CHAPTER 9

The Political Economy of Hyper-Modernity

A Tale of America's Hegemonic Exigencies Recounted Through the Undulations of the US Balance of Payments (1946–2015)

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Introduction: The Political Incorrectness of Being Inherently Hegemonic

> The available funding for our deficits has permitted the United States to carry out heavy overseas military expenditures and to undertake other foreign commitments, and to retain substantial flexibility for domestic economic policy. […] In the interests of facilitating international harmony the appearance of US hegemony should not be sought.[1]

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The excerpt identifies and summarizes intelligibly an important, if not the most important, drive of America's contemporary political economy. The passage is from a 1969 report, titled "Basic Options in International Monetary Affairs," which was issued by an interdepartmental committee chaired by the then Under-Secretary of the Treasury, Paul Volcker. Initiated at the New York Fed, and later groomed as a protégé of David Rockefeller at Chase Manhattan and of Robert Roosa at the US Treasury, Volcker joined the Nixon executive in 1969. Appointed Fed Chairman by Carter in 1979, he would go on to become Reagan's financial czar until 1987. The hagiography celebrates Volcker's tenure at the Federal Reserve as that of a titanic St. George who rose to technocratic glory for slaying the dragon of America's "Great Inflation" (1965–1980). From this study's standpoint, it is of no consequence, however, whether Volcker has indeed been "the greatest chairman the Fed has ever had,"[2] as claimed by his mentor, Roosa, or rather a "poor and wretched [bureaucrat who] never [knew] where he stood on any issue," as believed by his colleague and erstwhile Federal Reserve chief Arthur Burns.[3] Advertence to Volcker's bi-partisan career is only pertinent in that it betokens the *continuity* that contradistinguishes US international monetary policy in its pursuit of world hegemony. The strategy, the drive, is always the same; therefore, the color of the personalities, affiliations, and administrations devoted to implementing it is fundamentally irrelevant.

As detailed in the above citation, the "drive," the imperative in question for the USA is that of managing international payments and the money supply in such a way as to pin on foreigners—first and foremost the wealthiest ones[4]—the cost of US foreign military buildup as well as that of other "foreign commitments." In the composite picture, these other "commitments" consist essentially of foreign financial/industrial "investments" designed to expand America's overall, self-potentiating earning base, worldwide.

Of course, the scope of such an enormous apparatus as the United States public and private economic/monetary machine is not *exclusively* confined to exacting strategic rents from opulent satellites: such is the *proximate* objective of its scope of operations. The wider goal, through intense mercantile and financial intercourse with the world, is for the USA to exercise pervasive control over the "international community" by performing at all times as the indispensable locomotive of the global economy. Volcker himself explained that America's domestic economy and her financial involvement abroad cannot be distinguished because they "are part of one piece."[5]

To a considerable extent, the economic prowess of the USA may be measured via its *balance of payments* (BoP). The BoP is an accounting prospectus that measures the economic/financial international position of the home country vis-à-vis the rest of the world. The BoP consists of two accounts, of which it is the sum: the current account and the capital (or financial) account. The current account is the sum of the trade balance (exports minus imports of goods and services), the net investment income from abroad, and net current transfers (aid, donations, and also military transfers). The capital account, on the other hand, measures the net flows of money movements in and out of the country. In the post-World War II setup, America has always been at a major advantage because her currency has been accepted, to this day, as the world's reserve currency and principal international medium in private transactions (for international borrowing and foreign trade contracts).[6] This implies that "the United States does not need to pay for its imports—that is, earn foreign exchange through exports and asset sales—as long as exporting countries such as Japan [e.g.] are satisfied to receive claims on the Federal Reserve as payment."[7]

The "trick," so to speak, *is to exact the tribute from the client-States with freely issued dollars without compromising the dollar itself*. In other terms, the USA first helps itself to the goods and services it needs abroad by "paying" foreigners *with its own currency*, *printed* (*issued*) *at no cost*; then, it must see to it that foreigners find profitable (and, if need be, unprofitable) uses for the "liabilities" thus received. So long as these dollars overseas are hoarded as reserves, set aside for "dollarizing" black/submerged/under-developed economies, and/or spent on American goods, services, and securities, all is well—the overall balance (OB) is positive (or equilibrated). But as soon as all goods and services "Made in the USA" are no longer in keen demand, these "free" dollars spent overseas are thrown back into circulation, seeking to be converted and causing prices to rise in the host country.[8] The mismatch is signaled by a *persistent deficit* of the US BoP: internationally, more is going out than is coming in; the dollar weakens, and America's economic preeminence, which the dollar represents, is thereby imperiled.

As will be recounted hereafter, it took ten years to re-engineer this circuit from its partial breakdown in the summer of 1971. And the "Neoliberal" model that was implemented in the 1980s revolutionized the old standard by turning it on its head: instead of struggling ineffectually to achieve an elusive trade surplus that it could "barter" for the dollars gratuitously spent overseas, the USA would endeavor, instead, to attract *from abroad* the very money it needed to fund what would eventually become, *deliberately*, very large *trade deficits*. For the purpose, it would sell *securities* rather than, say, cars; in other words, it would sell "investments" to the world's holders of capital. The new mechanism was designed in such a way that, aside from (1) providing a sort of built-in support for the US dollar, the absorption of large capital inflows from abroad allowed the USA (2) to pay for imports, and, with the amount left over, (3) to cover a part of the dollar-capitals it would continue to "export" in the usual fashion (free of cost) to acquire strategic assets overseas (military presidiums and foreign corporate control). Behind the cover of this grand shuffle of financial exchanges, the imperial prerogative of acquiring foreign strategic assets gratis would go on undisturbed. To make it all work, America has made *finance* her number one business, hence the great resurgence of Gatsby lifestyles since the 1980s.

> Under Bretton Woods, the US BoP was typically in deficit when America's trade surpluses failed to counterbalance all the dollars freely expended overseas (i.e., "US capital exports"). Under the Neoliberal regime, instead, the BoP is negative whenever foreign capital inflows do not cover the sum of America's excess imports and free dollar overflow. In the former case, a deficit was an undesired outcome; in the latter, it has been a desired, expected objective. The extent to which the US BoP runs in the red measures in both instances the amount of (strategic) resources extracted gratuitously by the USA from its satellites.

America's revised monetary "standard" appears to have burnt out in September 2008; it did function effectively for ca. 25 years, and we now find ourselves in a transitional phase. In truth, the "1980-remodel" has entailed for the USA the accumulation of a large financial debt (it was 6.7 trillion dollars in mid-2015, approximately 8 percent of total US wealth), which, however, American strategists, with reason, do not consider exceedingly problematic. We will address this key point in the conclusion. There is, then, little doubt that Volcker's intimation to keep a low, elliptical profile (shun "the appearance of hegemony") about this delicate business of "overseas military expenditures and other commitments" has been heeded by insiders before and ever since with complicit enthusiasm; so much so that, nowadays, there appears to be in the public sphere no clear intendment of an ongoing and tense contest for economic supremacy, let alone the notion of an imperial tribute ("stolen money")[9] associated with it. Even among contemporary mainstream publicists in the USA amenable to concede the existence of America's "imperial" status, there reigns a generalized confusion—as to how and wherefore that status is achieved—that brings them to decry "US imperium" "as the most absurd," "perverse," "bizarre," and "preposterous" for having, through foreign indebtedness, "subordinated" America herself to the countries (viz. China) that should have been subordinated to her instead.[10]

But that is not how things stand at all.

An Old Thesis of the American Left

The thesis of this chapter—namely, that the USA exercises financial hegemony by running a monetary standard centered on the exaction of a tribute in the form of external military expenditures and strategic foreign investment—is nothing new. It was a common bit of wisdom in the old literature on the suspension of gold convertibility (August 1971) that "if the Americans didn't earn enough dollars, they printed the difference," and that by doing so, "they were exporting a bit of world inflation." [11] America's Socialist thinkers, too, had formulated this theme in their own style: "Golden dollars," they wrote, "rolled off the printing press and took their place on a par with the yellow metal sweated out by South African mines by super-exploited black workers. It was a wonderful system while it lasted."[12] That the exaction of a "dollar tribute" underlay this reality was just as notorious, as was "the unwillingness to pay" it on the part of the vassals.[13] All such observers concurred that the US BoP deficit, and the ensuing "dissipation of U.S. gold reserves [were] due substantially to a massive accumulation of dollars in the hands of foreigners as a consequence"[14] of "the huge foreign exchange costs of controlling a world-wide empire."[15] And they conclusively observed that "during the 1960s, America's overseas military spending represented the entire balance-of-payments deficit as the private sector and non-military government transactions remained in balance."[16]

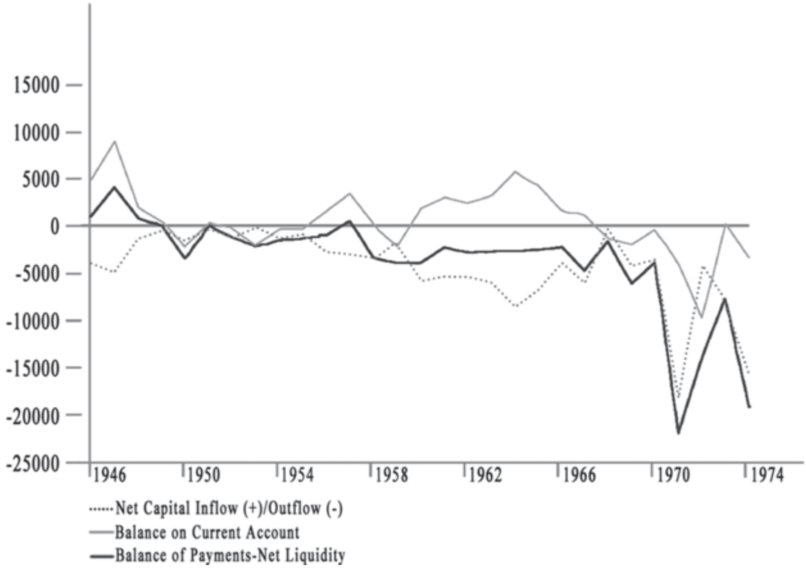
What is new in this study is the effort to carry this sort of analysis forward by attempting to reconstruct an estimate of the US BoP from 1975 to the present. And that is because, in 1975, US authorities officially suppressed the compilation and publication of this fundamental measure adducing in support of their decision the deontological exigency of providing indices of "neutral evaluation." It was reputed at the time, after the discombobulations of 1971, that, as they lend themselves to facile misinterpretations, terms such as "surplus" (good) and "deficit" (bad), in connection with a measure as politically sensitive as the US BoP, should be eschewed entirely.

Disapprovingly, Yale economist Robert Triffin thought such "recasting" of official statistics "revolutionary."[17] It is indeed difficult not to construe this move as part of a deliberate policy of public obfuscation designed to conceal the process of imperial taxation *indefinitely*. Ever since, on account of new, coarser statistical categorizations and aggregations, it has become difficult to guess what this crucial number is. Our analysis is broken down in two phases, lying on opposite sides of the BoP's statistical divide: before (1946–1974) and after (1975–2014); the derivation of the BoP after 1975 is presented in the Appendix. On the basis of these estimates, one may contend not only that the scheme of foreign taxation has continued uninterruptedly but also that, in the past 40 years, the USA has successfully managed—that is, without endangering the dollar—to run *free of charge* BoP deficits deep enough to cover entirely not just foreign military expenditure (a service import), as it did approximately until 1974, but foreign direct investment (FDI) as well (a capital export item).

Bretton Woods: The Beginning of the Crisis

In July 1944, while the war was still raging yet the Allies' victory appeared certain, the USA and the representatives of 44 countries convened in Bretton Woods, New Hampshire, to set the foundations of the postwar financial and economic order. For obvious reasons, the US dollar was to be the hegemonic, world reserve currency and its parity—the anchor of the entire system of fixed exchange rates between countries—was set at $35 per ounce of gold.

"Beginning in 1950, the U.S. BoP had been in deficit every year, except 1957" (Graph 9.1).[18] It was then plainly recognized that the so-called BoP problem issued from a joint development of the early Cold War era, and this was "the economic comeback of Western Europe and Japan together with [America's] continued large expenditure for defense." In other words, in the span of 15 years, the vanquished countries of 1945 had "rebuilt": they were no longer in need of disproportionate amounts of US foodstuffs and machinery, which had been up to that point America's chief exports.[19] The vassals could now feed and outfit themselves, but on the other hand, the USA was hard set on a course of military buildup and ever-expansive consolidation—both at home and abroad—that could not be conceivably phased out, or even dramatically curtailed in the foreseeable future (Graph 9.2). No less imperative than the external military outlay for American hegemony was the "acquisition of productive foreign assets," that is, the securement abroad of industrial rents through the multinational prolif-

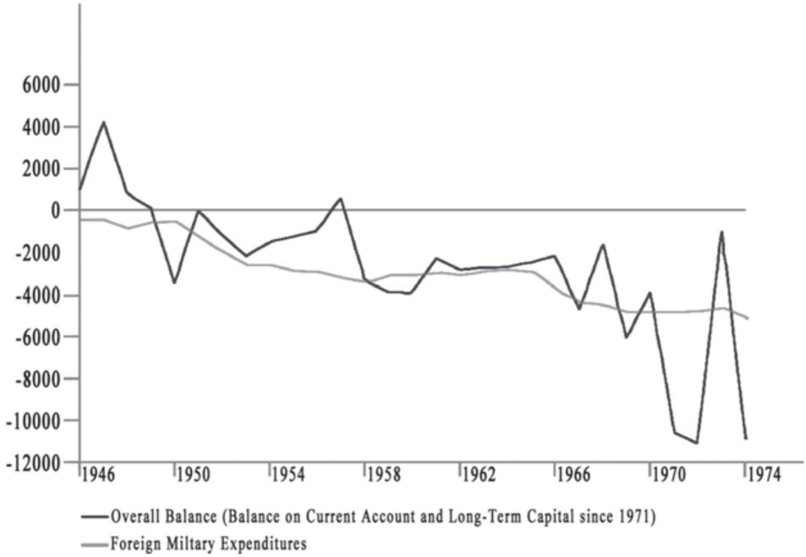


Graph 9.1. US Net Liquidity Balance (1946–1974) in millions of US dollars (*Source*: US Department of Commerce)

eration of US corporate affiliates. The State's sponsorship in erecting this multinational network would expectedly pay off through the taxation of the affiliates' profits. This outward "foreign direct investment" (FDI), as it was designated, has been ever since a key strategic variable in the game and, de facto, the basis for "the long-term strength of the dollar"[20]—it, too, having been achieved through a massive printing of paper money, or, as the technocrats put it, "by sacrificing liquidity."

> Many of the transactions which contribute to the deficit involve the acquisition of productive foreign assets. The Nation does not lose wealth by such transactions but it does sacrifice liquidity—much like an individual drawing down his bank account to buy promising growth stocks.[21]

To American strategists it was then understood that "foreign trade [was] not so vital to the United States as it [was] to most other countries"[22]: foreign trade was rather employed as a *harness* wherewith the vassals could be drawn closer. America presided as the "market host" to the world. Up until 1958, the system had functioned rather smoothly.



Graph 9.2. Overall Balance and Foreign Military Expenditure (1946–1974) in millions of US dollars (*Source*: US Department of Commerce)

There existed a "dollar shortage" the world over and particularly so in war-torn Europe. The situation allowed America to print US dollars in abundance. With this "funny paper," Americans set up expensive garrisons abroad and "acquired" large chunks of foreign (industrial) property, expecting all the while the Europeans to "cash-in" the dollars in order to procure what was needed to refashion themselves in the consumeristic image of the USA. The US balance of trade *surplus* was designed to work as a sort of (accounting) *counterweight* to this outflow of freely printed dollars: however much the vassals received could be set aside as precious reserves as well as spent for prized American goods and services. Throughout the 1950s America used her "substantial merchandise trade surplus […] to pay for large overseas military expenditures"; but, in time, she kept spending *strategically* more than she *commercially* earned: by the late 1950s, "the excess of U.S. long-term investment and short-term lending over [the] surplus the current account"—that is, *the overall BoP deficit*—was essentially paid for with gold and swelling amounts of (purely inflationary) "money" (cash + deposits)—amounts of funny paper, that is, which, in the accounting jargon, came under a label that was as technical as it was chaste: they were referred to as "liquid liabilities to foreigners."[23] After 1958, it became manifest that foreigners were not willing to "buy American" *as much as the Americans needed them to.*

The Run on Gold

And, therefore, redemption of US paper for gold concomitantly intensified. So much so that, acting effectively as the world's banker, the USA began to fear a run on its gold stock: if things kept going this way at this pace and long enough, the sudden redemption by foreigners of paper dollars for gold was a certain event waiting to happen. This much was already evident in 1962, at which time US technocrats mused that heavy military expenditures abroad could only be sustained if their country relied far less on selling gold and foisting paper money on foreigners than on accumulating an "export surplus earned in stiff world competition." It was clear to all, however, that America had been losing her competitive edge: therefore, US strategists had no doubt that if the country ever was to regain it and thereby earn again a significant trade surplus, America's domestic economy (prices, wages, investment, and employment) would have to "readjust completely"; and this was going to "take time." In any event, the strategists kept intimating, prophetically, that *foreign capital markets* had to be unshackled from the oversight of their respective (national) governments: this implied that if America could not enduringly fund military procurement by selling exports, she might have a better chance of doing so *by selling financial paper*, *instead*; that is to say, by attracting large *in*-flows of foreign capital on Wall Street. Indeed, it "took time" to effect this "change," which would happen, two decades later, under Reagan's Neoliberal swerve (see below), but the strategy had been lucidly envisaged since the days of the Kennedy administration.[24]

Under Kennedy, the technocrats attempted to contain the so-called dollar drain mostly by constraining the flux of US *private* investment abroad. Several measures were implemented. Money rates were raised, foreign securities were taxed (to make them less appealing to American investors), overseas military expenditures were somewhat reduced, and exports were stimulated (especially tourism).[25] But to little avail; the gold kept hemorrhaging out of the country. By the mid-1960s the industrial debacle of the USA vis-à-vis the "clients" of yesteryear had become patent: beside "troublesome" Germany, presently Japan, France, and, even more so, Italy could all vaunt sizeable trade surpluses versus the USA. The latter, manifestly unfit to keep abreast of the productivity race, and allegedly not knowing whither to turn, went so far as to contemplate in 1965 "the lowering of the barriers to trade with the countries of the Soviet bloc."[26]

In the late 1960s the policy adopted was then focused almost exclusively on raising interest rates so as to keep US money ("capital") within the national boundaries. The move succeeded temporarily, but was eventually defeated by the incremented dollar-printing prompted by the Vietnam War. And what most Vietnamese dealers and financiers did as they pocketed the dollars was to export them to "France, which was the traditional safe-haven for capital flight from Indo-China."[27] In Paris, this mass of US paper-"capital," in addition to the mass of greenbacks directly "exchanged for" French property, led de Gaulle and his councilors to inveigh publicly against the *privilège exorbitant* that enabled America to amass "tearless deficits" (*déficits sans pleurs*): thereupon, the French demanded the immediate redemption of such "liabilities" in gold. Which was precisely what America's monetary authorities endeavored to prevent at all costs. Thenceforth much time was invested in pressuring the "allies" to hold on to their dollars; in March 1967, the Bundesbank formally vowed to refrain from trading its US paper for gold.[28]

Prophylactics

Thus, as a rule, foreign central banks, where the bulk of such US paper would systematically pool up, were enjoined to "sterilize" these dollars by "investing" them in US Treasury bills (T-bills).[29] The prototype of this sort of operation/conversion was a special issue of T-bills denominated in Swiss francs, called "Roosa bonds," after the name of the Under-Secretary of the Treasury under Kennedy, whose purpose—always the same—was to "sop up" excess liquidities in the hands of foreigners otherwise tempted to buy gold.[30] In other words, America entreated her vassals to put the funny paper in a "box," as it were (US Government paper), where it would cause no excessive damage (runaway depreciation of the dollar), and paid a little fee (interest) for the safe-keeping "service." And, to this day, this has been the chief expedient to "congeal" this mass of dollars with which, obliquely, America has extracted resources from the satellites (chiefly Europe and Japan), *essentially for free*, in order to build bases and corporate subsidiaries. Technically, the exaction has not been entirely gratis since the USA has had to pay *interest* on these promises, but two essential qualifications follow: (1) the interest has been low and gradually nullified by inflation;[31] and (2) in economic terms, it is wrong to speak of an "investment" (in T-bills), and that is because the paper money has already been "spent," that is, used, abroad—it would be more accurate to say that it is subsequently "buried" in T-bills—and thus the paltry interest paid "on the sterilization" is merely a diminutive, symbolic portion for a major outlay, the "principal," which neither was nor has ever been repaid—if not minimally, and in sporadic occasions.

> The industrial nations were caught on the horns of a dilemma. As long as they sold their products for dollars that they held in the form of Treasury-bills, they lost by exchanging real resources for pieces of paper whose purchasing power fell faster than their interest accrued. On the other hand, if they stopped the process by refusing to recycle their surplus dollars in this way, American currency would immediately fall in value, threatening European and Japanese exports and employment by enabling U.S. producers to undersell them. Dollar devaluation would also reduce the foreign-exchange value of foreign dollar reserves already accumulated.[32]

Despite "T-bill sterilization," the dollars kept being regurgitated back to the source as massively as they were first spewed out; and so the American authorities had to think of something else and came up with another efficacious, if more makeshift, expedient. In 1968–1969, they raised interest rates domestically (to 7–8.5 percent), and, leveraging Regulation Q, a legacy of the Depression era which forbade US commercial banks at the time to pay more than 4 percent on savings accounts, impeded "the access of American banks to domestic money markets." Therefore, not being able to attract savers at home (who could place their cash at better rates elsewhere), US banks, in their search for funds, turned to the unregulated *euro-dollar market*—that is, to that swelling, semi-independent pool of dollars leaked out of the grand US outflow over the years, and managed in London. In June 1969, in this market, American banks bid the rate on dollar funds upward to more than 11 percent. The policy succeeded, in that the high rate baited the dollars-in-excess held by foreign central banks, which routed these liabilities to London where they would back up, as "hard cash reserves," a surging loan spree on the euro-dollar market. This had the twofold advantage of (1) preventing a portion of the funny paper from flowing back to the USA, as it was recycled in London; and (2) enabling US banks to tap large pools of dollars already in existence through their European branches:[33] it would indeed be via the ever-widening channel of the euro-currency market (already three times as large in 1968 as it was in 1964), as well as those of the offshore network, that the USA would later, under Reagan, attract the massive inflows of capital within the Neoliberal overhaul of this system.[34]

As an additional measure devised to protect America's gold chest, a "two-tier gold system" had been established in March 1968, right at the time when President Johnson conceded defeat in Vietnam, and roughly four years after American paper-dollar liabilities to foreign official agencies had exceeded the gold cover. By creating two separate markets for gold—one accessible to private investors and another reserved exclusively to official gold transactions, each posting a different quotation of the metal—the two-tier system eliminated the possibility that US gold could percolate into private hands by redeeming paper for metal in the offices of the central banks. Yet, for all that, Bretton Woods appeared to be malfunctioning beyond repair. The time had come from some drastic refitting of the BoP machinery.

> In the Republican camp [...] there commenced one of the most unexpected and effective strategies ever devised in financial history. Its purpose was to devalue the dollar. It was known as the policy of "benign neglect." [Benign neglect] must be accounted a brilliant stratagem, not only because it succeeded, but because at the time it was virtually the only strategy that could work.[35]

Nixon Crashes the System

Allegedly, "it was not the trade deficits that precipitated the end, but rather the vast movements of short-term capital movements among nations."[36] After 1970, by adding severe noise to the picture, the "hot flows" of capital liquidity crisscrossing the US border (esp. from Germany, Switzerland, and the Netherlands) make it nearly impossible to detect the actual path of the OB, especially in correlation with external military expenditures (see Graph 9.2). Fashionably hallowed the one and only "standard," gold, when underfoot, tends to find its way back to the vaults soon enough; and it must have been with extreme relief, indeed, that Nixon's "quadriad"[37] resolved in August of 1971 to cut the dollar loose from gold. Publicists around the world reported the event as a resounding defeat for America, but it was anything but. As said, wild capital flux was not responsible for the collapse of Bretton Woods, nor were the "gold-hungry French" for that matter. In a striking parallel with the (far more ominous) decisions taken at the Bank of England 40 years previously,[38] America herself led the speculation against the dollar,[39] and thus willingly crashed the system—simply to be rid of the gold constraint.

At that juncture, as the then Secretary of Treasury, John Connally, famously and defiantly put it to the Europeans, the dollar was "their problem": knowing the US market to be indispensable, the vassals were offered no choice but to keep accepting the daily flood of incoming dollars. To refuse to do so would have meant a steep appreciation of their currencies and a concomitant loss of mercantile advantage. And if foreigners were forced to pay the imperial "dollar tax" in exchange for the privileged access to the US market, *likewise were they obligated to accept T-bills in settlement* after the dollars had run their imperial course, for there was nothing else they could be satisfied with now that gold had been craftily deleted from the equation. De facto, with the break of 1971, the world switched to, and is still on, a "US T-bill Standard": and that is, "a hegemonic regime based on international finance rather than international trade, and operating via central banks rather than private corporate investment."[40]

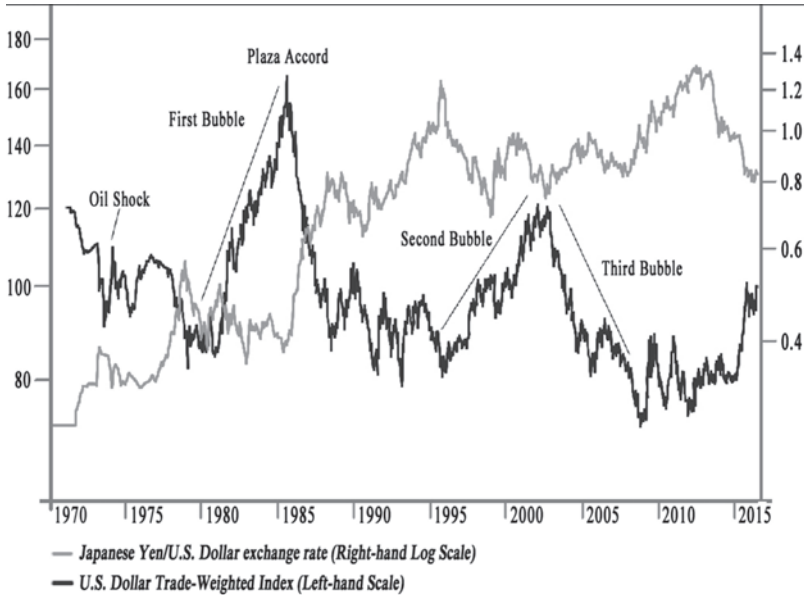
The Awkward, Inconclusive 1970s

Though gold payments were definitively suspended in 1971, Bretton Woods was not factually erased until October 1973, and in this two-year interval, the dollar had suffered a cumulative three-step devaluation of around 30 percent.[41] At this juncture the major players renounced fixed parities and opted for a regime of flexible exchange rates. The year 1973 is an epochal divide. In that year the US economy was said to have "peaked" and what happened thereafter marks a different, interlocutory period of trial and error that prefaced the Neoliberal shift of 1979–1981. So, despite the "Nixon-shock" of 1971 and the fact that *the imperial exaction continued in the same fashion as before* (see Graphs 9.2 and 9.6), America's "BoP problem" did not appear entirely "settled." For one, America's productivity drop and loss of manufacturing preeminence seemed a grave and irreversible reality—this one, a true American defeat for which progressive economists have undeviatingly faulted the "enormous drain" of national resources allotted to the Pentagon's spending entitlements.[42] Which meant that *trade wars* with Europe and Japan could not be assuredly won in the near term. Yet, assuming a hostile attitude toward the whole question, Nixon persevered: on the one hand, he kept feeding American grain to the Soviets, and, in 1973, he intensified trade with Europe's Communist countries and the USSR; on the other, he appeared to be pursuing an open confrontation with Europe and Japan on the mercantile front, which he planned to potentiate by further developing two of America's key export sectors: agriculture and high technology.[43] To crown it all, blazing the trail of globalism in the manner of a true visionary, he flew to Beijing to talk business (February 1972).

And in October 1973, America escalated the confrontation by triggering the famous oil shock. In all likelihood cued by the USA, the Shah of Iran, with three successive, unilateral upticks (October 1973, January 1974, and October 1975), took the lead in orchestrating a quadrupling of the oil price from 3 to 12.38 dollars per barrel. Clearly, this was neither a reprisal against Western support to the Israeli counteroffensive of the Yom Kippur, nor a plan either to improve the competitive position of the US oil industry [44] or to make the Shah the hyper-militarized policeman of the Persian Gulf.[45] It simply was the latest and most spectacular attempt—after palliating in vain with trade surpluses, T-bills, higher domestic interest, euro-dollars, and two-tier gold quotations—to canalize and *shrink* somehow, away from America's frontiers, the billowing torrent of free dollars that were being continuously pumped abroad for sustaining external military expenditure and FDI. To this end, making oil, which was priced in dollars, so much more expensive for vassals awash in US cash seemed a logical strategy. That it was a poisoned gift to Europe and Japan seems evident. In fact, "the United States was the nation least depended on Arab oil,"[46] which amounted at the time to merely 5 percent of its energy requirement versus 61 and 53 percent for Japan and Europe respectively.[47] It was estimated that in 1973–1974 the shock "added between 1 and 2 percentage points to the rise of the Consumer Price Index (CPI) in Great Britain, Italy, and the United States": almost nil.[48] As for the dollar, it did not strengthen significantly as a result of the maneuver, but only appreciated on a weighted average basis by a meager 12.7 percent from October 1973 to January 1974 (Graph 9.3).[49]

Japan, for her part, absorbed the oil shock with grace (i.e., with fiscal rigor and a loan from the Saudis),[50] and the sole novelty of the operation was the explosive wealth booster for the oil sheiks of the Organization of the Petroleum Exporting Countries (OPEC)—the bulk of which extra-wealth, incidentally, was promptly recycled in the USA (and London)[51] in the form of real estate, financial securities, and government paper.[52]

> America sought to transfer the burden of financing its Balance-of-Payments onto the shoulders of OPEC [...]. It became essential to convince OPEC governments to maintain their petro-dollars in Treasury-bills so as to absorb those which Europe and Japan were selling out of their international monetary reserves [to pay for dearer oil]. OPEC investors [however] were blocked from investing in [defense and heavy] industries in the U.S. and



Graph 9.3. US Dollar Index and Yen/Dollar Exchange Rate (1970–2015) (*Source*: www.sharelynx.com)

> Japan […]. [Fed] Chairman Arthur Burns suggested oil-country investments "should be confined to such non-sensitive companies as Quaker Oats and Coca-Cola".[53]

Considering the manifestly disappointing effect of the attempted transition "to a quasi-oil standard"[54] and the underwhelming impact of the Republicans' aggressive beggar-thy-neighbor policies on the US current account (see Current Account balance in Graph 9.1), it is not implausible that US clans inimical to Nixon's—chiefly, the Globalist Founding Fathers of the Trilateral Commission[55]—must have rated his management of the BoP a political and economic failure of such magnitude as to have been compelled to stage his removal from the presidency with the Watergate "scandal" (August 1974). Worst of all, however, seemed to have been the fact that the belligerent conduct of the Nixonians versus the "allies" had revealed the nature of the BoP "game" all too blatantly, all too "stupidly." In a private colloquium with Foreign Secretary Kissinger, Fed Chairman Burns had made this *constat* as early (or late) as July 1973:

> We both agreed that our international monetary policy was stupid, that it could bring disaster, that other countries mistook our stupidity for rascality.[56]

To steal from lesser others *en souplesse* and with *désinvolture* is one thing, yet to show *publicly* the strain of one's growing inability to extort the goods tactfully is simply unforgivable, which is to say, "stupid." With Nixon gone, the governments of the OECD convened in May 1975 and, recognizing chorally that "beggar-thy-neighbor policies can only seem to make everybody ultimately poorer," they pledged to "refrain from taking measures specifically aimed at improving their individual trade positions.[57] Truce. Yet this merely put it off: the BoP problem loomed as worrisome as ever—the dollar was weak and the trade balance flagging—and the overall economic condition in the USA was complicated by a long-lasting bout of strong inflation, which had visibly taken off in 1965 and would intensify with Carter's Democratic succession at the White House in 1977. Eventually nothing really changed: for the first two years of his term, Carter "actively sought to increase American exports through orchestrated declines in the value of the dollar."[58] In vain.

The "Neoliberal" Machine

> The United States would likely benefit from producing and exporting financial services and importing coffee. The reverse is true for Costa Rica.
>
> —*Economic Report of the President* (2000)[59]

By the end of 1978, the administration set out to re-invent the system.

The way the new engine was designed to work was the following. In extraordinary amounts, foreign capitals were going to be attracted to America's financial market—hopefully, on a basis as continual as possible. That meant sprucing up Wall Street, which, theretofore, had been mortified by a decade of soaring inflation. (1) To lure foreign moneys to New York fast and in droves, interest rates had to be drastically hiked up. (2) The momentous surge in interest rates was to be *accompanied* by a severe and prolonged *credit crunch*, whose proximate goal was to drive civilian unemployment so far up as to break the bargaining powers of the unions:[60] starting to outsource jobs abroad and turning the jobless at home into so many scabs would put an end to that tacit compact of the

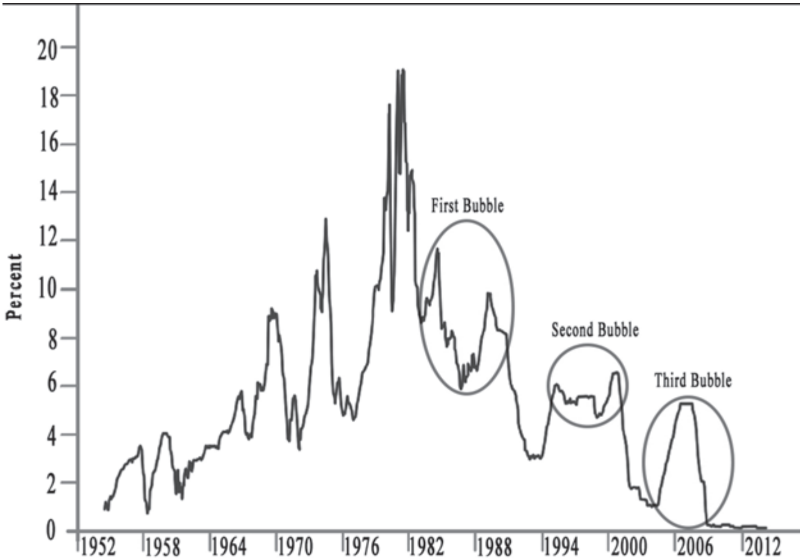
1970s whereby, in order to preserve the slice of the income pie going to *capital*, pay raises had been rapidly translated into general *prices increases*.[61] Inflation, then, would be contained by monetary policy only indirectly:[62] the crunch created the unemployment condition favorable to the (political) sabotage of the unions, which disabled the cost-push effect of wage increases upon the cost of living.[63] (3) Obversely, corporations and absentees were to be advanced: so in 1978 the Democratic-controlled Congress cut in half the federal tax burden of both.[64] (4) In a 1973 memorandum for the US Treasury, the Under-Secretary of State for Economic Affairs, Bill Casey (later Reagan's CIA director), harkened to the forecasts of 1962 by suggesting that the most efficacious means of revving up the BoP without "appalling [America's] trading partners" was to give up on the idea of a trade war, which, Casey averred, could in any case be easily won with an aggressive devaluation of the dollar, and wager everything instead on making "US securities" America's foremost "export."[65] (5) To that end, capital controls had to be abolished worldwide; and so it was done: by the early 1980s, in all major industrialized countries, and some lesser ones, all impediments to virtually perfect capital mobility had been removed.[66] (6) If America was going to relinquish the imperative of fighting the vassals for world trade share, this meant that, as a rule, she would deliberately buy more than she sold abroad, and thereby be bound to "finance" *a chronic trade deficit* precisely with these "capital inflows from abroad."[67] (7) To attract capital from overseas is to *borrow* that money, and this, in turn, entails the commitment to pay interest on a surging amount of *foreign debt*: therefore, to make the arrangement manageable, it was essential that the overall debt not be too large and that the USA should earn more on its investments overseas than would foreigners on their assets in the USA. (8) And the imperial tax still had to be levied. The solution for achieving all these ends at once was to print, as before, the dollars earmarked for imperial upkeep (capital exports), while endeavoring to rake in via Wall Street foreign funds as large as possible in order to compensate for such "capital exports" as well as the commercial imports: the shortfall, if any, *is* precisely what would make up the BoP deficit, revealing how many dollars had been printed gratuitously. And since the 1980s, this negative balance may be shown to correlate with the *sum* of foreign military expenditure and outward FDI—the latter, at this particular stage of the Cold War, gaining in importance over the former (Graphs 9.6 and 9.11).

The "Volcker Counter-Shock"

Appointed by Jimmy Carter in August 1979, Volcker began operations in October. Over the course of the following triennium, he would acutely tighten the money supply in two rounds intervaled by a year of looseness,[68] possibly to favor, unsuccessfully, Carter's re-election bid:[69] the first restrictive round set off "the sharpest recession in thirty five years."[70] (1) As the new Chairman of the Fed thus resolved "to lock the wheels of the world,"[71] (2) he concomitantly set out[72] to propel interest rates to the stars (Graph 9.4): in a pattern correlated with the Fed's slightly volatile manipulation of the money supply, Volcker repeatedly sent the foundational rate of the credit system (the overnight banking rate known as the "Federal Funds Rate," FFR) in the 20 percent range; in real terms—that is, purged of inflation—the FFR averaged throughout the three different phases of Volcker's first triennium 6, 5, and 9 percent, respectively,[73] "the highest levels of the twentieth century."[74] (3) Internationally, the impact of the maneuver was immediate and predictable: foreign capital came pouring in, in large quantities (see Net Capital Inflow, Graph 9.5). (4) Thus jumpstarted, Wall Street made a glorious return to the stage with "the high-technology new-issue boom of the first-half of 1983," which was "an almost perfect replica" of the "tronics" boom of the 1960s with the futuristic addition of biotechnology: the new public offerings of the "1983 craze" were "greater than the cumulative total of new issues for the entire preceding decade."[75] (5) Meanwhile, from October 1979 through November 1982, unemployment was driven from 6 to nearly 11 percent;[76] as the power to strike was virtually nullified, price indexation tied to wage rigidity could no longer function. When real interests began to abate consistently from the summer of 1982 onward, inflation had been tamed down to 3–4 percent. *America was thus made safe for investment.*

> For thirty-three months, the Federal Reserve had imposed the most severe discipline on the U.S. economy—and the world's—ever attempted in the history of the American central bank.[77]

(6) And from this moment on, as was the plan, the USA would increasingly cumulate far more imports than exports: "the U.S. current account deficit in 1983 was nearly three times the previous record, which was set in 1978"[78] (see the Current Account balance, Graph 9.9). (7) Despite the rough start of a monetary maneuver whose "large

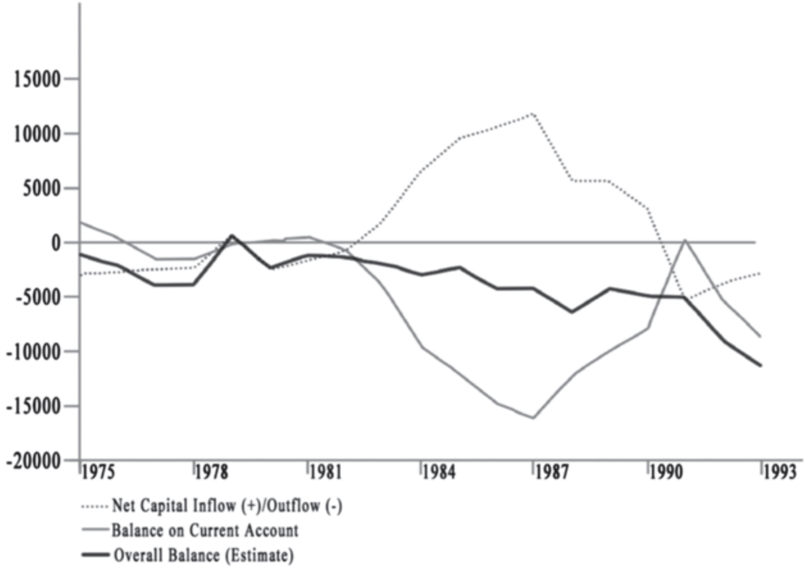


Graph 9.4. Federal Funds Rate, 1954–2015 (*Source*: Board of Governors of the Federal Reserve System)

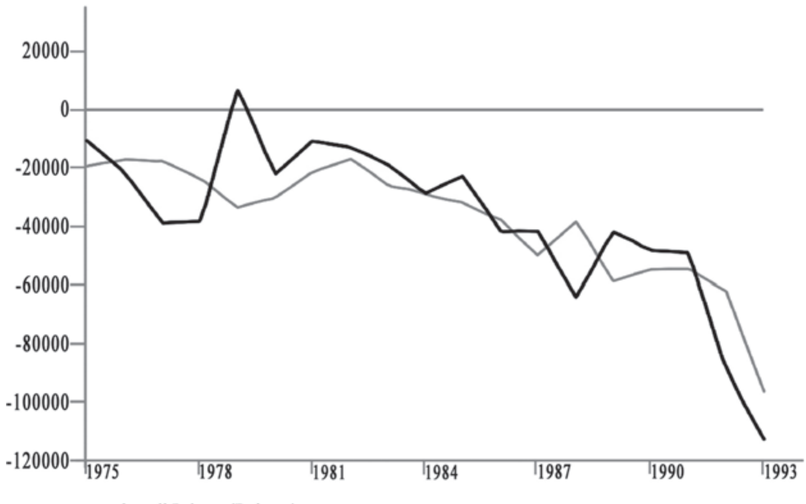
swings" had somewhat irked the Treasury,[79] the policy succeeded in baiting the foreign money needed (a) to "pay" for imports (of goods and of commercial and military services) and (b) to offset a portion of the sums regularly sent abroad under the head of "US capital exports" (Graphs 9.5 and 9.10). With respect to Bretton Woods, the process of acquiring resources by printing dollars at no cost presently came to be *embedded* in the grand international traffic of financial exchange; and it could be substantially moderated because foreign capital inflows footed most of the bill for *all* US expenses abroad. It is only in these terms of power play, therefore, that one can make sense of otherwise counter-intuitive statements such as the following, again, by Volcker himself:

> To finance both current account deficit and our own export of capital, we need close to $3 billion of capital every working day to balance our accounts.[80]

Counter-intuitive insofar as "capital export" is not typically something that is "financed externally," unless, that is, the USA is not truly "exporting" any resources of its own, which is the case, but is rather partly borrowing



Graph 9.5. US Balance of Payments (1975–1993) in millions of US dollars (*Source*: Bureau of Economic Analysis)



Graph 9.6. US Balance of Payments and Strategic Acquisitions (1975–1993) in millions of US dollars

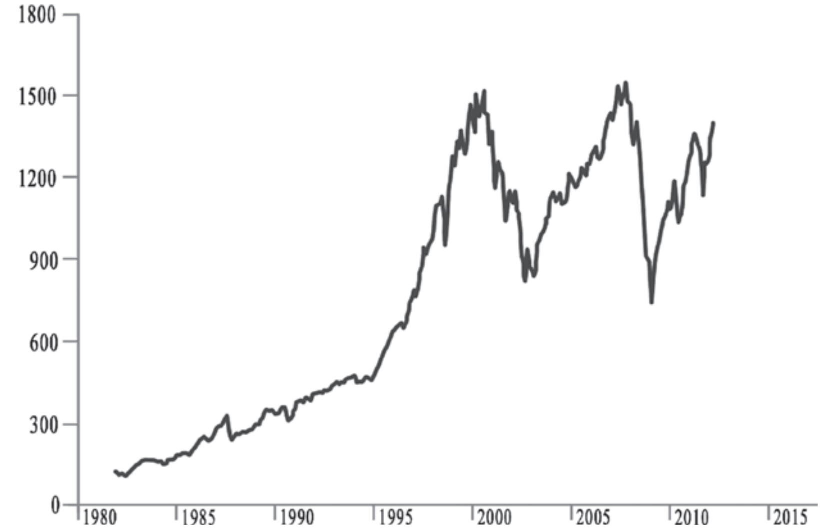
and partly creating ex nihilo the funds wherewith to pursue the dual objective of its hegemonic policy: that is, to bind "the allies" to itself through "freer trade" while exacting from them the resources required to maintain the hierarchy (foreign military outfitting and FDI). It is true that, unlike, Bretton Woods, *such a scheme rests upon a surging mound of foreign financial debt* (the NIIP in Graph 9.9), but so long as (1) neither the trade deficit nor the foreign indebtedness weigh too heavily on the country's gross domestic product (GDP) and overall wealth, and (2) US investment overseas, as said, yields more than foreign domestic investment, the system is sustainable. And so it has been until the crisis of September 2008.

The "Long Bull Market," the Japanese Eunuch, and the Endorsement of China

> In order to fulfill our global responsibility, we must ensure a smooth supply of capital to the world.
> Japan's Ministry of Finance[81]

The biotech boom of 1983 was just the first installment. When the Federal Reserve lowered the rates in 1982, Wall Street "reacted with the greatest bull market in history."[82] This long bull market, consisting of one uninterrupted 18-year ascent dented by the run-up to a conclusive flare-up (Graph 9.7), may be understood as the concatenation of three "nested" (or "chained") speculative bubbles: the biotech boom, which, despite the hiccup of October 1987 (a 20.5 percent fall of the S&P 500), went on to become the leveraged buyout (LBO)/junk-bond fiesta of the mid-1980s and fizzled out in 1989;[83] the steeper NASDAQ, also called IT or dot.com, bubble of 1994–2000; and, lastly, the subprime bubble of 2002–2008—three mini-cycles of six, seven years each. Bubbles are the combustible of the BoP's Neoliberal engine; they are willed, engineered, nurtured, and, congruently, terminated, when their purpose has been served.

In this leg of the story, the ancillary role of Japan to the overall BoP strategy of the USA looms large. When, in 1981–1982, foreign money flooded the US monetary markets and stock exchange, the dollar appreciated fast and steeply; in fact, it appreciated too much, as this was another turbulent effect of Volcker's "counter-shock." The dollar's excessive appreciation was a detriment not so much to America's manufacturing and agricultural



Graph 9.7. The SP 500 Index

exporters—though such was the disingenuous grievance publicly voiced at the time—as it was to the finance-driven push of the new BoP strategy: the boom could not have kept going with US securities soaring out of the foreigners' reach. So in 1985, America mounted, with her chief vassals—Japan and Germany—the "most impressive coordinated multinational attack on currency markets by governments in history."[84] Following a series of targeted foreign exchange interventions in February leading to the Plaza Accord of September 1985, the dollar was artificially devalued while the yen, on the other hand, was conversely overvalued (Graph 9.3). This was done, clearly, *not* to contract Japan's trade surpluses, which had to persist as unperturbed as theretofore, but rather to enable Japan—saddled by America with the grievous task—to buy on the cheap, with its now heavy yen, a cornucopia of financial assets in the USA as well as the rest of the world.[85] Thus, the first US boom was guaranteed to burn for a few more years, as the dollar was shielded by the magnified inflow of Japanese capital after 1985. Grievous task in that Japan, which has remained in the geopolitical picture "something of a eunuch," bound to America by a cord of "neocolonial dependence,"[86] had for the purpose to inflate a (financial/real estate) bubble of its own, which turned to be the most spectacular of the century.[87] To make it happen, Japan's elite, with its central bank presiding over the radical makeover, disfigured the regulatory makeup of the country's economic architecture from top to bottom.[88]

> [From the mid-1980s to 1991], Japanese foreign investment swept across the world: Japan simply printed money and bought the world. […] Japan had pulled off the same trick that the United States used in the 1950s and 1960s, when U.S. banks excessively created dollars. Corporate America used this hot money to buy up European companies. While the United States had the [gold] cover of the dollar standard, Japan's cover was its significant trade surpluses, which convinced observers that the yen had to be strong.[89]

In the last half of the 1980s, Japan thus rose to become a key player of the US BoP game: it shouldered on average 15 percent p.a. of all US bonds sold to foreigners (coming in second after London, which bought 60 percent); it was the chief buyer of US equities until the Tokyo bourse crashed in 1989–1990; and, as America's main foreign supplier (with Europe), it perforce accumulated a top share—about a quarter of the total annually—of US Treasuries from the early 1990s until 2008, when it bowed to China.[90]

As may be evinced from Graph 9.4, all three speculative booms (1983–1989, 1994–2000, and 2002–2008) share an essential feature: they appear to be paced by the Federal Reserve with a watchful management of the rate of interest, whose pattern, despite their protestations to the contrary,[91] leaves little doubt as to the Fed technocrats' full cognizance of the origination, gestation, and manipulation of a bubble. First, the central bank deliberately inflates the bubble via the nation's credit/financial system by lowering the real interest rate: as the boom is ignited, the interest rate climbs up in step (the phenomenon of the *hausse*) so as to temper the speculative ferment and factor in price increases, while banking as a whole partakes in the surging profit level. And as it reverberates through global advertising channels, the Wall Street ballyhoo that ensues is counted on to generate abroad classic herd dynamics (Net Capital Inflow in Graphs 9.5 and 9.10).[92] The *hausse* may be followed by a trough (LBO-junk-bond) or a plateau of varying duration (long: dot.com, or short: subprime), which may itself culminate in a spike—that is, one last hike to burst the bubble, when the first "cracks" (viz. the insolvencies of major financial concerns) signal that the going price-earnings ratios are no longer sustainable. The interest rate, instantly thereafter, plummets. Crisis.

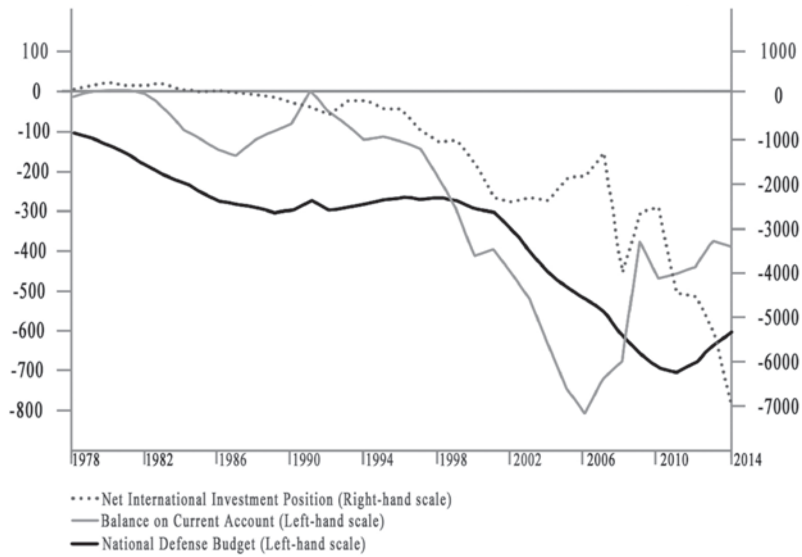
The first and second bubbles had two more traits in common. They were accompanied by a straightforward appreciation of the dollar (Graph 9.3), and, to a significant extent, both were also fueled, innovatively, by the savings of American pension funds, which fact, considered the fate of US Labor after Reagan's anti-union offensive, was, indeed, a bitter irony.[93] The last two bubbles were engineered under Volcker's successor at the Federal Reserve, Alan Greenspan (1987–2005). The first of these two, the dot.com boom, was particular because, in a sort of "bifurcation," the stratospheric capitalizations of the novel internet ventures happened to be layering the semi-anemic performance of an industrial base powered at home by insufficient credit. Money growth was subdued and the dollar, versus gold, was strong throughout the boom (Graph 9.8).[94]

In an effort to cover up the industry's mediocre results by warranting instead the new heights of the NASDAQ froth, Greenspan and his team heralded the advent of a "New Economy," whose backbone was purportedly a portentous productivity leap caused by the pervasive use of computers. Yet, in the statistics, of such a techno-driven leap, there was no evidence whatsoever: the reality, rather, was that "the fate of the world economy," as Volcker himself lamented, had come to depend "on about fifty stocks, half of which

Graph 9.8. Inflation-Adjusted Gold Price per Troy Ounce in 2014 USD

have never reported any earnings";[95] and that, as far as traces of higher labor productivity were concerned, these were, if anything, the palpable effect of greater "exploitation" (longer hours for less pay).[96] Ultimately, as had been anticipated with uncommon foresight in the presidential reports of the early 1960s, the "restructuring" that was bound to transform the economic face of America in response to the Neoliberal overhaul of the BoP turned out to be "astonishing": in the 1983–1999 period, the roster of the Fortune 500 witnessed hectic change and accelerated turnover against the backdrop of entirely new industries and technologies that had quickened the pace of innovation as fast as that of business failures.[97]

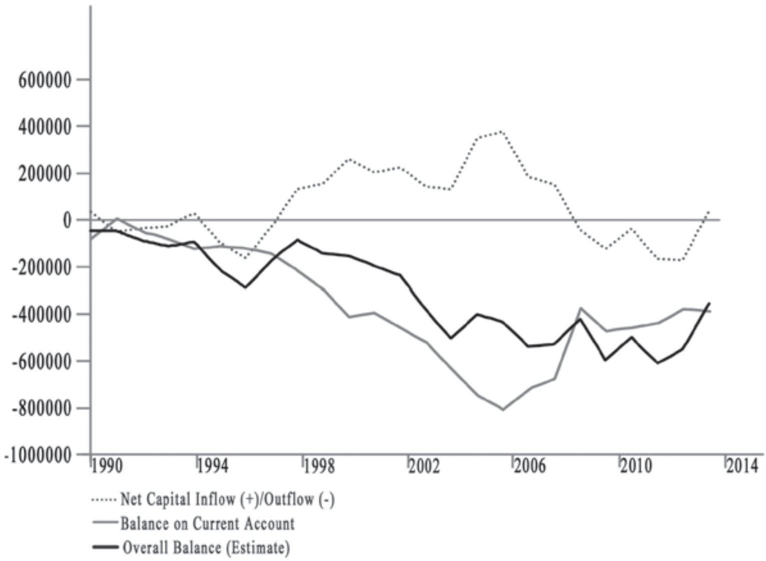
The last, "subprime," boom is somewhat more enigmatic. Wild real estate speculation in America ran a formidable cycle at the same time as the current account deficit grew to become about five times larger than it was during the previous spree; and, most atypically, this last bubble was prefaced by a remarkable *depreciation of the dollar* (Graph 9.3). What seemed to have lain behind the 2002–2007 final quinquennium was an entente between the USA and China. In view of America's stepped-up martial outlays prompted by the escalation of the War on Terror (Graph 9.9), China, which had just



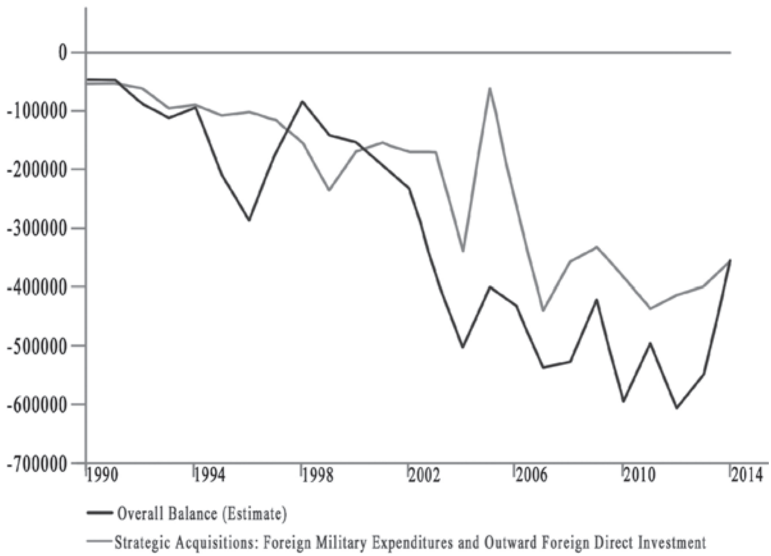
Graph 9.9. US Net International Investment Position, Defense Budget, and Current Account (1978–2014) in millions of US dollars (*Source*: Bureau of Economic analysis and US Department of Defense)

been inducted in the World Trade Organization (WTO) with American Sponsorship (December 2001),[98] was going to flank Western Europe and Japan, and eventually take the lead, in becoming the chief physical outfitter of the USA (outside the western hemisphere). *Since the yuan was pegged to the US dollar*, devaluing the latter artificially—in the style of the Plaza Accord—meant devaluing the former as well. Therefore, the depreciation paved the way not just for China's aggressive export policy in the USA on behalf of the US defense industry[99] and the economy at large; but with factory salaries at less than a 30th of those in the West,[100] China—presently a WTO member, thenceforth no longer liable to being repulsed with anti-dumping prohibitions—was also primed to penetrate the European Union, and scrap its lower industrial tier. So, the picture that emerges from these elements is that of a division of labor: while the Asians—Japan and especially China—parked the proceeds of their greatly expanded exports to America in T-Bills (and gold?), the Europeans—buttressed by the City of London and the offshore channels of the Caribbean—absorbed through the filter of the great US investment banks, which knew them to be "toxic" from the moment they were issued,[101] trillions of US mortgage-backed assets[102] (stocks and bonds, including subprime; up to a quarter of the *entire* amount floated). The final beneficiary of the assembly line was the US housing sector, which thus came to drive 40 percent of GDP growth throughout this interlude.[103]

Finally, two more developments and a consideration sealed the experience. First, by hammering deeper into the fabric of society the Neoliberal wedge of low wages, dear money, and tax-breaks for the rich, Volcker midwifed—and Greenspan thereafter nurtured—a new leisure class of bond-holders ever more segregated from a global horde of mass individuals on temp contracts.[104] Thus was sown the new seed of today's staggering inequalities. Second, by the time Neoliberalism's paradigm shift had become entrenched (1990s), the practice of "burying" foreign official assets (FOA) in US T-bills was superseded by the newer routines of foreign "reserve managers," who, leveraging the *private* channels of the "shadow banking system," gave themselves the option to park (a varying share of) the dollar overflow, if deemed opportune, in corporate bonds and equities.[105] Last, as averred by Greenspan himself in 2005,[106] the Neoliberal fix of the US BoP had, for the whole duration of the long bull market (minus the subprime coda), de facto re-anchored the dollar to a "notional" gold standard: by losing the "peg" toward the beginning of the last bubble (Graph 9.8), the system seemed to have intimated that it was time for yet another overhaul (see final section).



Graph 9.10. US Balance of Payments (1990–2014) in millions of US dollars (*Source*: Bureau of Economic Analysis)



Graph 9.11. US Balance of Payments and Strategic Acquisitions (1990–2014) in millions of US dollars (*Source*: Bureau of Economic Analysis)

Conductores of FDI

Though Arthur Burns—Nixon's central banker—thought it "fatuous"[107] to argue the point overtly, it is undeniable that "America has a huge continental economy that can ignore trade if it really has to."[108] This also explains why "the dollar has been far stronger than U.S. trade numbers would suggest."[109] For the USA, international trade essentially matters insofar as it supports the expansion of its multinational corporations, which are a key source of revenue and logistical deployment. In imperial Rome, incidentally, the vast majority of high-caliber merchants, especially the great proprietors of *latifundium* ("farmers-generals"), shipping (*navicularii*), and warehousing (*curatores annonae*) operated likewise for the emperor, in *collegia*. Organized in State-chartered cartels, these so-called *conductores* (or *redemptores*) conducted sensitive business, and were paid rent therefor, on behalf of Cesar.[110]

That, over the last two decades (1994–2013), around a quarter of *total* US imports have been, in fact, transactions among parents, foreign parents, and affiliates of US transnational concerns, on the one hand, and between US foreign affiliates and US persons, on the other, is another element in support of the claim that America's international exposure is less than what it seems.[111] Yet, more importantly, multinationals constitute the very asset that, since the 1970s, has enabled America to enjoy on her foreign investments a return on average 5 percentage points higher than that earned by her vassals on their US investments.[112] Canada, the UK, and Western Europe have been the traditionally favored destinations of US multinational branching out—with China being the late, fastest-growing recipient of outward US FDI.[113] Many have puzzled over the apparent inconsistency of this positive investment income differential versus the rest of the world by a country, the USA, which is, nominally, the world's greatest debtor. Some have ventured the hypothesis that America factually extracts such a higher yield as if this were the rent emanating from "hidden," intangible, yet great and quantifiable wealth ("dark matter"), consisting essentially of "knowledge, liquidity, and know-how."[114] But the reality seems to be more prosaic: already in the late 1960s, reporting US data, Servan-Schreiber was deploring in *Le défi américain* how US multinationals in Europe were achieving sweeping corporate takeover (*prise de contrôle*) by having the Europeans pick up nearly 90 percent of the tab—via European subsidies, tax incentives, and euro-bond issues—[115]as the Americans settled the remainder with self-financing and net transfers ("*nous les payons en quelque sorte*, *pour qu'ils nous achètent*").[116]

As shown in Graphs 9.6 and 9.11, US net transfers and capital exports must have continued to play a critical role in fomenting the considerable growth of US multinational activity: in the final analysis, US outward foreign investment has been more profitable than foreign FDI in the USA simply because Americans, de facto, have not had to pay for it.

Nowadays, US conglomerates are the most prolific overseas investors, focusing less on extractive, processing, and basic manufacturing industries than they do on establishing holding companies in Europe, and high technology and finance worldwide. In the period 2000–2014, US outward FDI more than quadrupled.[117]

In Transition

It has been eight years since the collapse of the subprime bubble. While no new binge of, say, neoteric renewable-energy stocks has been engineered in the interim to relay the last mania, the Neoliberal engine, which has had to run mostly on domestic fuel, has shown, for all that, appreciable resilience. First, like all modern financial circuits, the system reset itself through traditional auction-house, self-cleansing mechanisms: overall, 50 trillion dollars in global wealth were blotted out between September 2007 and March 2009; of this amount, 7 and 6 trillion dollars "naturally" evaporated respectively from America's stock market and housing sector, whose fortunes, of course, had been intertwined for the duration of the boom. The sidereal stock quotations of the subprime heyday on Wall Street did belong to those very US financial firms that, for a fabulous profit (300 billion), had sold worthless mortgage-backed paper to the world (over 11 trillion dollars' worth).[118]

From mid-2007 to mid-2009, when the recession officially ended, the US economy was arrested, the acutest contraction occurring in the fourth quarter of 2008 (–8.9 percent): they called it "The Great Panic." Unlike the swift rebound following the Dot.com crash, whose losses were largely absorbed by the swollen portfolios of the absentees, recovery after the Lehman bankruptcy was slow. Bad mortgage loans were reaching deeper into banking's lending structure and the credit flow was choked as a result; the upswing was further retarded by the gradual process of "deleveraging," whereby business activity and consumption contract in proportion to the amount of debt that is paid down. Almost instantly, the US Treasury and the Federal Reserve, together, came to the rescue by erecting a "wall of money." In two rounds of so-called "Quantitative Easing" (QE) from late November 2008 through June 2011, the Fed injected in the banking/financial channels of the system—which are, quite obviously, insulated from the consumers' markets—the billions needed to swap the banks' toxic junk for "healthy" paper, that is, T-bills, and thereby unclog, progressively, the capillaries of credit creation. Concomitantly, while the Treasury also bought stakes in America's top becalmed banks, the Fed, unbeknownst to the US public, forced large amounts of public money inside the depleted accounts of the US affiliates of European banks, whose total exposure to the USA in early 2008 had amounted to 10 trillion dollars. On the other side of the lending fence, the US government set up "facilities" to relieve stranded icons of America's industrial landscape such as the financial arm of Harley-Davidson, General Electric, and McDonald's.[119] And, to prop up further the banks' asset structure, the grand salvage was extended to cure as well real estate of its most recent depression: the Fed kept afloat the mortgage industry by pushing down long-term interest rates ("Operation Twist," 09/2011–06/2012), and, to this day, house prices—and banking profits—in the USA have thereby remained high.

In a year and a half, it was all patched up: whatever could no longer be attracted from abroad, as had been the praxis since Volcker's shock, was, on a reduced scale, supplied for the most part domestically. Successfully enough so that the US economy managed to bounce back and grow from 2011 to 2015 at an average of 2 percent in real terms, while 11.5 million jobs were being (re-)added to the rosters. Even some of the "insulated" bailout money sneaked out so far as to trigger a little home-made boom on Wall Street (Graph 9.7). Altogether, this was the "largest counter-cyclical fiscal effort in U.S. history" and it cost 5.5 percent of GDP in 2010.[120] That translates into nearly a trillion dollars of taxpayers' money,[121] which has been, by default, charged to the nation's public debt, now standing at 100 percent of GDP.

All of which is not retold here to suggest that "government" through its putative "fourth branch"—the Fed—creates the money; it does *not*, the private banking industry does: the function of the Fed is to convey the political directives of the government (viz. inflate the real estate bubble) to the banking and financial cartel and—as an ambassadorial organ of sorts between the State and the cartel—mobilize, tap the income of the nation's workers (by monetizing T-bills along insulated channels) in order to refit the apparatus of the BoP whenever the latter breaks down.

Internationally, despite being the epicenter of the Great Panic, the USA has manifested once again its unchallenged primacy by seeing in

2008–2009, in a curious paradox, the dollar *strengthen* via amped up purchases of T-bills by foreign reserve managers on the run from the mortgage-backed debacle.[122] Yet, all in all—and this would explain the strategic lull after the last crash—US technocrats seem to have grown disillusioned with the Neoliberal machine: it is not the high levels of domestic and external indebtedness that trouble them—the country's wealth and shoulders are still strong—so much as the spasmodic imbalances that this system is prone to generate and feed on. As strategic drivers, bubbles and borrowing are messy affairs, not liable to orderly and provident management. As a momentous alternative, the technocrats have called for some kind of "global rebalancing," axed on domestic investment and a revisited export policy.[123]

In fact, though the USA may afford to ignore trade if it wishes to, its merchandise trade (imports plus exports), over the past 30 years, has risen approximately from 13 to 23 percent of GDP. And there have been significant changes on this front: from the high point of 2006, when it made up over 6 percent of GDP, the US current account deficit, thanks to the domestic production of oil and gas, has been reduced in 2013 to a 15-year low of 2.3 percent of national income.[124] The late mercantile improvement has not concerned exclusively drilling, but also minerals, fuels, vehicles, appliances, gold, cereals, electronics, diamonds, and plastics. On the services side, no less significant has been the large and consistent surplus in royalties and license fees. In essence, what has been lately taking place is a "longer-term reorientation of the United States' international trading patterns," in keeping with President Obama's State of the Union address of 2010, which set a goal of doubling exports of US goods and services in five years. Along with boosted exports, America's "manufacturing renaissance" envisages a major "in-sourcing" of manufacturing jobs: half a million such positions were created between 2010 and 2013, after losing 5 million in the previous decade.[125]

Thus, the system seems to be transitioning to a neo-mercantilist regime, which, organically, is bound to incorporate certain features of the previous arrangement. In an apparent bid to recuperate the manufacturing prestige the nation once had, the new "national export initiative" plans on leveraging "America's technological prowess,"[126] while continuing to bolster the maquiladora-sweatshop model developed over the course of the last generation. With the creation of North American Free Trade Agreement in 1993, acclaimed as "the most important year for American trade policy in half a century,"[127] and, as mentioned earlier, with China's accession to the

WTO in 2001, the USA has laid the foundations of a hyper-modern, global standard of industrial production. In this model, the corporate mother, headquartered in America, holds in custody the patent that informs the physical assembly in the Third World periphery and may autonomously threaten retaliatory measures and/or recourse to a high commercial court, the WTO, for any instance the holding company might perceive as an infringement of its intellectual property (the source of royalties and fees).

At the present juncture, in trade relationships, the US administration seems inclined to give China and Mexico preeminence over Europe, and to add South Korea to the mix, full time, with the tacit understanding that the new game will take place in a considerably altered geo-commercial space. Bilateral and multilateral negotiations, in support of which the US Department of Commerce has already readied its extensive network of offices worldwide,[128] will take center stage again within the forthcoming perimeters of new US-auspicated "partnerships."

"Upon completion," it is written in the *Economic Report of the President* of 2014, "the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP) agreements, together, will place the United States at the center of an open trade zone representing around two-thirds of global economic output."[129]

Appendix

The Estimation of the Overall Balance after 1975

The hypothesis for the post-1975 caesura is that the Overall Balance (OB) is simply measured by the Foreign Official Assets (FOA) held in the United States plus foreign private holdings of U.S. Treasuries and U.S. Currency; it is basically an approximation of the old balance on Official Reserve Transactions. In other words, we assume that the mass of U.S. dollars printed in excess of what the rest of the world requires in terms of imports and financial investment (the "dollar overflow") flows back, for the most part, to foreign central banks, which proceed to "place" them in a variety of asset-locations (U.S. government and private securities, cash and deposits). *Private* placements of dollars in U.S government securities are likewise assumed to be, not foreign investment inflow, but rather part of the same "dollar overflow," which, after being spent, is parked in low-yielding longer-term assets. Over this 40-year series, the only two periods that have been corrected are 1998–2001 and 2008–2010 (seven point-observations altogether, highlighted in bold in the Table A.4). In the former period —the end of the dot.com bubble— FOA were extraordinarily low, or even negative (1998), which led to the surmise that reserve managers did invest their resources in private U.S. securities: it is the only foreign category in the Financial Account, for those years, that shows considerable movement. Through guesswork, we took 40 percent of the entire amount of U.S. securities officially acquired by foreigners in these years to be placements of foreign central banks acting through private banking channels. For 2008–2010, as detailed in the exposition, the record shows a generalized (and abnormal) herd movement into T-bills after the subprime crash, especially on the part of official reserve managers, which causes in our view an overestimation of the OB's deficit. Referring, as a guideline, to a set of data gathered by the Bank of International Settlements (McCauley and Rigaudy, "Managing Foreign Exchange Reserves in the Crisis and After," 24–26), the weight of T-bills in the calculation of the OB was accordingly reduced by 40 percent in 2008, and 10 percent for the following two years. Moreover, as may be evinced by graph 11, the plot of "Strategic Acquisitions" shows a discontinuity in 2005, which is due to the progress of U.S. outward FDI. "The sharp drop in U.S. direct investment abroad that occurred in 2005 reflects [in fact] actions by U.S. parent firms to reduce the amount of reinvested earnings going to their foreign affiliates […] in order to take advantage of one-time tax provisions in the American Jobs Creation Act of 2004" (James K. Jackson, "U.S. Direct Investment Abroad: Trends and Current Issues," *Congressional Research Report*, December 2013).

Table A.1 (1946–1960) — Millions of US dollars

Years	*(1) U.S. Private Assets Abroad*	*(2) U.S. Gov. Capital Outflow*	*(3)=(1)+(2) Total U.S. Capital Outflow*	*(4) Private Foreign Assets in the U.S. (Inflow)*	*(5)=(3)+(4) NET Capital Inflow(+)/ Outflow (–)*	*(6) Balance on Current Account*	*(7) Change in Liquid Liabilities to All Foreigners*	*(8) O.R.T (Gold)*	*(9) Error*	*(10) Net Liquidity Balance*	*(11) Balance on C.A. and L.T. Capital*	*(12) U.S. Foreign Military Expenditures*
1946	–413	–3019	–3432	–615	–4047	4885	370	623	155	993	1416	–493
1947	–987	–4224	–5211	–432	–5643	8992	895	3315	861	4210	3872	–455
1948	–906	–1024	–1930	–361	–2291	1993	–919	1736	1115	817	7	–799
1949	–553	–652	–1205	44	–1161	580	–130	266	717	136	–693	–621
1950	–1265	–156	–1421	181	–1240	–2125	–1731	–1758	–124	–3489	–3329	–576
1951	–1048	–156	–1204	540	–664	302	–41	33	354	–8	–594	–1270
1952	–1160	–420	–1580	52	–1528	–175	–1621	415	497	–1206	–1495	–2054
1953	–383	–218	–601	146	–455	–1949	–928	–1256	220	–2184	–2489	–2615
1954	–1622	93	–1529	249	–1280	–321	–1061	–480	60	–1541	–941	–2642
1955	–1255	–310	–1565	297	–1268	–345	–1060	–182	371	–1242	–1329	–2901
1956	–3071	–629	–3700	615	–3085	1722	–1842	869	390	–973	–868	–2949
1957	–3577	–958	–4535	545	–3990	3556	–587	1165	1012	578	–304	–3216

1958	–2936	–971	–3907	186	–3721	–5	–1073	–2292	361	–3365	–3528	–3435
1959	–2375	–353	–2728	736	–1992	–2138	–2835	–1035	260	–3870	–4080	–3107
1960	–3878	–1104	–4982	364	–4618	1873	–1756	–2145	–1156	–3901	–1211	–3087

Source: US Department of Commerce, *Survey Current Business*, June 1969, Vol. 46, n.6, Table 1, p. 26. Column (1) is line 32 of the *Survey*'s table; column (2) corresponds to line 41; column (4) to line 50 minus the sum of lines 58 and 59; column (6) to line 31; column (7) is the sum of lines 58 and 59, with sign reversed; column (8), the balance on Official Reserves Transactions (ORT), is line 46, with the sign reversed; column (9) corresponds to line 60 and it is obtained as the difference between the Net Liquidity Balance (10) and the sum of Net Capital Flows (5) and the balance on Current Account (6); "Errors and Omissions" are unrecorded capital inflows (+) or outflows (–); column (10) may be derived by taking the sum of the Net Capital Inflow, the balance on Current Account, and the Error [(5)+(6)+(9)], or by adding the Change in Liquid Liabilities to All Foreigners to the Balance on Official Reserve Transactions [(7)+(8)]; column (11): the data for the balance on Long Term Capital and Current Account are officially available from 1960 (see below: Table I.B column 11) —from 1946 to 1959 they have been estimated by taking the sum of the following lines: on the outflow side, 33 ("Direct Investments"), 34 ("Foreign Securities Newly Issued in the United States"), 35 ("Redemptions"), 36 ("Other Transactions in Foreign Securities"), 37 ("Claims Reported by U.S. banks –Long Term"), 39 ("Claims Reported by U.S. Residents other than Banks —Long-Term"), 41 ("Transactions in U.S. Government Assets, Excluding Official Reserve Assets, Net"); and on the inflow side, 51 ("Direct Investments"), 52 ("U.S. Securities other than Treasury Issues"), 53 ("Long-Term Liabilities Reported by U.S. banks"), 54 (2 Other Liabilities Reported by U.S. Private Residents other than Banks—Long-Term"), and line 31 ("Balance on Goods, Services, and Unilateral Transfers"); column (12) corresponds to line 16, "Military Expenditures."

Table A.2 (1961–1974) — Millions of US dollars

Years	*(1) U.S. Private Assets Abroad*	*(2) U.S. Gov. L.T. Capital Outflow*	*(3)=(1)+(2) Total U.S. Capital Outflow*	*(4) Private Foreign Assets in the U.S. (Inflow)*	*(5)=(3)+(4) NET Capital Inflow(+)/ Outflow (–)*	*(6) Balance on Current Account*	*(7) Changes in Liabilities to Foreigners*	*(8) Changes in Off. Reserves (Gold)*	*(9) Error*	*(10) Net Liquidity balance*	*(11) Balance On C.A. and L.T. Capital*	*(12) U.S. Foreign Military Expenditures*
1961	–4180	–885	–5065	798	–4267	3048	–1646	–606	–1032	–2252	–20	–2998
1962	–3426	–882	–4308	163	–4145	2446	–1331	–1553	–1165	–2864	–1043	–3105
1963	–4479	–1151	–5630	135	–5495	3188	–2336	–377	–406	–2713	–1339	–2961
1964	–6618	–1352	–7970	464	–7506	5764	–2525	–171	–954	–2696	–100	–2880
1965	–3793	–1539	–5332	–938	–6270	4299	–1256	–1222	–506	–2478	–1817	–2952
1966	–4554	–1478	–6032	1672	–4360	1635	–1583	–568	+575	–2151	–2621	–3764
1967	–5653	–2337	–7990	2222	–5768	1273	–4631	–52	–189	–4683	–3973	–4378
1968	–5418	–2164	–7582	6839	–743	–1313	–2491	+880	+446	–1611	–2287	–4535
1969	–5436	–1949	–7385	4752	–2633	–1956	–7268	+1187	–1492	–6081	–3949	–4856
1970	–6920	–2045	–8965	5004	–3094*	–281	–1374	–2477	–476	–3851	–3760	–4855
1971	–10060	–2376	–12436	3330	–8389*	–3879	–19617	–2348	–9698	–21965	–10637	–4819

1972	−8708	−1334	−10042	7097	−2235*	−9710	−13797	−32	−1884	−13829	−11113	−4784
1973	−14113	−1490	−15603	10052	−5551	335	−7442	−209	−2436	−7651	−977	−4658
1974	−31719	+1119	−30600	10333	−20267	−3608	−20477	+1434	+4845	−19043	−10927	−5103

Source: Department of Commerce, *Survey of Current Business*, June 1975, Vol. 55, n. 6, Table 1, p. 26, and Table 2, p. 30: the data in these two tables are presented succinctly in the *Economic Report of the President* (ERP) 1976, Table B-89, p. 275; Column (1) corresponds to line 38 of Table 2; column (2) is the sum of lines 16, 17, and 18 in Table 1; Private Foreign Assets, column (4), are obtained by subtracting the sum of Net Private Long-Term Capital Flows and Net Non-Liquid Private Short-Term Capital Flows (lines 19 and 27 of Table 1) from Total U.S. Private Assets Abroad (Column 1 of this Table); column (6) is line 15 of Table 1; column (7) is the sum of lines 34 and 43, 44 and 45, i.e., Net Liquid Capital Flows plus Liquid and Non-Liquid Liabilities to Foreign Official Agencies; the Changes in Official Reserve Transactions, column (8), comprise gold sales/purchases, SDRs, convertible currencies and the gold tranche at the IMF: they are taken from line 58 of Table 2; column (9) corresponds to line 64 of Table 2 and it is obtained as the difference between the Net Liquidity Balance (10) and the sum of Net Capital Flows (5) and the balance on Current Account 6): "Errors and Omissions" are unrecorded capital inflows (+) or outflows (−); the Net Liquidity Balance, column (10), corresponds to line 33 of Table 1: as above, it may be derived either by summing the Changes in Liabilities to Foreigners and the gold position, columns (7) and (8), or the Net Capital Flow (5), plus the Error (9), and the balance on Current Account (6); the Balance on Current Account and Long Term Capital, column (11) is line 26 of Table 1; the data in column (12) are taken from line 17, "Direct Defense Expenditures," in Table 2. In Graph 9.1, Net Capital Flow is plotted by correcting the series in column (5) with the error (column 9). For the plot of the Overall Balance in Graph 9.2, we replaced the last four years (1971–1974) of the Net Liquidity Balance, which are perturbed by excessive volatility, with the corresponding and less erratic values of the Balance on Current Account and Long-Term Capital.

*Includes allocations of Special Drawing Rights (SDRs, IMF credits), 1970: 867; 1971: 717; 1972: 710 (line 63 in Table 2 Survey of Current Business, 1975)

Table A.3 (1975–1994)

Years	*(1) U.S. Private Assets Abroad*	*(2) U.S. Gov. Capital outflow*	*(3)=(1)+(2) Total U.S. Capital Outflow*	*(4) Private Foreign Assets in the U.S. (Inflow)*	*(5)= (3) + (4) NET Capital Inflow(+)/ Outflow (–)*	*(6)=(5)–(8) NET Cap. Flow + Error*	*(7) Balance on Current Account*	*(8) Error*	*(9) Overall Balance (Estimate)*	*(10) U.S. Foreign Military Expenditures*	*(11) U.S. Foreign Direct Investment*	*(12) = (10) + (11) Strategic Acquisitions*
1975	–35380	–3474	–38854	6053	–32801	–28933	18116	–3868	–10817	–4795	–14244	–19039
1976	–44498	–4214	–48712	16043	–32669	–26092	4295	–6577	–21797	–4895	–11949	–16844
1977	–30717	–3693	–34410	13970	–20440	–24466	–14335	4026	–38801	–5823	–11890	–17713
1978	–57202	–4660	–61862	28181	–33681	–22952	–15143	–10729	–38095	–7352	–16056	–23408
1979	–61176	–3746	–64922	47456	–17466	7049	–285	–24515	6764	–8294	–25222	–33516
1980	–73651	–5162	–78813	39970	–38843	–24384	2317	–14459	–22067	–10851	–19222	–30073
1981	103875	–5097	–108972	75145	–33827	–15569	5030	–18258	–10539	–11564	–9624	–21188
1982	–116786	–6131	–122917	81970	–40947	–7551	–5536	–33396	–13087	–12460	–4556	–17016
1983	–60172	–5006	–65178	68760	3582	20052	–38691	–16470	–18639	–13087	–12528	–25615
1984	–31757	–5489	–37246	87511	50265	65807	–94344	–15542	–28537	–12516	–16407	–28923
1985	–38074	–2821	–40895	121600	80705	95525	–118155	–14820	–22630	–13108	–18927	–32035
1986	–110014	–2022	–112036	186451	74415	105299	–147177	–30884	–41878	–13730	–23995	–37725
1987	–89450	1006	–88444	205490	117046	119045	–160655	–1999	–41610	–14950	–35034	–49984
1988	–105628	2967	–102661	180725	78064	57045	–121153	21019	–64108	–15604	–22528	–38132
1989	–151323	1233	–150090	180907	30817	57616	–99486	–26799	–41870	–15313	–43447	–58760
1990	–81393	2317	–79076	91395	12319	31006	–78968	–18687	–47962	–17531	–37183	–54714
1991	–73075	2924	–70151	59194	–10957	–51926	2898	40969	–49028	–16409	–37889	–54298
1992	–76644	–1667	–78311	79655	1344	–37081	–51613	38425	–88694	–13835	–48266	–62101
1993	–198822	–351	–199173	167006	–32167	–27946	–84806	–4221	–112752	–12086	–83950	–96036
1994	–183893	–390	–184283	208732	24449	27170	–121612	–2721	–94442	–10217	–80167	–90384

Table A.4 (1995–2014)

Years	*(1) U.S. Private Assets Abroad*	*(2) U.S. Gov. Capital outflow*	*(3)=(1)+(2) Total U.S. Capital Outflow*	*(4) Private Foreign Assets in the U.S. (Inflow)*	*(5)= (3) + (4) NET Capital Inflow(+)/ Outflow (–)*	*(6)=(5)–8) NET Cap. Flow + Error*	*(7) Balance on Current Account*	*(8) Error*	*(9) Overall Balance (Estimate)*	*(10) U.S. Foreign Military Expenditures*	*(11) U.S. Foreign Direct Investment*	*(12) = (10) + (11) Strategic Acquisitions*
1995	–341538	–984	–342522	224838	–117684	–96697	–113567	–20987	–210264	–10043	–98750	–108793
1996	–419088	–989	–420077	259988	–160089	–163133	–124764	3044	–287897	–11061	–91885	–102946
1997	–484533	68	–484465	532556	48091	–31170	–140726	79261	–171896	–11707	–104803	–116510
1998	–346624	–422	–347046	335743	–11303	130011	–215062	–141314	**–85051**	–12185	–142644	–154829
1999	–515559	2749	–512810	599224	86414	152545	–295531	–66131	**–142986**	–11849	–224934	–236783
2000	–559292	–945	–560237	884851	324614	257383	–410756	67231	**–153373**	–12131	–159212	–171343
2001	–377219	–485	–377704	587841	210137	200299	–395328	9838	**–195029**	–12869	–142349	–155218
2002	–291310	344	–290966	559952	268986	222878	–458087	46108	–235209	–16798	–154460	–171258
2003	–327483	538	–326945	478190	151245	141228	–521342	10017	–380114	–21882	–149564	–171446
2004	–1005385	1709	–1003676	1028538	24862	129102	–633768	–104240	–504666	–24125	–316223	–340348
2005	–566265	5544	–560721	847334	286613	345420	–745434	–58807	–400014	–25200	–36235	–61435
2006	–1293448	5346	–1288102	1633231	345129	374790	–806726	–29661	–431936	–25122	–244922	–270044
2007	–1431212	–22274	–1453486	1527425	73939	181430	–718643	–107491	–537213	–25850	–414039	–439889
2008	866571	–529615	336956	–95898	241058	149831	–677135	91227	**–527304**	–28311	–329081	–357392
2009	–628417	541342	–87075	–85150	–172225	–44932	–376551	–127833	**–420943**	–30474	–303606	–334080
2010	–1010888	7540	–1003348	651015	–352333	–123823	–470898	–228510	**–594721**	–30391	–351350	–381741
2011	–332761	–103666	–436427	472149	35722	–39132	–457725	74854	–496857	–27752	–409004	–436756

(*continued*)

Table A.4 (continued)

Years	*(1) U.S. Private Assets Abroad*	*(2) U.S. Gov. Capital outflow*	*(3)=(1)+(2) Total U.S. Capital Outflow*	*(4) Private Foreign Assets in the U.S. (Inflow)*	*(5)= (3) + (4) NET Capital Inflow(+)/ Outflow (–)*	*(6)=(5)–8) NET Cap. Flow + Error*	*(7) Balance on Current Account*	*(8) Error*	*(9) Overall Balance (Estimate)*	*(10) U.S. Foreign Military Expenditures*	*(11) U.S. Foreign Direct Investment*	*(12) = (10) + (11) Strategic Acquisitions*
2012	–178341	85331	–93010	–63564	–156574	–167032	–440416	10458	–607448	–24734	–388293	–413027
2013	n/a	n/a	–643915	500600	–143300	–171540	–376760	28240	–548300	–25334	–399203	–424537
2014	n/a	n/a	–792145	609400	–182745	33926	–389526	–216671	–355600	–24163	–357190	–381353

Source: Bureau of Economic Analysis (BEA).

Time periods: 1975–2007, "Previous Standard Tables": Table 1, U.S. International Transactions; 2008, 2009, 2010 (July 2011): Table 1, 70–71; 2011–2012 (September 2013): Table F2, D-4. Links:

http://www.bea.gov/iTable/iTable.cfm?ReqID=62&step=1#reqid=62&step=1&isuri=1

http://www.bea.gov/scb/pdf/2011/07%20July/0711_itaq-tables.pdf

http://www.bea.gov/scb/pdf/2013/09%20September/D%20pages/0913dpg_f.pdf

Correspondences with BEA's tables: column (2) is line 46 ("U.S. Government Assets, Other than Official Reserve Assets"); column (1) is line 50 ("U.S. Private Assets"); column (4) is the sum of lines 64 ("Direct Investment"), 66 ("U.S. Securities Other than U.S. Treasury Securities"), 68 ("U.S. Liabilities to Unaffiliated Foreigners Reported by U.S. Nonbanking Concerns"), and 69 (U.S. Liabilities Reported by U.S. Banks and Securities Brokers"); column (7) is line 77; column (9) is the sum of lines 56 ("Foreign Official Assets in the United States"), 65 (private holdings of "U.S. Treasury Securities"), and 67 (private holdings of "U.S. Currency"); column (10) is line 22; column (11) is line 51; for the 1998–2001 period, as explained above, 40 percent of the amount in line 66 is added to the sum of column (9), and an equivalent sum is correspondingly deducted from "private inflows" in column (4); analogously, for the period 2008–2010, the amount listed under "US Treasury Securities" (line 58) has been reduced by 40 percent in 2008 and by 10 percent in 2009 and 2010; the decreases were compensated for each year by increasing the values in column (4) by an equal amount. For 2013 and 2014, the source is William Zeile and Paul W. Farello, "U.S. International Transactions: First Quarter 2015 and Annual Revisions" *BEA Release* (June 18, 2015). Owing to the Bureau's June 2014 "restructuring" of the U.S. International Economic Accounts, the new classification affecting the individual components —governmental and private— of the U.S. financial outflow does not allow direct comparisons with the previous one; therefore, only the total is provided, which is reported in column (3). Column (4) and (9) are derived as above. The Balance on Current Account and U.S. outward FDI are respectively lines 30 and 20 in Table 1.1. of BEA's "U.S. International Transactions Tables." Since 2013, "Direct Defense Expenditure" (line 22) has been collapsed with "U.S. Government Miscellaneous Services" (line 28) into item 51 and reclassified in Table 1.2 of the same BEA dataset as "Government Goods and Services n.i.e (not included elsewhere)": the last two values in column (10) are taken from this somewhat broader redefinition of foreign military expenditure. As in Graph 9.1, Net Capital Flow in Graphs 9.5 and 9.10 is plotted by correcting the series in column (5) with the error (column 8).

Notes

All references to the series of US Presidential Economic Reports ("Economic Report of the President") are here cited as ERP, followed by the relative publication year. Links: https://www.whitehouse.gov/administration/eop/cea/economic-report-of-the-President; https://fraser.stlouisfed.org/title/?id=45

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13. Yves Laulan, *The General Theory of Employment, Interest, and Cheating* (New York: Richardson and Snyder Ltd., 1981), 38–39.
14. Seymour Melman, *The Permanent War Economy. American Capitalism in Decline* (New York: Simon & Schuster Inc., 1985), 69.
15. Harry Magdoff and Paul M. Sweezy, *The End of Prosperity*, 3
16. Michael Hudson, *Global Fracture. The New International Order* (London: Pluto Press, 1977, 2005), 22; Sidney E. Rolfe and James L. Burtle, *The Great Wheel. The World Monetary System —A Reinterpretation* (New York: McGraw-Hill Book Company, 1973), 183.

17. Robert Triffin, "The Presentation of the U.S. Balance of Payments," *Essays in International Finance* (Princeton, NJ: Princeton University Press, 1977), 24–27.
18. ERP 1961, 114. "Exports of three commodities—petroleum (and products), raw cotton, and wheat—[…] accounted for nearly one half of the increase in total U.S merchandise exports between the first half of 1956 and the first half of 1957. The large rise in petroleum exports resulted from the temporary disruption of traffic through the Suez Canal" (ERP, 1957, 44). The year "1957 remains unique as the *only* year of American surplus until another random occurrence in 1968–69" (Rolfe and Burtle, *The Great Wheel*, 73; see below, endnote n. 33). See also John M. Blair, *The Control of Oil* (New York: Vintage Books, 1976), 3.
19. ERP 1961, 39, 40, 115, 109.
20. ERP 1962, 150.
21. ERP 1968, 166–167.
22. ERP 1962, 146.
23. Ibid., 150.
24. Ibid, 155–160.
25. ERP 1964, 128–129.
26. ERP 1966, 146, 148, 152, 162–163.
27. Howard M. Wachtel, *The Money Mandarins. The Making of a New Supranational Economic Order* (New York: Pantheon Books, 1986), 76.
28. Jean-Yves Carfantan, *Les finances du monde. A la merci des séismes monétaires* (Paris: Éditions du Seuil, 1989), 89.
29. ERP 1969, 143.
30. Goodman, *Paper Money*, 127.
31. Hudson, *Global Fracture*, 30, 31, 32.
32. Ibid., 94
33. "To be sure, there were some fortuitous gains for the United States in 1968–69. In response to rising interest rates and a severe credit shortage, American banks borrowed extensively from the Euro-market through their branches abroad. This served to reduce foreign, including official, holdings of dollars, easing for a while the 'dollar glut'. The short-term capital inflows produced the first overall official settlement surplus the United States had enjoyed since 1957," Rolfe and Burtle, *The Great Wheel*, 97.
34. ERP 1970, 128–130.
35. Rolfe and Burtle, *The Great Wheel*, 96, 99.
36. Ibid., 147.
37. A team composed of the Chairman of the Federal Reserve, the Chairman of the Council of Economic Advisers, the Director of the Office of Management and Budget, and the Secretary of the Treasury; see Ferrell, *Inside the Nixon Administration*, 37.

38. Guido Giacomo Preparata, *Conjuring Hitler. How Britain and America Made the Third Reich* (London: Pluto Press, 2005), 171–187.
39. Rolfe and Burtle, *The Great Wheel*, 164.
40. Hudson, *Global Fracture*, 169.
41. December 1971: 10 percent; May 1972: 8 percent; and October 1973: 10 percent.
42. See, for instance, Michael A. Bernstein, "Understanding American Economic Decline: The Contours of the Late Twentieth Century Experience," in Michael A. Bernstein and David E. Adler, *Understanding American Economic Decline* (Cambridge, UK: Cambridge University Press, 1994), 52; Melman, *The Permanent War Economy*, 151; and Wallace C. Peterson, *Silent Depression. Twenty-Five Years of Wage Squeeze and Middle Class Decline* (New York: W.W. Norton & Co., 1994), 174–180.
43. ERP 1972, 172–174; ERP 1974, 155–156, 183, 191, 209.
44. Blair, *The Control of Oil*, 295.
45. Goodman, *Paper Money*, 179–180.
46. Brendan Brown, *The Flight of International Capital. A Contemporary History* (London: Croom Helm, 1987), 332.
47. David Gisselquist, *Oil, Prices, and Trade Deficits. U.S. Conflicts with Japan and West Germany* (New York: Praeger, 1979), 64.
48. ERP 1975, 192.
49. ERP 1978, 119.
50. Yusuke Kashiwagi (Former Bank of Tokyo CEO) and Toyoo Gyohten (Japanese Former Finance Vice-Minister) in Kaplan, *The Way It Was*, 635, 721.
51. For an account of OPEC's investing patterns in the USA and the UK from 1974 through 1976, see ERP 1977, 126–128.
52. ERP 1975, 195.
53. Hudson, *Global Fracture*, 109, 113, 122, 169.
54. Kevin Phillips, *Bad Money, Reckless Finance, Failed Politics, and the Global Crisis of American Capitalism* (New York: Viking, 2008), 144.
55. Jeffry A. Frieden, *Global Capitalism. Its Fall and Rise in the Twentieth Century* (New York: W.W. Norton & Co., 2006), 404–405.
56. Farrell, *Inside the Nixon Administration*, 108.
57. ERP 1976, 138.
58. Thibaut de Saint-Phalle, *Trade, Inflation, and the Dollar* (New York: Praeger, 1984), 43–44.
59. ERP 2000, 214.
60. William Greider, *Secrets of the Temple. How the Federal Reserve Runs the Country* (New York: Simon & Schuster, 1987), 429, 430, 452; Treval C. Powers. *Leakage. The Bleeding of the American Economy* (New Canaan, CT: Benchmark Publications Inc., 1996), 187–188, 300, 317.
61. See ERP 1979, 80, 126.

62. For the question of the effect of monetary expansion on inflation in the aftermath of the Volcker shock, see J.A. Cacy, "Recent M1 Growth and Its Implications," *Federal Reserve Bank of Kansas City Economic Review* (December 1985): 18–23.
63. Panitch and Gindin, *The Making of Global Capitalism*, 163.
64. Greider, *Secrets of the Temple*, 169.
65. Panitch and Gindin, *The Making of Global Capitalism*, 148.
66. Sara L. Gordon, *The United States and Global Capital Shortages. The Problem and Possible Solutions* (Westport, CT: Quorum Books, 1995), 25.
67. ERP 1984, 55.
68. The money supply, and therewith bank credit for the nation as a whole, was restricted from October 1979 through April 1980, and, even more stringently, from May 1981 through May 1982; it was loosened in the intervening period, from May 1980 through April 1981. For the monthly variation of M1, see https://research.stlouisfed.org/fred2/series/MANMM101USM657S.
69. Powers, *Leakage*, 177.
70. Greider, *Secrets of the Temple*, 185.
71. Walter Wriston (Former CEO of Citibank) in Kaplan, *The Way It Was*, 25.
72. Timothy Cook, "Determinants of the Federal Funds Rate: 1979–1982," *Federal Reserve Bank of Richmond Economic Review*, vol. 75, n. 1 (January/February 1989): 3–19.
73. For the monthly values of the FFR, see https://research.stlouisfed.org/fred2/series/FEDFUNDS; the measure of inflation chosen is the Trimmed Mean Personal Consumption Expenditure (PCE, monthly percent variations): https://research.stlouisfed.org/fred2/series/PCETRIM1M158SFRBDAL.
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89. Ibid., 99, 102.
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108. Wood, *The Bubble Economy*, 17.
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110. Michael Rostovtzeff, *The Social and Economic History of the Roman Empire* (New York: Oxford University Press, 1957 [1926]), 147,158–160, 233, 327, 338, 341, 389. "It is no longer the magistrates and the council of the city who are collectively responsible for the collection of the taxes, for supplementary payments, and for the performance of compulsory work by the population. Individual wealthy, or supposedly wealthy, men now bear the responsibility," 390.
111. By adding to "intra-MNC trade" imports shipped to: (1) US parents by foreign parent groups and to (2) US persons other than their own parents by foreign affiliates, this measure of MNC "intramural/national" transactions rises to around 25 percent of total US imports (27 percent in 1994, 22 percent in 2013); see Rita Ismaylov and Ricardo Limés, "Activities of U.S. Affiliates of Foreign Multinational Enterprises in 2013," *Survey of Current Business* (November 2015); and Raymond J. Mataloni Jr. and Daniel R. Yorgason, "Operations of Multinationals Companies. Preliminary Results from the 2004 Benchmark Survey," *Survey of Current Business* (November 2006).

112. Matthew Higgins, Thomas Klitgaard, and Cédric Tille, "Borrowing without Debt? Understanding the U.S. International Investment Position," *Federal Reserve Bank of New York Staff Reports*, n. 271 (December 2006).
113. ERP 1998, 250–253.
114. Ricardo Hausmann and Federico Sturzenegger, "U.S. and Global Imbalances: Can Dark Matter Prevent a Big Bang?" Working Paper, Kennedy School of Government (November 2005).
115. By issuing a euro-bond, it is as if American concerns borrowed the very money they *originally* spent in Europe at no cost with a view to spending it *again* (and acquiring yet *another* batch of resources), yet this time around, with the promise of paying the foreign owners interest on the bond. It is a *private* form of sterilization, sealing not one—as is the case with T-Bills—but rather two rounds of acquisition of goods from the vassals.
116. "Somehow we pay them so they can buy us up," Jean-Jacques Servan-Schreiber. *Le défi américain* (Paris: Éditions Denöel, 1967), 25–28.
117. James K. Jackson, "U.S. Direct Investment Abroad: Trends and Current Issues," *Congressional Research Service* (December 2013).
118. Prins, *It Takes a Pillage*, 14, 44, 45, 47.
119. Neil Irwin. *The Alchemists. Three Central Bankers and a World on Fire* (New York: Penguin Books, 2013), 130–131, 150–151, 165.
120. ERP 2015, 41, 57.
121. David Wessel, *In Fed We Trust. Ben Bernanke's War on the Great Panic* (New York: Crown Publishing, 2009), 168–169.
122. ERP 2010, 84–85.
123. ERP 2012, 131; ERP 2010, 109.
124. ERP 2014, 66.
125. ERP 2011, 97, 100; ERP 2012, 144, 152; ERP 2013, 227, 229, 230.
126. ERP 2012, 143.
127. ERP 1994, 247.
128. ERP 2011, 98–99, 105; ERP 2012, 153.
129. ERP 2014, 66, 70.