The Armed Forces' New Clout

The American military's influence over U.S. foreign policy is growing, writes Robert D. Kaplan, a contributing editor of the *Atlantic Monthly* (Sept. 1996).

The acceleration of technology is driving a wedge between military and civilian societies and bringing about, for the first time, a professional-caste elite. Thus today's volunteer Army is different from all others in our history. Soldiers are becoming like doctors and lawyers—another professional group we'd like to need less of but upon which we rely more. And just as health reform requires the consent of the medical community, because doctors own a complex body of knowledge, foreign policy will over the decades be increasingly influenced by the military, because war, peacekeeping, famine relief, and the like are becoming too complex for civilian managers. . . .

The technological revolution that has increased the military's clout in Washington has decreased the State Department's: advances in global communications deprive diplomats of privileged firsthand knowledge, and businesspeople, with their own growing array of resources, require less help from embassies. In fact, embassies may not survive beyond a few more decades.

tion has shrunk (to less than eight percent in 1992).

"The time has come," Huntington declares, "for the West to abandon the illusion of universality and to promote the strength, coherence, and vitality of its civilization in a world of civilizations." The West should pursue its own interests, rather than advance those of other peoples, and the Western nations should avoid intervening in conflicts in which they have no direct stake.

Western leaders, Huntington writes, should attempt not "to reshape other civilizations in the image of the West—which is increasingly beyond their ability—but to preserve and renew the unique qualities of Western civilization." Greater Western unity is essential. The United States must abandon dreams of a Pacific Century and adopt "an Atlanticist policy of close cooperation with its European partners, one that will protect and promote . . . the precious and unique civilization they share."

ECONOMICS, LABOR & BUSINESS

Why Doesn't America Save?

"Understanding the Postwar Decline in U.S. Saving: A Cohort Analysis" by Jagadeesh Gokhale, Laurence J. Kotlikoff, and John Sabelhaus, in *Brookings Papers on Economic Activity* (1996: No. 1), The Brookings Institution, 1775 Massachusetts Ave. N.W., Washington, D.C. 20036; "The Saving Mystery, or Where Did the Money Go?" by Lynn Elaine Browne with Joshua Gleason, in *The New England Economic Review* (Sept.–Oct. 1996), Federal Reserve Bank of Boston, P.O. Box 2076, Boston, Mass. 02106–2076.

Are the baby boomers a generation of self-absorbed spendthrifts who must bear the blame for the alarming decline in national saving? No, argue these two studies. The authors look elsewhere for an explanation.

The U.S. net national saving rate averaged more than nine percent of net national product in the 1950s and '60s, but less than three percent in the first five years of the 1990s. Net domestic investment also dropped—from an average of about eight percent in the 1950s, '60s, and '70s to less than four percent per year in the 1990s. This, economists say, has limited growth in productivity and thus, real wages.

Gokhale, Kotlikoff, and Sabelhaus, of the Federal Reserve Bank of Cleveland, Boston University, and the Congressional Budget Office, respectively, find two forces chiefly responsible for the postwar decline in saving. One is government redistribution of resources from young and future generations to older ones through transfer programs such as Social Security and Medicare. The second is "a sharp increase in the propensity of older Americans" to spend money.

Were it not for these factors, the authors calculate, national saving would be three-and-a-half times what it is. "Today, 70-year-olds are consuming, on average, roughly one-fifth more than 30-year-olds; in the early 1960s, they were consuming [only] slightly more than two-thirds as much." Social Security puts more money in older Americans' pockets, and the certainty of receiving that monthly check encourages spending. The fact that Medicare provides "in-kind" benefits, rather than cash that could be saved to bequeath to one's heirs, also boosts consumption.

Browne, senior vice president and director of research, and Gleason, senior research assistant, respectively, of the Federal Reserve Bank of Boston, agree that the federal government is an important culprit. In 1960, for example, a federal budget surplus increased saving by 2.5 percent of gross domestic product (GDP); in 1995, federal "dissaving" amounted to 1.2 percent of GDP. Increased transfer payments—for Social Security, Medicare, public assistance—account for the change.

But the real puzzle for researchers is why personal saving dropped so sharply, from about seven percent of personal income in 1960 to four percent recently. It's not that people are buying more "stuff," the authors point out. Outlays for durable goods such as cars and washing machines amount to about 10 percent of income today, a bit *less* than 35 years ago. Americans instead are consuming more services, chiefly medical services but also education, business services, and the like.

"Thus, the saving problem is not about thrift versus profligacy, good versus bad," Browne and Gleason comment. "Rather, it is a competition between two 'goods'—more and better medical care, on the one hand, and more investment, on the other."

Gokhale and colleagues believe that investment will continue to be the loser in the coming years: "Anemic rates of saving will spell anemic rates of domestic investment, labor productivity growth, and real wage growth. This is the legacy of the uncontrolled intergenerational redistribution from young savers to old spenders."

Pension Fund Socialism

"The Social Ownership of Capital" by Richard Minns, in *New Left Review* (Sept.–Oct. 1996), 6 Meard St., London W1V 3HR.

Communism may have proved a resounding failure, but socialism—of a sort—has, almost unnoticed, won the day. In the United States, the United Kingdom, and elsewhere, employees have become, through their pension funds, owners of "the means of production." In 1994, pension funds worldwide held accumulated assets worth $10 trillion, an amount equal to the market value of all the companies listed on the world's three largest stock exchanges.

The one thing the new worker-owners lack is control, complains Minns, a former financial officer of the Greater London Enterprise Board who now works for the European Bank for Reconstruction and Development. "Instead, they and their savings are hostages to a financial regime which systematically searches for the highest rate of return regardless of the consequences for employment, the environment, or the state of the social infrastructure." Of the $7.5 trillion in pension fund assets in the United States and United Kingdom, he points out, about 80 percent are managed by professional investment firms.

Doesn't it make sense for workers to leave investment decisions to those financial experts? Not in Minns's view: they "are notorious for their short-term investment practices, spurring unproductive and costly take-over battles, and prioritizing short-term dividend payments at the expense of broader economic and welfare considerations." In the end, "high profits from investment at the cost of reduced jobs do not create better pensions or more secure pension funds."

But shifting control of corporate capital to labor, Minns observes, is no easy matter. In the mid-1970s, Rudolf Meidner of the Swedish Trade Union Confederation proposed requiring large companies to issue new shares equal to about 20 percent of profits, with the shares to be owned by wage-earner funds controlled by trade unions. But even worker-friendly Sweden could enact