

PeaceEconomyNews

Spring 2008



PEP researches, educates and advocates for conversion of our society from a military to a peace-based economy

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Going Bankrupt

Why the Debt Crisis Is Now the Greatest Threat to the American Republic

by Chalmers Johnson

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The military adventurers of the Bush administration have much in common with the corporate leaders of the defunct energy company Enron. Both groups of men thought that they were the “smartest guys in the room,” the title of Alex Gibney’s [prize-winning film](#) on what went wrong at Enron. The neoconservatives in the White House and the Pentagon outsmarted themselves. They failed even to address the problem of how to finance their schemes of imperialist wars and global domination.

As a result, going into 2008, the United States finds itself in the anomalous position of being unable to pay for its own elevated living standards or its wasteful, overly large military establishment. Its government no longer even attempts to reduce the ruinous expenses of maintaining huge standing armies, replacing the equipment that seven years of wars have destroyed or [worn out](#), or preparing for a [war](#) in [outer space](#) against unknown adversaries. Instead, the Bush administration puts off these

costs for future generations to pay — or repudiate. This utter fiscal irresponsibility has been disguised through many

manipulative financial schemes (such as causing poorer countries to lend us unprecedented sums of money), but the time of reckoning is fast approaching.

There are three broad aspects to our debt crisis. First, in the current fiscal year (2008) we are spending insane amounts of money on “defense” projects that bear no relationship to the national security of the United States. Simultaneously, we are keeping the income tax burdens on the richest segments of the American population at strikingly low levels.

Second, we continue to believe that we can compensate for the accelerating erosion of our manufacturing base and our loss of jobs to foreign countries through massive military expenditures — so-called “military Keynesianism.” By military Keynesianism, I mean the [mistaken belief](#) that public policies focused on frequent wars, huge expenditures on weapons and munitions, and large standing armies can indefinitely sustain a wealthy capitalist economy. The opposite is actually true.

Third, in our devotion to militarism (despite our limited resources), we are failing to invest in our social infrastructure and other requirements for the long-term health of our country. These are what economists call “opportunity costs,” things not done because we spent our money on something else. Our public education system has deteriorated alarmingly. We have failed to provide health care to all our citizens and neglected our responsibilities as the world’s number one polluter. Most important, we have lost our

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Andy Heaslet.
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competitiveness as a manufacturer for civilian needs — an infinitely more efficient use of scarce resources than arms manufacturing. Let me discuss each of these.

The Current Fiscal Disaster

It is virtually impossible to overstate the profligacy of what our government spends on the military. The Department of Defense's planned expenditures for fiscal year 2008 are larger than all other nations' military budgets combined. The supplementary budget to pay for the current wars in Iraq and Afghanistan, not part of the official defense budget, is itself larger than the combined military budgets of Russia and China. Defense-related spending for fiscal 2008 will exceed \$1 trillion for the first time in history. The United States has become the largest single salesman of arms and munitions to other nations on Earth. Leaving out of account President Bush's two on-going wars, defense spending has doubled since the mid-1990s. The defense budget for fiscal 2008 is the largest since World War II.

Before we try to break down and analyze this gargantuan sum, there is one important caveat. Figures on defense spending are notoriously unreliable. The numbers released by the Congressional Reference Service and the Congressional Budget Office do not agree with each other. Robert Higgs, senior fellow for political economy at the Independent Institute, says: "A well-founded rule of thumb is to take the Pentagon's (always well publicized) basic budget total and double it." Even a cursory reading of newspaper articles about the Department of Defense will turn up major differences in statistics about its expenses. Some 30-40% of the defense budget is "black," meaning that these sections contain hidden expenditures for classified projects. There is no possible way to know what they include or whether their total amounts are accurate.

There are many reasons for this budgetary sleight-of-hand — including a desire for secrecy on the part of the president, the secretary of defense, and the military-

industrial complex — but the chief one is that members of Congress, who profit enormously from defense jobs and pork-barrel projects in their districts, have a political interest in supporting the Department of Defense. In 1996, in an attempt to bring accounting standards within the executive branch somewhat closer to those of the civilian economy, Congress passed the Federal Financial Management Improvement Act. It required all federal agencies to hire outside auditors to review their books and release the results to the public. Neither the Department of Defense, nor the Department of Homeland Security has ever complied. Congress has complained, but not penalized either department for ignoring the law. The result is that all numbers released by the Pentagon should be regarded as suspect.

In discussing the fiscal 2008 defense budget, as released to the press on February 7, 2007, I have been guided by two experienced and reliable analysts: William D. Hartung of the New America Foundation's Arms and Security Initiative and Fred Kaplan, defense correspondent for Slate.org. They agree that the Department of Defense requested \$481.4 billion for salaries, operations (except in Iraq and Afghanistan), and equipment. They also agree on a figure of \$141.7 billion for the "supplemental" budget to fight the "global war on terrorism" — that is, the two on-going wars that the general public may think are actually covered by the basic Pentagon budget. The Department of Defense also asked for an extra \$93.4 billion to pay for hitherto unmentioned war costs in the remainder of 2007 and, most creatively, an additional "allowance" (a new term in defense budget documents) of \$50 billion to be charged to fiscal year 2009. This comes to a total spending request by the Department of Defense of \$766.5 billion.

But there is much more. In an attempt to disguise the true size of the American military empire, the government has long hidden major military-related expenditures

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in departments other than Defense. For example, \$23.4 billion for the Department of Energy goes toward developing and maintaining nuclear warheads; and \$25.3 billion in the Department of State budget is spent on foreign military assistance. Another \$1.03 billion outside the official Department of Defense budget is now needed for recruitment and reenlistment incentives for the overstretched U.S. military itself, up from a mere \$174 million in 2003, the year the war in Iraq began. The Department of Veterans Affairs currently gets at least \$75.7 billion, 50% of which goes for the long-term care of the grievously injured among the at least 28,870 soldiers so far wounded in Iraq and another 1,708 in Afghanistan. The amount is universally derided as inadequate. Another \$46.4 billion goes to the Department of Homeland Security.

Missing as well from this compilation is \$1.9 billion to the Department of Justice for the paramilitary activities of the FBI; \$38.5 billion to the Department of the Treasury for the Military Retirement Fund; \$7.6 billion for the military-related activities of the National Aeronautics and Space Administration; and well over \$200 billion in interest for past debt-financed defense outlays. This brings U.S. spending for its military establishment during the current fiscal year (2008), conservatively calculated, to at least \$1.1 trillion.

Military Keynesianism

Such expenditures are not only morally obscene, they are fiscally unsustainable. Many neoconservatives and poorly informed patriotic Americans believe that, even though our defense budget is huge, we can afford it because we are the richest country on Earth. Unfortunately, that statement is no longer true. The world's richest political entity, according to the CIA's "World Factbook," is the European Union. The EU's 2006 GDP (gross domestic product — all goods and services produced domestically) was estimated to be slightly larger than that of the U.S. However, China's 2006 GDP was

only slightly smaller than that of the U.S., and Japan was the world's fourth richest nation.

A more telling comparison that reveals just how much worse we're doing can be found among the "current accounts" of various nations. The current account measures the net trade surplus or deficit of a country plus cross-border payments of interest, royalties, dividends, capital gains, foreign aid, and other income. For example, in order for Japan to manufacture anything, it must import all required raw materials. Even after this incredible expense is met, it still has an \$88 billion per year trade surplus with the United States and enjoys the world's second highest current account balance. (China is number one.) The United States, by contrast, is number 163 — dead last on the list, worse than countries like Australia and the United Kingdom that also have large trade deficits. Its 2006 current account deficit was \$811.5 billion; second worst was Spain at \$106.4 billion. This is what is unsustainable.

It's not just that our tastes for foreign goods, including imported oil, vastly exceed our ability to pay for them. We are financing them through massive borrowing. On November 7, 2007, the U.S. Treasury announced that the national debt had breached \$9 trillion for the first time ever. This was just five weeks after Congress raised the so-called debt ceiling to \$9.815 trillion. If you begin in 1789, at the moment the Constitution became the supreme law of the land, the debt accumulated by the federal government did not top \$1 trillion until 1981. When George Bush became president in January 2001, it stood at approximately \$5.7 trillion. Since then, it has increased by 45%. This huge debt can be largely explained by our defense expenditures in comparison with the rest of the world:

In brief:

World total military expenditures (2004 est.), \$1,100 billion

World total (minus the United States), \$500 billion

Our excessive military expenditures did not occur over just a few short years or simply because of the Bush administration's policies. They have been going on for a very long time in accordance with a superficially plausible ideology and have now become entrenched in our democratic political system where they are starting to wreak havoc. This ideology I call "military Keynesianism" — the determination to maintain a permanent war economy and to treat military output as an ordinary economic product, even though it makes no contribution to either production or consumption.

In the late 1940's, with memories of the depression still fresh in people's minds and the economic "success" of the war still visible, American strategists began to build up a massive munitions



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industry, both to counter the military might of the Soviet Union (which they consistently overstated) and also to maintain full employment as well as ward off a possible return of the Depression. The result was that, under Pentagon leadership, entire new industries were created to manufacture large aircraft, nuclear-powered submarines, nuclear warheads, intercontinental ballistic missiles, and surveillance and communications satellites. This led to what President Eisenhower warned against in his farewell address of February 6, 1961: "The conjunction of an immense military establishment and a large arms industry is new in the American experience" — that is, the military-industrial complex.

By 1990, the value of the weapons, equipment, and factories devoted to the Department of Defense was 83% of the value of all plants and equipment in American manufacturing. From 1947 to 1990, the combined U.S. military budgets amounted to \$8.7 trillion. Even though the Soviet Union no longer exists, U.S. reliance on military Keynesianism has, if anything, ratcheted up, thanks to the massive vested interests that have become entrenched around the military establishment. Over time, a commitment to both guns and butter has proven an unstable configuration. Military industries crowd out the civilian economy and lead to severe economic weaknesses. Devotion to military Keynesianism is, in fact, a form of slow economic suicide.

On May 1, 2007, the Center for Economic and Policy Research of Washington, D.C., released a study prepared by the global forecasting company Global Insight on the long-term economic impact of increased military spending. Guided by economist Dean Baker, this research showed that, after an initial demand stimulus, by about the sixth year the effect of increased military spending turns negative. Needless to say, the U.S. economy has had to cope with growing defense spending for more than 60 years. He found that, after 10 years of higher defense spending, there would be 464,000 fewer

jobs than in a baseline scenario that involved lower defense spending.

These are only some of the many deleterious effects of military Keynesianism.

Read Johnson's piece in its entirety including the final section, "Hollowing Out the American Economy," on the Peace Economy Project website at www.PeaceEconomyProject.org/site/newsletters.php

Chalmers Johnson is the author of [Nemesis: The Last Days of the American Republic](#), just published in paperback. It is the final volume of his Blowback Trilogy, which also includes [Blowback](#) (2000) and [The Sorrows of Empire](#) (2004).

Fiscal Responsibility

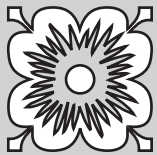
By Joe Welling

When President Bush vetoed the SCHIP (State Children's Health Insurance Program) expansion bill in October of 2007, he called the measure that would have cost \$35.5 billion over 5 years, "fiscally irresponsible".

Meanwhile, the war in Iraq is costing some \$2 billion per week. This money is being disbursed with little or no oversight. Two years ago, [CBS News](#) described how bundles of cash were being disbursed in gunny sacks and wheelbarrows while oversight was virtually non-existent. Stuart Bowen, the special inspector general for Iraq reconstruction reported at that time that \$8.8 billion was utterly unaccounted for, and we'll likely never know where it went. The DoD continues to do business with companies under investigation or suspicion of fraud, waste, bribery and kickbacks.

In campaign coverage, national attention has recently shifted away from the war in Iraq to an emphasis on domestic economic issues. It's important that we gauge candidates views on these issues in a consistent manner.

It's important that we ask candidates for office at all levels to tell us exactly what they consider to be "fiscal responsibility".



An Open Door?

Boeing & Economic Conversion in St. Louis

By Andy Heaslet

The door to economic conversion in St. Louis creaked open a bit in February 2008. Two of Boeing's most high-profile contract bids were turned down — the now four-year-long fight for the newest fleet of Air Force tankers was given to a team of Northrop Grumman and the European Aeronautic Defence and Space Company (EADS), and Boeing's work on the "Virtual Fence" along the Mexican border, riddled with software problems, was pushed back at least three years. These announcements also follow the recent scaling back of work on the F-15, C-17 and the Delta IV rocket.

Boeing's voice in the press persistently touts the jobs related to these large projects as one of the reasons they should win these highly competitive contracts. The implication is that if the contracts are not won, the result will be heavy layoffs.

From a business perspective, it makes sense for companies like Boeing to pursue military contracts as long as their profits are comparable to commercial profits. To a degree, Boeing is finding profit in nonmilitary contracts via its development of the acclaimed 787 Dreamliner. But Boeing's St. Louis area employees are only loosely affiliated with commercial contracts. When Boeing loses major Integrated Defense Systems (IDS) contracts, it raises the questions: What is being done to ensure that jobs and economic strength remain in the St. Louis area? Are there no other non-military contracts that Boeing can pursue to ensure that jobs and capital have long-term security in our region?

Congress adds to this economic insecurity by almost blindly supporting military contracts. (Look at the federal fiscal 2009 budget, which tops half a trillion dollars and makes up nearly 20% of the discretionary spending budget.) Reports, such as one issued by the Center for Economic and Policy Research of Washington, D.C., declare that long-term military Keynesianism (subsidizing economic growth by granting military contracts) actually has negative effects on the economy [See Chalmers Johnson's "[Going Bankrupt](#)," also found in this newsletter].

Granted, it is difficult to calculate the intangible value of "defense" spending, but our leaders must look at defending job security as well as defending national security. As our congressional representatives seek to bring home contracts, they must assure us that there is reasonable security and sustainability in the jobs tied to these contracts. Local leaders must urge Boeing to tell us how it will retain jobs and economic strength in the face of these recent contract losses. At the same time, it is also imperative that our leaders find appropriate contracts and job programs to promote economic vitality in the St. Louis area.

Economic conversion, the shift from defense production to civilian/commercial industry, provides a reasonable solution to the dilemma that Boeing and our congressional representatives now face. It is hard to fathom Boeing completely eliminating its defense manufacturing, but it could, at the very least, diversify its local production to insure long-term job security and sustainability in the St. Louis region.

Such conversion cannot happen unilaterally. Government and industry, specifically Boeing and the three congressional representatives and two senators who represent the St. Louis area, must begin working together for the long- and short-term stability of the region as a whole.

Our neighbors work for Boeing and we elect our congressional leaders. It also falls upon us to make sure that they are aware of the benefits of and the necessity for economic conversion.



2008 Federal Discretionary Spending Budget

www.warresisters.org/piechart.htm

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On the 2009 Budget: "Folks, this is what a 'Wartime Economy' budget looks like: major infrastructure and social needs go un-attended but there are still billions of dollars given to military bases and contractors (who still complain)."

This commentary and more can be found at www.peaceconomyproject.org/site/boeing.php

An Attack on Iran?

By Andrew Wimmer

In an interview on March 3, Stephen Kinzer, author of *All the Shah's Men: An American Coup and the Roots of Middle East Terror*, was asked by Amy Goodman about the likelihood of an attack on Iran by the United States. "The fact that the possibility is fading a little bit off the public agenda...increases the danger, because there doesn't seem to be any public outcry or any outcry in Congress." He said that precisely because the National Intelligence Estimate released in December was making it more difficult for the United States to rally European support for stringent sanctions against Iran, the possibility of a military attack was, ironically, increased. Others watching the situation closely share his concern. In late February Phyllis Bennis and her colleagues at the Institute for Policy Studies issued a new report, "Iran in the Crosshairs: How to Prevent Washington's Next War." Among the actions they urge is that citizens continue to pressure Congress to pass legislation cutting off all spending for military force against Iran. Kinzer and the IPS both worry that there are forces within the administration that are determined to "take care of Iran" before leaving office in January 2009.

The reality is that if an aerial assault against Iran were ordered this afternoon, the United States military already has "the tools to get the job done." What are those tools? The Massive Ordnance Penetrator and the B2 Stealth Bomber. And the state of Missouri plays a crucial role in both.

Boeing has developed a new **30,000-pound Massive Ordnance Penetrator** or MOP in **St. Louis**. The bomb has been tested in New Mexico and will soon be delivered to the Pentagon for use. The intended target are Iran's supposed underground bunkers.

Included in the last supplemental military appropriations bill was nearly **\$88 million** to retrofit the fleet of **B-2 Stealth Bombers** housed at **Whiteman Air Force Base** near Kansas City to enable them to carry and drop the MOPs.

We should all ask our two Missouri senators, Kit Bond and Claire McCaskill, these direct questions:

WILL YOU PUBLICLY TAKE AN UNPROVOKED MILITARY STRIKE AGAINST IRAN OFF THE TABLE?

AND WILL YOU FURTHER PUT A HOLD ON THE DEVELOPMENT AND DEPLOYMENT OF THE NEW MOP ON B2 BOMBERS BY WITHHOLDING FUNDING FOR THESE PROJECTS?

Threatening unprovoked war violates universal principles of human rights that have formed the foundation of international law since World War II. See, e.g., United Nations Charter art. 2, §4, Oct. 24, 1945. According to the International Military Tribunal at Nuremberg, **the planning, preparation, initiation or waging of a war of aggression is "the supreme international crime differing only from other war crimes in that it contains within itself the accumulated evil of the whole."**

As Missouri citizens we **denounce** the preparations that are being made in our name and **announce** a new campaign of citizen direct action to undermine the pillars that provide support and cover for this most outrageous crime against world peace.

www.silenceiswar.org
info@silenceiswar.org

314-723-4991

A project of the Center for Theology and Social Analysis in Saint Louis



Justice and Peace Shares

PEP is a proud member of Justice and Peace Shares, a collaboration of seven local groups, all committed to nonviolent social change and justice for the poor.

JPS Shares (\$25/month) save these 7 organizations valuable time and energy otherwise spent fundraising so that they can focus on their important work for peace and justice.

JPS Shareholders are eligible for membership in any or all of the JPS groups but do not receive direct appeals for further contributions from these organizations.

St. Louis Justice & Peace Shares

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Who Could Ask for Anything More?

A lighter note from PEP Board Member, Geri Redden, who likes to remind us to incorporate laughter and smiles into this sometimes dreary subject. Don't be afraid to sing this outloud to the tune of "Who could ask for anything more?" aka "I've got rhythm."

We got bombs and
we got Star Wars
we got fire power
who could ask for anything more?

We got tanks and
long-range missiles
we got rockets
who could ask for anything more?

Who needs jobs and
who needs health care
we've got Stealth scare
by the score!

Who needs good will?
Who needs allies?
We've got fire power
Who could ask for anything more?
Who could assssskkkk for
anything more?

Do you have your own witty or satirical voice? Help spice up our next newsletter with PEP parodies! Create your own way of laughing at the Military-Congressional-Industrial complex and submit it (<300 words) to pep@peaceeconomyproject.org! The very best submissions will be printed in our summer newsletter and the best of the rest will be featured online!



To our readers: If you are not currently a member but like what you have read here, please consider joining PEP. Membership supports PEP's research and work to build a peace-based economy. Clip and mail the form below. Don't forget your email address - it is the quickest way for us to reach you.

Yes, I want to join PEP.

Contributions are tax-deductible.

- \$50 Sustaining Member
 \$30 Member
 \$100 Major Donor
 \$10 Member on limited income

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Coming Events

March 15, 2008 1-3 pm

Winter Soldier Hearings from the group Iraq Veterans Against the War (www.ivaw.org) to be shown at the MO History Museum in Forest Park (www.insteadofwar.org)

March 16, 2008 2:30-4:30 pm

More Winter Soldier Hearings at the Julia Davis Branch Library, 4415 Natural Bridge Rd. www.ivaw.org and www.insteadofwar.org

March 19, 2008 4-7 pm

Protest to mark the 5th "Anniversary" of the Iraq War Outside Kit Bond's office in Clayton (www.insteadofwar.org)

March 28, 2008 5-7 pm

Monthly PEP BBQ featuring St. Louis Civil Rights, Peace, and Justice legend and PEP Board Member, Percy Green discussing 40 years of activism.

April 18, 2008 5-7 pm

Monthly PEP BBQ and Iraq Moratorium featuring a report back from coordinator Andy Heaslet on his trip to the annual Global Network conference in Omaha, NE outside StratCom, "The most dangerous place on the face Earth."

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PEP News:

Read Thoroughly.

Share Widely.

React Passionately.

PEP Announces New Initiative to Project Mission

Political races provide citizens with a unique opportunity to get direct access to candidates and their constituents. By asking well-formulated questions at campaign events we have the opportunity to educate all present and potentially influence the way politicians make decisions.

PEP has created a list of 10 Questions, designed to illustrate the disparity between offensive military spending and vital spending needs related to the social and infrastructural welfare of the United States.

Here is one of our questions:

8. *The American Society of Civil Engineers' Report Card for America's Infrastructure (asce.org/reportcard) has given American infrastructure an average grade of D (or poor). The ASCE estimates that it will take an investment of \$1.6 trillion over five years to repair and restore American infrastructure.*

Question: How do you justify a fiscal year 2008 "base military budget" of \$520 billion and another \$127.5 billion in war spending when our infrastructure is literally falling apart?

You can find all 10 Questions online at www.PeaceEconomyProject.org.

Please take a look at these questions and deliver them to debates, town hall meetings, forums, election offices, and anywhere you might have direct access to candidates running for federal office and ask away! If you'd like to be part of a PEP squad to attend events and ask these questions, please send an email to pep@PeaceEconomyProject.org.