martin Wolf reminds us that in the imperial decades preceding 1914 the United Kingdom ran a current account surplus of 4%. In contrast, American imperialism today with its wobbly financial structures is totting up a chronic CAD of 5% of GDP.

The current account in national income accounting is the difference between national saving and investment; it is equal to the net accumulation of US assets ?direct and indirect ?held by foreign investors. It encompasses trade in goods and services as well as investment income such as dividends and interest. The current account of the balance of payments measures the size and direction of international borrowing. It is also the difference between exports and imports of goods and services. When a country buys more from overseas than it sells, it must therefore finance the shortfall by borrowing. This increases its net foreign debt by the amount of the deficit. The ruling caste oligarchy of American imperialism is thus financing its CAD by drawing down its previously accumulated foreign wealth to pay for its imports.

Running down its net foreign wealth is the same thing as running up its net foreign debt.

Growth in domestic demand in the 1990s was met by uncontrolled foreign borrowing to pay for surging imports. It was a fool's paradise as the bursting of the bubble and its sequels so starkly reveals. Current imports, that have steadily climbed over the last 15 years, are now more than 42% larger than exports. This signifies that exports must grow by at least 42% to balance the account. Prospects of narrowing the import/export differential are well nigh non-existent given the US' inability to compete on the world market despite its depreciating currency. The ever-expanding CAD was bankrolled by capital inflows equivalent to a staggering 76% of the world's current account surplus. The \$500 billion CAD growing at 10% yearly requires almost \$1.9 billion of foreign money every working day to finance the shortfall, which is palpably unsustainable even in the short run. Although foreign money continues to flow into US financial markets its pace has considerably decelerated, as corroborated in the capital account transactions. Whereas private foreign assets were rising steeply from the mid-1990s they peaked in 2000 — the year of the Nasdaq crash — from \$1 trillion to about \$500 billion at present with no signs of grinding to a halt.

Rather what we perceive is an outflow of foreign capital from US financial markets which is still a trickle but which could very well turn into a flood with Bush's planned wars in the Middle East and

elsewhere. Like a drug addict it has become dependent on the inflows of foreign capital to finance its fiscal profligacy. The extent of this accentuating dependency on foreign money is that foreign capitalists now possess more than 18% of the total market value of long-term US assets and 42% of outstanding Treasury bonds. Huge as they are these prodigious sums could flow out with the speed of the touch of a computer key. Attempts to close the gap by foreign financing will not do the trick. Mounting budget deficits joined to an expanding CAD will boost financing requirements by at least 6-7% of GDP in 2003.

Traditionally what has facilitated the CAD's financing has been the higher returns on US assets which are now, however, swiftly shedding their allurements. A salient attribute of US imperialism is that it has the exclusive privilege of borrowing in its own currency and the possibility of devaluing its debts. It has already done so. By printing greenbacks, the imperial caste is paying for its imports by IOUs. A privilege enjoyed by no other nation, but one which in the present conjuncture of stricken financial markets is purely ephemeral. What we continue to perceive is that an intolerable string of CADs, and other deficits, have contributed to swell the tide of rising net liabilities. The CAD in short is the noose around the neck of US imperialism.

Net asset liabilities

The net asset liabilities measure the difference between a country's foreign assets and its foreign liabilities. The net asset liabili-

ties are burgeoning by 10% yearly. In the relatively short span 1999-2002, it has increased rapidly, soaring from \$1.9 to \$2.5 trillion, or 25% of GDP. The asset positions in the balance of payments are of primordial importance, and stem from the cumulative current account deficits. It should be apparent from the foregoing — leaving aside the speculative costs of its planned genocidal wars — that debt in its various manifestations is the centrepiece of the disintegrating financial structures. The galloping economic debacle of US capitalism is an integral part of the geo-economic and political crises of imperialism as a whole. The non-stop crises following each other in rapid succession have also served to discredit the dogmas of neo-liberalism now grovelling in the gutter.

In sum

The crumbling of the financial infrastructure of US capitalism does not suggest that the super corporate rich have been bulldozed into the graves. Certainly, given the scope and demonic energy of the financial debacle, they have experienced losses. What cannot however be ignored is that the very logic of capital continues to secrete inequalities. This is its systemic and irrevocable nature. Let us look at merely one sector, the semiconductor industry in Silicon Valley. According to Chris Benner of Pennsylvania a substantial proportion of Silicon Valley's labour force receives a paltry remuneration, has no job security, and has scant chances of professional promotion. At the other end of the

spectrum, however, executive pay has soared. Between 1991 and 2000, the average earnings of the top 1,000 executives in Silicon Valley companies climbed by more than 3,000% in real terms. In the same interval, the average annual income of production workers in the electronics industry fell by 7%: from \$38,000 to \$35,000 a year. This meant that income ratios in this sector rose from 42:1 in 1991 to 956:1 in 2000. Silicon Valley was touted as a grand symbol of the New Economy. There can be few areas in the advanced capitalist economies where income disparity is so marked.

Measured by the Gini coefficient, inequalities in the US have climbed remorselessly over the last three decades. American capitalism has generated one of the most colossal wealth transfers in modern times. Around one-tenth of US capitalism's hyper-privileged caste owns four-fifths the country's wealth. The richest 10,000 families have appropriated a net worth (assets minus liabilities) equivalent to the assets of the 20 million poorest families. The top 10 most lavishly remunerated masters of the corporate boardroom amassed an income of \$154 million yearly as against a paltry \$3.5 million in 1981. As the novelist Gore Vidal reminds us, the Bush junta and his corporate praetorian guards were not jettisoned into power to raise the tax burden of the plutocracy. In 1950, taxes on corporate profits were 25% of federal revenue; in 2001 it fell to 8.9%. Symptomatic of these mounting inequalities, revelatory of the dictatorship of capital, is the monstrously widening gap revealed in the comparison between the average annual inflation-adjusted salaries of workers and the chief execu-

tive officers (CEOs) of the Fortune 500 companies in the decades 1970-2000 (see Table 2).

The rising crescendo of debt wedded to the prevailing structures of inequalities are not aberrations but are part and parcel of the crumbling empire whose apostles continue to mask its diseased social order with the sordid rhetoric of 'human rights' and 'democracy'.

Endnotes

1. A rising number that will continue to climb indicating the frantic tempo of militarisation. According to the Congressional Budget Office (CBO) military expenditures are projected to rise by more than \$100 billion by the end of the current decade. According to the CBO average annual expenditure is forecast to rise to \$464 billion between 2005-20.

2. Ideological conformity and the exponential power of the Big Lie is being reinforced by powers of unprecedented economic concentration. As one media specialist in the New York Times (21 January 2003) captioned his analysis: 'Merged Media Giants have us at their mercy'. Back in 1996, the two largest radio chains owned 115 stations; today those two own more than 1,400. A handful of leading owners used to generate only a fifth of industry revenue; now the top five rake in 55% of all money spent on local radio. The same trend is discernible in the leading 20 Internet sites and the biggest cable channels.

3. The current US depression is characterised by a criminalisation whose prodigious and pervasive scale would make the embezzlements of the Robber Barons of the US Gilded Age look like a children's garden party. A Financial Times investigative report (31 July 2002) covered the 25 largest US public quoted companies on the US stock exchanges to go bankrupt since January 2001. The investigative team described the 81 executives plus 27 directors whose salary details were published in company filings as 'barons of bankruptcy'. This is a hyper-privileged group of corporate gangsters who made extraordinary personal fortunes of \$3.5 billion even as their corporations were spiralling into the abyss of the crash. The technique was quite simple: they made their money when the stock markets were at their highest peak, selling shares in companies whose values rocketed in 1999 and 2000. Their manipulations resulted in the losses of hundreds of billions of investor wealth, and the liquidation of more than 150,000 jobs. The earnings numbers of this parasitical caste comprised salaries, bonuses, other cash payments and share sales between January 1999 and December 2000 — a very short interval of time. The criminal pickings before 1999 and after 2001 were not included. No doubt if this enquiry had been extended beyond that time horizon and

Table 2

	1970	2000	Growth Index
1. Salaries	\$32,522	\$35,974	0.33
2. CEO's real remuneration	\$1.3m	\$45.0m	12.53
Ratio (1:2)	1:40	1:1250	

extrapolated to embrace the malfeasance of international capitalism worldwide the modest pickings of \$3.5 billion that were embezzled would have amounted to hundreds of billions of dollars.

4. The growing gap between Japan's total government expenditures and tax revenues (as in the US) reveals one aspect of its spiralling crisis. Whereas total tax revenues climbed from ¥32 trillion in 1983 to ¥42 trillion in 2002, expenditures soared from ¥50 trillion to ¥82 trillion. This is a gap that is financed by the issuance of government bonds to the tune of ¥36,450 billion that will push the economy even deeper into the pit of indebtedness and ultimate bankruptcy. The prolonged economic stagnation that partners deflation is set to continue. The boast of Japanese Big Capital that they had created a permanent full employment society is one more dogma that has been dumped into the garbage can of history. The sheer size of bad loans being carried on banks' balance sheets — the notorious non-performing loans — continues to rise. The financial crisis is moving hand in hand and is feeding the level of joblessness that has reached alarming proportions according to the Ministry of Labour. The official rate is 5.5%. The figure is wholly misleading, like the American rate, and for much the same reasons. There are more than two million people who would work if jobs were available.

5. Peter Nolan and Jin Zhang, *The Challenge of Globalization for Large Chinese Firms*, July 2002, UNCTAD Discussion Papers.