

American Thermidor

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How the cycle of deficits has kept the right in power in America.

Many people have become worried about the hard limits to the current world economy, and particularly the place of America in it: global warming,^[1] which is the limit of how much carbon we can sink into the earth's atmosphere and waters, and Hubert's theory of "Peak Oil,"^[2] which predicts that production of oil will plateau and then enter a decline. Many have also become worried about the seemingly inexorable growth of America's trade^[3] and budget deficits,^[4] as well as the ever-spiraling imports of energy from abroad. Finally, many have become concerned about the growing inequality of the distribution of wealth ^[5] and the decline in real wages. ^[6] It makes many angry that, in a time when America seems to be strip-mining its environment, its credit and its people, we are ruled by the most reactionary American political party to take power since the days when strikers were shot by state militia units, a party that has chosen not to address any of these problems, but instead, tells us that all will be well.

For many, the theory of why this is happening centers around the top-down media system and its vitriolic faux populism that is used to cover an agenda of concentration of power and economic elitism, and an American public that is enthralled by the political machinations of the Republican Party. For others, the root cause is corporate-driven globalization, which sets the workers of different states and different nations against each other in a grim race to the bottom. It seems inconceivable to many writers that, in an era in which so much is headed in the wrong direction, the Republicans have been in the White House 6 of the last 9 terms, and have not lost control of Congress since the elections of 1994, except during a very brief period when the Democrats wrangled the Senate based on a party switch by a Republican. Not only this, but they have controlled the debate, pushing the Democratic Party farther and farther to the right. Even while the approval numbers of both Republican President and Republican Party are below 50% in recent polls, the media treats them with kid gloves, and the Democrats defer to Bush on what the agenda of the nation should be.

What has not been made clear to most people, even to many people who are following the deficits and problems in wages, is how all of these forces fit together and create an environment which is favorable to reactionary government and reactionary social movements. Americans are not as far to the right as the media portrays them, nor as far to the right as the Washington DC power structure behaves: Americans do not favor the war in Iraq, nor the Congress intervening in court cases, nor are they supportive of plans to cut Social Security benefits and turn the stock market into a giant uninsured savings program. And yet, the Bush agenda has moved relentlessly through Congress, and many Americans see Ronald Reagan through a haze of light, as if he set the country on a better road.

There has been an American Thermidor,^[7] a counter-revolution, one which is based on the way money and energy relate to one another. The key is not only oil, nor only money, nor only corporate concentration, but how each of these pushes the other along a cycle. Each one maintains the others in place. To understand how, it is important to look at the deficits that America faces.

The reality is that all of the deficit problems, the energy deficit, the trade deficit, the budget deficit, and the wages and wealth deficit, are connected, each one reinforcing the others. They cannot be solved piecemeal: increasing real wages will mean that Americans will burn more oil, and import more, which means a higher trade deficit. In an environment in which other nations have energy deficits of their own, America cannot export its way to material prosperity, and so it votes for budget deficits to keep the economy propped up. This is the centerpiece of why the Republicans hold power: to undo what they have done requires a broad mandate to attack, not one deficit, but all simultaneously.

The root of problem is that the American economy has become a giant "paper-for-oil" deal. We buy energy, both directly as energy, and indirectly by importing goods made more cheaply in other nations where people command a smaller bundle of energy.^[8] Goods from China cost less, not because Chinese factories are more efficient, but because Chinese workers have a smaller claim on resources than American workers. America prints paper - in the form of Treasury debt and US assets such as stocks - to buy energy from abroad.

Because America runs an energy deficit, and must import it, and we cannot export other goods to others to pay for it, we run a trade deficit. It is a problem because there is one scarce commodity which all others are denominated in: oil. Oil is scarce, not because there is not enough energy in the world, but because it is so much cheaper to extract energy from oil than from other sources, and oil can be used to transport goods and people.

The competition is not over scarce energy in itself, but over a particular form of energy which can be used to substitute for everything else. There is nothing in this world that one cannot get more cheaply by using more oil to get it - whether by importing it, mechanizing its production, or using more energy to extract it. This is not only true of industry, but of people as well: Americans moved to the suburbs because it was cheaper to drive farther than to work through the problems of urbanization, and one could get a larger house with a larger yard in the bargain. As long as it was cheaper to pay rent to Saudi Arabia for the oil, because that is what we are doing, than to pay rent to the government for a working city, people chose to pay rent to OPEC rather than taxes to the government. This ability of oil to be used in place of almost everything else, and not whether there is "enough" oil, is the special property that makes it the basic scarcity of the world economy.

But what happens when America buys energy? What does that trade deficit mean? This is the second step of the vicious circle: while many nations sell some energy, a few nations export energy, but import virtually nothing. A nation like Nigeria, with a large population, does not pile up energy wealth because it has many demands on the flow of money coming in. A nation like Saudi Arabia on the other hand, which has a small population and a much greater concentration of the control of oil, piles up profits year after year. Those profits, rather than going into developing Saudi Arabia, are poured back into the US.

The reason oil causes a particular problem in the world economy is that one can make huge profits in an oil economy, without having the entire superstructure of a cosmopolitan, entrepreneurial, liberal and technological society around it. One cannot manufacture cars, develop technology or develop medicines without a large population of educated people, but one can run an oil economy with a relatively small core of people, many of whom can be imported. Thus, Saudi Arabia does not need to pour most of its profits back into its own nation to stay competitive.

This means the trade deficit creates an investment deficit: the US takes in more investment from the rest of the world than it sends out to the rest of the world.[\[9\]](#)

However, with investment pouring in from nations where the investors are also the government, more and more control over the US economy at its highest levels is in the hands of the wealthy of nations like Saudi Arabia. Should they chose to pull their wealth from the US, or even simply stop rolling over their financing, the result would be a rapid drop in the value of US stocks and assets. This is what happened in the Summer of 2002.[\[10\]](#) To prevent investors in these countries from gaining control, the developed world, and particularly the US, is forced down a particular path: it must cut taxes on our wealthy, so that they match the taxes on the wealthy of Saudi Arabia. The "race to the bottom" starts at the top. This cutting of revenues is what drives the US budget deficit: without the reduction in revenues from upper-bracket tax rates being lowered, and without the interest on the National debt, there is no financial crisis. This means that the trade deficit, combined with the nature of a few energy exporting states, creates the budget deficit.

The money then comes back to the United States at the top of the economy - in the purchase of financial stocks primarily - and then filters downward. This "top down economy," called "trickle down economics," means that America cannot invest in getting out of the energy trap, because the very people who hold the purse strings have no interest in ending it. The only way to slow the process is by, as you should guess, holding real wages flat, because if people earn more, they burn more oil, and make the trade deficit worse.

The reason Reaganomics was put in place then, and remained in place even after the Democrats took back both the Congress and, by 1992, the Presidency, is that no single point on the circle could be broken: raise real wages, and the trade deficit gets worse, raise tax rates by enough to rapidly wipe out the deficit, and face the prospect of foreign ownership of the "commanding heights" of the American economy. Instead of finding a way off of the dependence on foreign oil, and instead of untangling money from oil, Reaganomics used cuts in capital gains taxes and upper-income marginal income tax rates, and the increase in FICA taxes as a regressive tax to reduce consumption as a way of allowing foreign investment to pour into America. The cost was that wages would have to stay flat in real terms, and that corporations and stock wealth would have to grow almost without limit.

This means that the reason Reagan won, and gradually pulled the media and much of the public mood behind him, was that in a world which is zero sum - and the amount of oil being the basis of profit meant it was zero sum - people become conservative, grasping at whatever bits of their bundle of ultimate scarcity they hold. It meant that allowing the rich to become richer was essential to keep America under the control of Americans. It meant that corporations had to be allowed to become larger and larger, so that they were harder and harder to hold accountable through political means. It also created another vicious circle: Americans had more and more of their wealth in their homes, which created more pressure for sprawl, which, in turn, created more and more demand that gasoline prices remain low, so that people could trade cheap energy to pay less for expensive land.

The process became a vicious circle because larger and larger corporations with more and more wealth at the top became the dominant political force. Natural selection of a political kind took over: attempts to change one of these features of the economy met with disaster. Raise wages, and inflation returned; raise taxes, and autonomy was threatened; cut oil consumption, and other nations

would consume more oil to sell to the United States. In other words, progressivism ebbed because there seemed to be no single point of attack that did not involve a dramatic energy austerity, and the resulting reduction in American standards of living. Over and over again, Democratic politicians, from Carter in 1980, to Mondale in 1984, all the way to Gore in 2000 and Kerry in 2004, warned of the consequences of energy dependency, unequal wages and corporate consolidation, but failed to create a large political coalition capable of producing what Arthur Schlesinger calls the golden moment in American politics: a progressive president with a progressive working majority in Congress.

The vicious cycle is this: that a cheap energy deficit created a trade deficit, creating an investment deficit, which then created the political pressure for a wages and wealth deficit, which, in turn, made the cheap energy deficit worse, and even more political pressure for even more inequality of wealth and to keep the one lever Americans still had - the ability to drive further to keep costs down, since they could no longer strike or organize to raise real wages. This started the cycle all over again. This is the key to the move to the right - by creating an economy which is determined by the scarcity of one commodity: oil, and a money system which bends around the dynamics of that one commodity, an environment is fostered in which people think as conservatives first. It also means that many of the problems that the progressive movement has identified over the years are symptoms, and not original causes, of the lurch to the right in American politics.

The only Democratic politician capable of creating a large political constituency was Bill Clinton, and he failed when he tried to take the problem head-on with a "Carbon Tax," because Americans would not give up the ability to burn oil to lower other costs: housing costs by driving farther, consumption costs by shopping around, government costs by being able to play one state against the others. Instead Clinton came up with a more complex plan, one that offered a more circuitous, but more politically palatable way out of the paper-for-oil trap.

Clinton's economic program, called "Rubinomics," was driven by the financial wizardry of Bob Rubin, and by the technology policy spearheaded by Albert Gore. It was meant to create a boom in new technology - the "New Economy," which would create private asset wealth that foreigners would buy. Thus instead of selling National Debt and financial leverage, the United States could, instead, sell speculative assets such as internet stocks. This substitution of entrepreneurial paper for government paper was the key part of Clinton's attempt to loosen the American economy from the stranglehold of the paper-for-oil cycle. It was almost genius.

It almost worked.

What it was, and why it failed, are a topic for another day. But answering that question will clarify why the New Economy and technology became a way, not to escape the paper-for-oil trap, but to exacerbate it, and why Peak Oil is very likely to lead, not to a more progressive future, but, on the contrary, to one in which reactionary forces will consolidate power, rather than lose power.

Footnotes

[1] The National Resources Defense Council has a page devoted to the Bush record on Global Warming <http://www.nrdc.org/bushrecord/>.

[2] <http://www.peakoil.net/> and <http://www.hubbertpeak.com/>.

[3] Even the Republican Congressional Budget Office admits that there is a long term decline in America's trade position <http://www.cbo.gov/showdoc.cfm?index=1897&sequence=0>.

[4] The treasury has a raw table since 1950: <http://www.publicdebt.treas.gov/opd/opdhisto4.htm> and a table of the interest on that debt <http://www.publicdebt.treas.gov/opd/opdint.htm>

[5] fair economy.org has some useful graphs:
http://www.faireconomy.org/research/wealth_charts.html.

[6] There have been many surveys of this, some charts I put together are here:
<http://www.bopnews.com/archives/003062.html#3062>.

[7] My original article with this title is here: <http://www.bopnews.com/archives/000129.html> It includes graphs of the energy deficit: <http://www.bopnews.com/archives/energy.html> and the investment deficit: <http://www.bopnews.com/archives/paper-med.html> you can see from the energy deficit graph, the most reliable way to reduce America's energy deficit is to hold a recession.

[8] The term is from Amartya Sen's groundbreaking work on famines, in which he points out that famines are not caused merely by the shortage of food, but by a circumstance in which people are not entitled, under their political and economic system, to "legitimately" claim enough food to feed themselves with the wages they are capable of earning.

[9] For an example of how the trade and investment deficits link together, there is this Washington Post article: <http://www.washingtonpost.com/wp-dyn/articles/A51650-2005Feb24.html>.

[10] Even before it hit bottom, it was being called a "crash":
<http://money.cnn.com/2002/07/19/news/crash2002/> there is a wikipedia article here:
http://en.wikipedia.org/wiki/Stock_market_downturn_of_2002.