War...As this goes to press, war with Iraq appears more likely than it did last month—indeed, it seems nearly imminent. It is difficult to quantify the effects on the U.S. economy of the tension surrounding a possible war or the war itself. Who can gauge how much capital investors are willing to risk until uncertainties are dispelled? Who can reliably estimate the cost of fighting this war without knowing its duration or scope? And who can predict the reaction of neighboring states now and in the future? In fact, considering the many possible ramifications of war and its aftermath, the economic consequences sometimes seem quite beside the point. As essayist Susan Sontag put it, "War-making is one of the few activities that people are not supposed to view ‘realistically’; that is, with an eye to expense and practical outcome. In all-out war, expenditure is all-out, unprudent—war being defined as an emergency in which no sacrifice is excessive.”

No market registers the threat of a Middle East war more clearly than energy. Crude oil traded at roughly $20 per barrel from 1992 through 1997. Prices shot up to $35 per barrel late in 2000 at the peak of a worldwide economic boom, but fell back to $20 per barrel when the boom collapsed early in 2002. Since then, global economic conditions have continued to deteriorate, but crude oil prices have doubled to $40 per barrel. Rapidly rising energy prices are a red flag to economists because oil price spikes preceded virtually every recession in the last 50 years. It is true that during this time the United States has significantly improved its energy efficiency in terms of Btu’s per dollar of output and that the relationship between oil prices and economic activity might be changing. Nevertheless, the United States now depends on imported oil more heavily than ever. This is obvious to everyone with interests in the Middle East, which explains recent energy price movements.

Quite apart from rising geopolitical tensions, the U.S. economy is adjusting to the collapse of the high-tech boom and the stagnation of its important trading partners’ economies. Despite the gradual acceleration of the U.S. economy, regaining its footing is proving harder than many anticipated. Low interest rates have stimulated housing sales and enabled households to bolster their spending through mortgage refinancing, but there are obvious limits to how long this process can continue to propel the economy. In any event, these low interest rates also reflect a large supply of saving relative to investment demand: Capital spending has not yet picked up materially.

Capital spending bears close watching. Some analysts claim that it will continue to strengthen this year as obsolete capital depreciates and increased production gradually lifts capacity utilization rates. Other analysts argue that capacity utilization rates are so low that new capacity will not be required for some time; moreover, even productivity-enhancing investments might be postponed to protect corporate cash flow. Historically, capital spending has been closely related to capacity utilization, and since a wide range of industries still have substantial amounts of excess capacity, it seems reasonable to doubt that capital spending will strengthen immediately.

Capital spending nicely illustrates the links between past, present, and the anticipated future. Today’s buildings, equipment, and employee skills reflect past choices. Today’s decisions about how to use these resources will determine the nation’s future labor quality and capital stock, and to reach these decisions we must conjecture about the future. Expectations of the future profoundly affect the present and therefore influence the future itself. With war tensions in the air, our present and future—so very dependent on one another—are still up for grabs.

Global trading patterns and financial markets are rerouting the rivers of world politics and commerce, sweeping the United States into the very evolutionary currents it is promoting. The Middle East maelstrom looms dead ahead, fraught with danger and with promise. No one knows where it will lead or what will follow.