

*Jürgen Kromphardt:* Positiv im Gegensatz zur Bundesbank ist aus meiner Sicht, dass die EZB die Rolle der Geldmenge als Indikator deutlich herunter gestuft hat, und dass sie sich mit ihrer Politik primär an der mittelfristig zu erwartenden Inflationsrate orientiert.

Negativ ist sicherlich, dass sie gerade im Hinblick auf Zinssenkungen nicht so schnell reagiert wie etwa die amerikanische Zentralbank. Insgesamt muss man der Europäischen Zentralbank aber einen positiven Lernprozess bescheinigen.

*INTERVENTION:* In der Wirtschaftspresse wird allgemein darüber spekuliert, wann die Europäische Zentralbank ihre Leitzinsen erhöhen wird. Müsste angesichts der konjunkturellen Lage, des starken Euro und der unbestritten nicht vorhandenen Inflationsgefahr im Euro-Raum nicht eigentlich über eine Leitzinssenkung nachgedacht werden?

*Jürgen Kromphardt:* Die EZB orientiert sich sehr stark – und das zu Recht – an der erwarteten Inflationsrate. Sollte sich die Aufwertungstendenz des Euro als dauerhaft erweisen und sollten die dann billiger werdenden Importe die Inflationsrate deutlich unter 2 % senken, dann würde ich es begrüßen, wenn die EZB die Leitzinsen dann senken würde. Aktuell halte ich dies allerdings noch nicht für erforderlich.

Zu hoffen ist allerdings, dass die EZB nicht denjenigen Ratschlägen folgt, die meinen, die Europäische Zentralbank müsste die Leitzinsen jetzt schon wieder erhöhen, da die Konjunkturaussichten sich aufhellen. Der Aufschwung im Eurogebiet ist schließlich noch gar nicht da, und er wird zunächst auch nur sehr schwach ausfallen.

*INTERVENTION:* Herr Professor Kromphardt, ich bedanke mich für das Gespräch.

*Das Interview führte Kai Eicker-Wolf.*

## **The American Economic Problem**

*James K. Galbraith\**

At present writing in early 2004, nearly nine million Americans remain unemployed. Millions more are underemployed, and most of all, underpaid. Forty-four million lack health insurance. Our schools, colleges, universities, roads, water systems, power lines are in decay – and the funds required to repair and expand them are being cut. Not least, we are in a war with no end in sight. That is our economic problem.

George Bush did not *entirely* create this problem. The late 1990s were a moment of genuine prosperity and that rarest of economic achievements, full employment. But they were based on dreams, illusions and mortgages. The bubble in high technology, the rise in inequality, the debt build-up of American households, the squeeze on public investment, Al Qaeda – these existed before we got George Bush.

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Mr. Bush's essential contribution has been to make the problem harder to fix. The 2001 and 2003 tax cuts flowed, notoriously, to the very wealthy, who do not repair power lines and whose spending is little affected by extra income. Meanwhile middle-class and working Americans faced property and sales tax increases at the state and local level, alongside drastic cuts in education and health services. Team Bush is bent on eroding pay and working conditions, as in their recent assault on fair labor standards affecting overtime.

Possibly, this is intentional. The men in charge under George Bush talk about growth. Certainly they appreciate the positive growth rates that war spending has brought them. But do they really want full employment prosperity, strong labor unions and rising wages? Probably not. The oil, mining, defense, media and drug firms who form their constituency rely on monopoly power, patents, and the control of public resources for their profits. They are threatened by strong labor and do not depend, very much, on strong consumer demand.

Stagnation, moreover, will help to justify even more tax reduction. The administration's core policy objective in this area is the simple distributive goal that financial wealth should, eventually, be freed of tax. In 2001 estate and income taxes were cut. In 2003 it was capital gains, dividends and again the top tax rate. In 2004, if plans are followed, the sunset provisions in these measures will be removed. As things are going, quite soon, federal taxes will fall mainly on payrolls and on current consumption. Such taxes are paid mostly by the middle class, by the working class and by the poor.

Stagnation also promotes plans to cut essential services, including health, education and pensions. As financial wealth escapes tax, neither states, nor cities, nor the federal government can provide vital services on their own – except by taxing sales and property at rates that will provoke tax rebellions, especially when middle class incomes are not rising. Every public service will fall between the hammer of tax cuts and the anvil of deficits in state, local, and federal budgets. The streets will be dirtier, as also the air, and the water. Emergency rooms will back up even more than they have; more doctors will refuse public patients. More fire houses and swimming pools and libraries will be closed. Public universities will cost more; the public schools will lose the middle class. Eventually – and perhaps as soon as the year following the election – federal budget deficits will collide with Social Security and Medicare, putting privatization back on the agenda.

In the near term, more military spending – the Iraq war, the occupation and military restocking – and the portion of the tax cuts that did flow to the middle class are bringing what may perhaps best be described as a false dawn. Indeed in 2003 we again learned two Keynesian truths. First, that a big increase in government spending is a fast and efficient way to pump up the economic growth rate. Second, that most households are income-constrained; increasing their disposable income will increase their spending. But the future tax cuts are weighted even more heavily to the wealthy, and the pace of military spending is unstable and in any event unsatisfactory way to generate an enduring economic expansion.

The Federal Reserve Chairman, Alan Greenspan, has done his best to keep the American housing bubble blown up, through low and stable interest rates. But not even

Mr. Greenspan can forever prevent bubbles from popping, and eventually the housing boom will reach its climax. Big deficits and easy money, though necessary, will not, by themselves, bring full employment.

Because of the damage already done, no matter who takes office in 2005, full, effective and sustainable economic recovery for America will be difficult. It will not be merely a matter of spending more, of »stimulus« – an ugly metaphor that falsely depicts full recovery as a one-shot affair and reminds most people of a hypodermic stick. It will not be a mere matter of finding the right taxes to cut – or to increase. It will certainly not be a simple matter of balancing the budget.

Rather, full recovery will require understanding needs and designing and implementing programs to meet them, both at home and in the international sphere. It will be truly a matter of new departures. Along the way, it will be a matter of overcoming the obstacles left by the legacy of the late 1990s and compounded by the present administration.

These obstacles include excess capacity and depressed expectations, which affect the future of business investment. This will not last indefinitely; in due course the overbuilding of the late 1990s in telecommunications and other sectors will cease to matter. But this will remain a problem for some considerable time yet.

There is also the fact that the reputation of American financial markets has been damaged by fraud and abuse, by a corporate crime wave. Many believe that law enforcement in this area by the Justice Department and Securities and Exchange Commission have been compromised by a political fact – namely, the prevalence of criminal practices among companies with close ties to Mr. Bush. Enron, whose CEO was one of Mr. Bush's largest contributors, is only the most notable example. This perception may impede the enduring recovery of asset values, or perhaps the value of the dollar itself – though no one can say to what extent.

Low interest rates, tax rebates, and increased military spending have kept households afloat so far. The ultimate barrier to household debt acquisition is the ability to pay interest, and so far this has not reached the crisis point. Mortgages have continued to be refinanced, and debt has continued to grow. That households were willing to take on more debt than anyone could have foreseen has kept the slowdown from being far more severe. But while this is good news for the present, it is bad news for the future. It remains the case that what cannot go on forever will eventually stop.

The potential therefore remains for a substantial *future* deceleration in household spending. Consumer spending is over sixty percent of national income, and the pace at which households increase their spending is a key determinant of the pace of economic expansion overall. If and as household spending decelerates, then large increases in the other major, but much smaller, components of spending – government, business investment, and net exports – are necessary to keep the economy growing. And a consumer deceleration would be much aggravated by increasing interest rates, which might even convert a deceleration into an actual decline in total spending, at least for a short period of time.

Conversely, for household spending actually to lead a recovery, household debt would have to resume its rise *in relation to* household income. Such a turn of events would

be normal at some stage in most recoveries, when initial debt ratios are lower. But under current conditions it seems unlikely, and if it does occur, it probably will not endure for very long. The basic reality is that the boom of the 1990s created conditions that were highly *abnormal*, and therefore the path of recovery is likely to be abnormal as well – abnormally weak and abnormally fragile.

The other big problem going forward is America's very weak position in foreign trade. We have a propensity, now deeply entrenched, to run very large foreign deficits at full employment. This is the product of a witches' brew of international economic factors: the high dollar over many years, the decline of the financial system supporting international economic development, and the erosion of parts of our own manufacturing base. Given this structural weakness, extra purchasing power leaks abroad and it is all the more difficult to reach full employment.

In sum, so long as households, businesses and also state and local governments are still retrenching, an expansion sufficient to generate return to full employment would require one of two improbable events. *Either* federal budget deficits must rise by a phenomenal further amount – probably to somewhere between eight hundred billion and a trillion dollars annually. *Or*, in the alternative, the U.S. must find a way to increase exports and reduce imports relative to GDP, thus making it possible for a smaller budget deficit to do the job on domestic employment.

Can the now-fallen dollar square this circle, giving us lower foreign deficits and so reducing the need for fiscal expansion? It appears unlikely. On one side, estimates of the price elasticity of American exports suggest that a lower dollar will not increase European demand for American products by leaps and bounds. On the other side, U.S. consumer goods imports come very substantially from countries (such as Mexico and China) against whose currencies the dollar has not declined, and who are prepared to suffer considerable hardship to prevent such a decline, in order to maintain their present access to the U.S. market. Therefore these imports are not becoming markedly more expensive and the demand for them is unlikely to be choked off by considerations of cost. Things could change on their own: American households might tire of cheap clothing, athletic shoes and electronic toys. But given how much these items contribute to the modest comforts of working class American life, this also seems very unlikely.

Further, one may doubt the willingness of the Treasury and Federal Reserve to tolerate a declining dollar – even one that is falling only against the euro – for an indefinite period. At some point, considerations of national pride will be raised, Latin American debtors may default and U.S. banks may begin to object to the erosion of their international position. A dollar defense, if effected by raising interest rates, would of course only make the domestic position much worse. This will not happen before the election, but afterward it is a possibility.

The baseline outlook then is *not* one where a return to full employment prosperity is likely to be achieved on the current course, nor by small policy changes. Pushing a few well-chosen buttons in the tax code will not do it, however desirable pushing such buttons may be on other grounds. And the Federal Reserve has largely run out of magic

tricks, however much its officials may hint otherwise. The baseline outlook is for a period of strong growth immediately before the election and stagnation afterward – just as the administration anyhow prefers. Any new administration, committed to a better economic result, will have to be prepared with strong measures, capable of changing the underlying macro-dynamic.

To round out the current economic picture, we need to consider the world outside. To the Bush administration, the world outside is mainly a supplier. Cheap labor and cheap oil are the mainstays of the administration's external policy, so far as it has a clear economic dimension (extra soldiers and contributions to military campaigns are also required from time to time). Cooperation, national development and mutual gain are no longer high on the external agenda, which means that many export markets in which U.S. firms have a strong comparative advantage (for example, electronics, telecommunications, and aerospace) are not flourishing. This represents a failure of vision and strategy on the international economic front.

The inevitable fact is, as we pursue a policy of attack and control overseas, we are acquiring an empire – consisting so far of Afghanistan and Iraq, with smaller garrisons in place in numerous other places.

The difficulty of empire is that it is expensive in material and moral terms. In Iraq, for a very brief period, the administration pretended that a vast country could be governed from the outside by a skeleton crew, consisting mainly of very young soldiers, trained well for combat but poorly for civil administration in an Arabic-speaking country. The provision of security, infrastructure and civil administration was not adequately prepared for. Instead, the administration has chosen to pursue a version of »shock therapy« – of conversion to unregulated private markets – that would have seemed extreme even to the market Bolsheviks of the collapsing Soviet Union in 1991.

Meanwhile the burdens of empire are growing palpably as time passes. While success against the Iraqi resistance remains possible, it is also possible that the U.S. will be forced eventually to choose between leaving Iraq or putting in the full force required to control and to run it. One way we lose control, while the other can only add to the miseries of our balance of payments, while forcing the mobilization of hundreds of thousands of young Americans into military and occupation service and exposing them to a high level of violence. In such a contest, the local adversary has great advantages, including considerable cover among the local population and access to cheap and effective means of resistance, including explosives, mines, automatic rifles and rocket-propelled grenades.

How can the cost be met, especially, if the coin of our realm, the U.S. dollar, is at the same time vulnerable? It may not be impossible, but it won't be easy. The problem of empires, historically, is not military defeat. It is bankruptcy: moral, political, and also economic.

Empires do not tend to business at home, and they tend to lose out to rivals who do. Investments made in distant places are sunk; once the empire ends they bring no more benefit to the country that bore the cost. By contrast, investments made at home accumulate and yield a return for centuries into the future. Although Europe faces for-

midable problems of economic governance, it is not too difficult to foresee a day when this difference in current behavior will give Europe an economic advantage over the United States.

There is irony here for America's wealthy. It is true that a group of great wealth holds the levers of power in the country today. But this group, in large measure a coalition of contractors and monopolists, does not have interests in common with the full range of wealthy individuals in this wealthy land. There are many others – exporters, retailers, the residents of large cities, providers of services to the broad population and many passive investors – whose interests align with those of working Americans and who would prosper even more under an economy investing vigorously at home. They are not well served by a program of stagnation and empire, even partially compensated by tax cuts on capital income.

Ultimately, nations prosper or decline as a unit. An economy that fails for working Americans cannot work for the wealthy either. While the Bush administration may leave wealthy individuals relatively untaxed, they will not escape from it as rich, as comfortable, or as secure as they were before. Already their stocks are off by trillions, reflecting the diminished outlook for their business holdings. Soon it may be their houses as well as those of the middle class. If and as the dollar declines, it will be their cash holdings. If they choose to lend their children to the tasks of empire, they will lose a few. And if they don't, it is certain that those actually doing the fighting will remember who did, and who did not, contribute to that burden. Ultimately there will be political consequences from that choice, as from all the others.

### **Vom *Growth-cum-Debt* zum »Wachstum durch Entschuldung«**

Anmerkungen zum »UNCTAD Trade and Development Report 2003: Capital, Accumulation, Growth and Structural Change«

*Barbara Fritz*\*

Der »Bericht zu Handel und Entwicklung« der UNCTAD<sup>1</sup> (»Konferenz der Vereinten Nationen zu Handel und Entwicklung«) steht zu Recht im Ruf, eine fundierte alternative Sichtweise auf internationale wirtschaftliche Zusammenhänge und Entwicklungsfragen zu vermitteln. Der jährlich erscheinende Bericht ist die zentrale UNO-Publikation zu internationalen Wirtschaftsfragen und ihren Auswirkungen auf die Entwicklungsländer. Er widmet sich jedes Jahr zum einen der Analyse globaler Trends und der Entwicklung der internationaler Handels- und Finanzströme, und zum anderen einem spezifischen

\* Institut für Iberoamerika-Kunde, Hamburg. Überarbeitete Fassung eines Vortrags auf Einladung der UNCTAD vor dem UNCTAD Trade and Development Board am 7. Oktober 2003 in Genf.

1 Herunterzuladen unter <http://www.unctad.org/>.