The End of Empire

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The Nation

The imperial ambitions of the Bush Administration, post-9/11, are founded on quicksand and are eventually sure to founder, but for fundamental reasons not currently under discussion. Bush's open-ended claims for US power -- including the unilateral right to invade and occupy "failed states" to execute "regime change" -- offend international law and are prerogatives associated only with empire. But Bush's greater vulnerability is about money. You can't sustain an empire from a debtor's weakening position -- sooner or later the creditors pull the plug. That humiliating lesson was learned by Great Britain early in the last century, and the United States faces a similar reckoning ahead.

The US financial position is rapidly deteriorating, due mainly to America's persistent and growing trade deficit. US ambitions to run the world, in other words, are heavily mortgaged. Like any debtor who borrows more year after year with no plausible way to reverse the trend, a nation sinking deeper into debt enters into an adverse power relationship with its creditors -- greater and greater dependency.

These creditors are both private investors and governments from Europe and Asia; now none of them have any incentive to disrupt their lopsided relationship with the superpowerful leader of the world. After all, it works for them: Their exports have unfettered access to the largest consumer market in the world, producing trade surpluses and gaining greater market share. Their capital, meanwhile, reaps good returns on the loans and investments in the American economy. But history suggests that with sufficient provocation, the creditor nations will eventually assert their leverage over the United States, however reluctantly. That critical juncture is likely to arrive either because the American debt burden has become so great that additional lending would be too risky or because the creditor nations want to jerk Washington's chain, perhaps to head off reckless new adventures. Either way, it will be a humbling moment for American triumphalism.

No one can know exactly what circumstances will prompt our old friends to give a sharp elbow to Washington and Wall Street -- that is, refuse to lend more or threaten to withdraw capital -- but US finance is currently getting a small taste of what it would feel like. Saudi Arabia (not the government but its wealthy private investors) has pulled as much as $200 billion out of US financial markets in recent months, perhaps to diversify holdings but clearly provoked by the Bush hawks, who are demonizing the Saudis as the "kernel of evil" behind Islamist terrorism. An investment consultant in Riyadh told the *Financial Times*, "People no longer have any confidence in the US economy or in United States foreign policy." Extracting $200 billion from US stocks and bonds may have contributed to the weakening value of the dollar, but by itself it is not a major blow. If Asian money or Europe's were to undertake a similar exit, the financial quake would send damaging tremors through virtually every dimension of US economic life. If severe and sustained, it could shut down economic growth and lead to a lower standard of living.

The threatening implications are seldom discussed with any clarity or candor, but the numbers are not secret. The US economy's net foreign indebtedness -- the accumulation of two decades of running larger and larger trade deficits -- will reach nearly 25 percent of US GDP this year, or roughly $2.5 trillion. Fifteen years ago, it was zero. Before America's net balance of foreign assets turned negative, in 1988, the United States was a creditor nation itself, investing and lending vast capital to others, always more than it borrowed. Now the trend line looks most alarming. If the deficits persist around the current level of $400 billion a year or grow larger, the total US indebtedness should reach $3.5 trillion in three years or so. Within a decade, it would total 50 percent of GDP. Instead of facing this darkening prospect, Bush and team regularly dismiss the worldviews of these creditor nations and lecture them condescendingly on our superior qualities. Any profligate debtor who insults his banker is unwise, to put it mildly.

The specter of America's deepening weakness seems counter-intuitive to what people see and experience in a time of apparent continuing prosperity -- and contradicts everything they are told by authoritative voices. But the quicksand is real. We are already in up to our knees.

Deep-running tides of history have been steadily undermining America's economic hegemony for decades. In the years after World War II, as Japan, Germany and many other shattered nations recovered prosperity and acquired world-class production, the US economic position naturally became relatively smaller and less dominant. This shift was achieved in part by America's own self-interested stewardship, leading the non-Communist world and reviving global trade, spreading investment capital and technology through US multinationals and injecting economic demand in overseas markets with cold war military spending. The postwar economic order succeeded brilliantly, on the whole, dispersing economic power more broadly among the leading industrial nations and causing those nations' economies to be more intertwined through globalizing finance and production. Interdependence is not the problem, since it would provide a healthy foundation for maintaining a peaceable planet. The problem is that US leadership acts as though the changes never happened.

Instead of reformulating global governance to share power and burdens more broadly, a multipolar system that matches the economic reality, America still acts as if it runs things -- alone. And America pays dearly for the privilege, both through its bloated military spending and by accepting the lopsided trade deficits. Both are implicitly regarded in Washington as the burdens of leadership -- defending the world against terrorism on any frontier, upholding the global trading system by serving as "buyer of last resort" for other nations' exports.

Our sinking condition as a debtor nation was not inevitable, in other words, but a function of hubris -- the reluctance among US governing elites to give up on the past glory and adjust to the new realities. Dependency might have been averted years ago if US leadership had awakened fully to the financial implications and compelled major trading partners to do the same -- that is, to join in adjusting the global trading system so the United States would no longer carry alone such burgeoning trade deficits. Under the original terms of the General Agreement on Tariffs and Trade, for instance, it is legal for a nation to impose emergency general tariffs to correct a dangerous financial imbalance flowing from trade.

If the United States took such a provocative step, however, it would ignite fierce global opposition and also expose decades of triumphant propaganda. Washington would have to confess to voters that globalization had become a negative proposition for the national balance sheet. Above all, facing reality would require US elites to resign their inherited role as the singular superpower that runs things -- and begin sharing that power with other nations. Neither political party wants to face such a painful retreat on its watch. Besides, for politicians and policy-makers, it feels good to run the world.

In theory, this problem might still be corrected, but only in theory, because it is impossible to imagine such a dramatic policy reversal from Washington without some great crisis to provoke it. American leadership has instead become increasingly delusional -- I mean that literally -- and blind to the adverse balance of power accumulating against it. Presidents from both parties (Clinton no less than Bush) have embraced the notion that additional trade agreements will eventually solve the US problem by eliminating tariffs and other trade barriers. We have thirty years of evidence to prove the contrary. The gap between imports and exports keeps growing larger right along with each new agreement.

Elite opinion, after years of offering various faulty explanations for the persistent trade deficits, has now decided they do not matter. The new conventional wisdom describes the national economy's indebtedness as unimportant bookkeeping because the exchange actually benefits all -- foreign capital invests more in the United States, and we return the favor by buying more of their stuff (and they lend us the money to do so). In fact, the long-running "trade wars," in which Washington demanded that Japan, Korea and others open their markets to American goods, are over -- principally because major US multinationals are no longer interested in pursuing them. In every sector (save steel and textiles), the American companies have made peace with their foreign rivals, joining them through mergers and alliances or moving production into the foreign markets and withdrawing from competition. If you are an American multinational with feet planted in many countries, it may be true that US indebtedness will have no consequences. But for homebound citizens, whose fate depends solely on America's balance sheet, the debt obligations are real.

For their own reasons, the major trading partners are reluctant to disrupt the status quo. The current arrangement allows them to have it both ways -- gaining a greater share of markets under the shadow of US hegemony. Privately, they recognize that the US economic position is steadily ebbing. But it seems wiser to let the Americans keep their delusions for now. The space for self-interested maneuvering is much greater if the United States carries the burdens and costs alone. Despite occasional whining, Japan and Germany are not eager to claim a prominent share in global leadership (both once had a go at running the world and it ended badly). Far better to prop up the United States financially without forcing awareness of the shifting power.

Their reluctance resembles the American attitude early in the last century, when it was the ascendant economic power but did not wish to become a "Great Power" itself, with responsibility for maintaining world order. Instead, the United States propped up Britain for many years as the failing empire sank into unsustainable debt. British power was fundamentally eclipsed in 1914, but the United States provided the financial nurture to keep it upright, as a kind of dummy leader in world affairs, until after World War II. Washington decisively pulled the plug in 1956, when Britain (along with France and Israel) invaded

Egypt to capture the nationalized Suez Canal. It was the last gasp of British colonialism, and Washington disapproved. By withholding an IMF loan to London, the United States crashed the pound, forced Britain to withdraw from war and its prime minister to resign in disgrace. The Brits were finally relieved of their delusions.

It is most unlikely, of course, that the US drama will play out in a similar way -- we are far too big and powerful by comparison -- but Britain's humiliation might serve as a cautionary tale for power-drunk American statesmen. Other nations, when they feel their global market power is sufficiently stronger and we have become still weaker, might organize a transition of gradual adjustments that allows the United States to climb down gracefully from its long-held role. This would be very difficult to accomplish, however, without a real blow to the US standard of living, not to mention national pride.

More likely, the United States and the global system are going to encounter harsh bumps and ugly surprises. Japan, which has the most to lose if the United States taps out as "buyer of last resort," suggested privately a few years back that it would accept a discreet ceiling on its trade surpluses with the United States -- a "managed trade" deal the free-market Americans rejected on principle. Richard Medley, a global financial consultant with inside connections in Tokyo, told me afterward, "One of the Japanese strategies is to keep us from doing anything rash for the next decade and a half -- until they have become self-sufficient in Asia and can go along without us."

The European Union, meanwhile, is patiently assembling the economic girth and institutional confidence to act as the leading counterpoise to Washington. That is the essential idea of the euro -- a competing world currency other nations can use for trade and as a reliable storehold of wealth. As the euro establishes its durability and comes into wider usage, the dollar will no longer be the only option. At that point, it will be easier for Europe or others to exercise their financial leverage against the United States without damaging themselves or the global financial system as a whole. Europe is not quite there yet, but the euro is rising and so is European anger. The Saudis' financial withdrawals this summer may be a hint of what Americans can expect -- episodes of veiled pressure until Washington gets the message.

The Bush warriors' reckless American unilateralism can only hasten the day when the creditors' conclude that they must assert their leverage over us, perhaps in order to defend peace and stability in the world. How will Americans react when they discover that "U-S-A" is a lot less muscular than they were led to believe? Assuming Americans do not really yearn to become latter-day Roman legions, many people may be relieved to learn the truth. Stripped of imperial illusions, this country could concentrate on building a different, more promising society at home. But while we can hope that the transition ahead will be gradual and without national humiliation, it's more plausible that America's brave new imperialists will plunge ahead blindly, until one day they encounter their own intense reckoning with the bookkeepers.