Economics Briefs

U.S. 21st Century Wars Feed Debt, Economic Decline

The explosion of U.S. Federal debt in this decade greatly exceeds that of preceding decades, thanks in part to simultaneous major NATO wars and occupations, funding and arming of "allies' wars," the "Global War on Terror" (GWOT) and the so-called Overseas Contingency Operations (OCO) off-budget war fund.

Military Spending: U.S. military spending in the 1990s consumed approximately $4 trillion. Despite Operation Desert Storm and the subsequently enforced "no-fly zone" against Iraq, and bombing of Serbia in that decade, it was declining well below $400 billion annually by the end of the century. From 2001 to 2011, with major NATO regime-change wars and occupations of Afghanistan and Iraq, and "anti-terror" deployments of soldiers and marines to hundreds of bases around the world, and with the device of funding Overseas Contingency Operations off the Congressional defense budget, U.S. military spending consumed roughly $6.5 trillion. In the 2012–2022 period, wars and/or occupations in Libya and Syria were added to Afghanistan and Iraq and all the other "anti-terror operations," and the OCO off-budget was heavily used and abused. Military spending in those 11 years consumed $8–9 trillion—making $15 trillion in the 21st Century, with OCO contributing $2 trillion.

For Fiscal Years 2023 and 2024, with Ukraine, now Israel, and the anti-China buildup, military spending for just these two is heading for $1.8–1.9 trillion.

U.S. Federal Debt: During the Carter, Reagan, H.W. Bush, and Clinton Presidencies (24 years), U.S. Federal debt increased from approximately $1 trillion to roughly $5.5 trillion. During the 21st Century's "W" Bush, Obama, Trump, and Biden Presidencies (23 years so far), the Federal debt increased from roughly $6 trillion to $32 trillion and is heading for $34 trillion this year. Interest payments have hit the $1 trillion/year level.

Technological Productivity: Is all the "high-tech" military spending raising the productivity of American industry? Total factor productivity growth, in the 1.5–2.0% per year range during the 1980s and 1990s, fell to 0–1.0% per year from 2005 on, according to Bureau of Labor Statistics reports.

U.S. Federal Infrastructure Spending: During the 21st Century U.S. Federal infrastructure spending, in constant 2017 dollars, declined from roughly $70 billion per year in 2001–2002 to about $40 billion per year in 2019–2020, according to the Congressional Budget Office.

With New Stability Pact, Italian Economist Says Democracy Is the Loser

Italian economist Gustavo Piga, who teaches political economy at the Rome Tor Vergata University, said the new Stability Pact (debt rules) of the European Union (EU) will increase gaps in Europe, and is a death sentence for democracy.

"It treats countries appreciably differently," Piga told the daily *Il Sussidiario.net*, "asking those with higher debt/GDP ratio to implement austere fiscal policies, which will depress GDP even more by actually raising the debt/GDP ratio further; and allowing those that are less indebted relative to GDP to implement expansionary fiscal policies that will increase their growth. The result will be widening divergences within the EU, and this will increase skepticism about the European project that is supposed to be about union and not disunity. From last week's agreement, therefore, European democracy emerges defeated, because it has yielded to the technocratic actor called the European Commission, which will have more powers. It is good to remember that nowhere else in the world is there a technocratic body that determines what individual sovereign countries should do. Yet some might even say that we are at the dawn of a fiscal union."

Iranian, Russian Central Banks To Increase Trade, Use Local Currencies

According to the official IRNA (Islamic Republic News Agency), on Dec. 27, the central banks of Iran and Russia completed an agreement to trade in their local currencies, bypassing the role of the U.S dollar completely. This is the latest in a series of growing cooperative agreements between the two countries, and the BRICS more broadly—which Iran has been invited to join as of Jan. 1, 2024. Russia and Iran signed a comprehensive strategic partnership last Spring.

Iran's Central Bank Governor, Mohammad-Reza Farzin, mentioned using Russia's presidency of the BRICS in 2024 as an opportunity for

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increased transactions of national currencies of this sort, to which Russian Central Bank Governor Elvira Nabiullina agreed.

Similarly, the Central Bank of Iran said in a statement that Russia and Iran's largest banks, Sberbank and Bank Melli Iran, respectively, agreed to open a line of credit for the import of Russian essential goods to Iran, of 6.5 billion rubles ($71 million).

U.S. Banks' Unrealized Losses Appear Still To Be Growing

There is evidence that unrealized losses continued rising through the fourth quarter in the U.S. banking system, in that the banks' use of the Bank Term Lending Program to borrow cheap funds from the Federal Reserve jumped up late in the quarter. The official total of unrealized losses in the banking system was $511 billion at the end of the second quarter of 2023, and $684 billion at the end of the third quarter; the fourth quarter total is not yet published. These losses will start being realized on their books in 2024.

The Federal Reserve's Bank Term Lending Program scheme was set up on March 11, 2023, just after Silicon Valley Bank failed, due to its unrealized losses, primarily on Treasury securities in its capital reserves. Banks can borrow from the Fed using those securities, at their full face value, as collateral. The program is supposed to terminate in March 2024, but instead of winding down from the $100–110 billion of the past nine months, its usage has jumped to $138 billion in the week ending Dec. 27, according to the Fed. That indicates more banks are having difficulty, because of unrealized losses on their books, in borrowing in the interbank lending market.

Another Report that Hedge Funds May Blow Out the Treasury Market

Australian Financial Review (*AFR*) on Dec. 20 published another angle of the potential crash disaster waiting in the hedge fund takeover of the U.S. Treasury market: that it is concentrated in just a small handful of hedge funds, which dominate the so-called "basis trade" arbitrage of Treasury security prices vs. futures prices for the same securities. The article names ExodusPoint Capital Management, Millennium Management, and Citadel Capital as having the ability to leverage their own casino bets by 50 times or more with borrowings from major banks. It adds that a few other hedge funds are also doing a huge business in the "basis trade" in Treasuries, although not as large as those three—which, according to one strategist at another hedge fund, have become "too big to fail."

As *EIR* has previously reported, Treasury debt has been growing dramatically while foreign purchasers, such as China, Brazil, and even Japan, are dumping it. The international megabanks have also partially withdrawn from buying and holding large amounts of Treasuries—they are instead lending large volumes to these hedge funds to speculate on the shortest-term-possible bets on Treasury futures. There have been three, going on four, financial near-breakdowns due to sudden disappearance of liquidity related to the Treasury markets: the September-October 2019 "repo crisis"; the March 2020 disappearance of dollar liquidity "when this bet blew up spectacularly," as *AFR* put it in reference to the "basis trade"; the December 2022 "British bonds crisis"; and the crisis now sitting in our near future.

AFR wrote: "Last week the Securities and Exchange Commission, alarmed by the sheer scale of borrowing involved, voted in new rules that may make the economics of the trade less enticing. But … crack down too hard and they could threaten the orderly [!!] running of a U.S. Treasuries market that has ballooned…. Go too easy and there is the threat of too much financial leverage building up at these hedge funds."

Did COP28 Hear About U.S. All-Time Record Fossil Fuel Production?

There is no hypocrisy like geopolitical hypocrisy. While U.S. climate envoy John Kerry lectures the world on getting to allegedly zero carbon emissions and President Joe Biden's first executive order in 2021 was aimed at cutting fossil fuel production, the news on Dec. 28–29 was that U.S. oil production, at 13.25 million barrels per day, was greater than that of any country in history. U.S. natural gas production in 2023 also set a record. Moreover, by the end of the year, the U.S. was pushing up against Saudi Arabia for the position of the world's largest oil *exporter.*

This is "raising climate fears," as the *New York Times* had headlined an article on Dec. 1. Expert forecasts now are that U.S. oil production is heading for 14.5 million bpd in 2024.

The surge has resulted from the Biden Administration's economic war on Russia. It has included compelling European NATO allies to import oil, expensive liquified natural gas (LNG), and even coal from the United States; the destruction of the Nord Stream 1 and 2 gas pipelines; the attempted "price cap" on Russian oil exports designed by the U.S. Treasury; and now the attempt to use sanctions to shut down Russia's new Arctic 2 LNG facility before it starts distribution.

For Biden, war clearly trumps "the planet."