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Costing Out Pax Americana

Is the U.S. Economy Beginning to Feel the Effects of Imperial Overstretch?

Through momentous events in history — from 9/11 to the invasion of Iraq — the alliance between British Prime Minister Tony Blair and U.S. President George Bush only seems to have grown stronger. There is no doubt that, in this relationship, it is the American who is in the driver's seat and setting the agenda. But is he really? The Bush-Blair alliance illustrates the fact that over the past half century, U.S. diplomacy has been absorbed by the demands of preserving and protecting the political systems and economic structures originally established by the British during the previous 200 years.

The latest adventure in Iraq, an artificial construct established by a group of British generals after WWI, is the latest case in point. Richard N. Gardner captured the principle in his 1956 book, “Sterling Dollar Diplomacy.” He describes a scene in which, during the Bretton Woods conference in 1944, Lord Halifax whispered to Lord Keynes: “It’s true, they have the money bags. But we have all the brains.” Of course, the “they” Lord Halifax referred to was the Americans. The United States has proven itself to be the 21st century warrior

nation. But it still pursues agendas that were essentially set by and for other nations — all the while picking up the considerable tab in dollars and blood. U.S. soldiers, tanks, planes and ships are unmatched in terms of their fighting power. But the economic logic of deploying American soldiers around the world remains obscure. The world hears —

On the Economic Implications of Empire

and may even believe — that America is the last military superpower. Yet, such things were also said about imperial Britain, now a second-tier power with a GDP about equal to California’s. America’s military power may seem unequalled, but its economy has run out of steam for the time — and a quick recovery does not appear imminent.

Japan and Germany Blues

U.S. industry is flat on its back and millions of people have lost jobs — bringing the rate of unemployment to 6%. Both short-term economic factors and long-term structural change are making Americans feel less economically secure than they have in a decade. Rather, they are beginning to feel more like the citizens of nations such as Japan and Germany — where a dearth of economic opportunity has become the norm. After almost a decade of an investment boom

and bust, the impact on the U.S. economy and U.S. consumers is both evident and disturbing.

An Uncertain Cure

U.S. companies — weighed down by debt and overcapacity — are still shedding workers and trying to get over their bubble hangover. Likewise, over-extended consumers with heavy personal debt are becoming more cautious. U.S. leaders like to blame the present economic ills on 9/11 or the after-effects. Whatever its sources, President Bush is trying to fix it all by sticking to the old Reagan formula. It's as simple as this: Just increase defense spending, cut taxes — and hope

the U.S. economy grows faster than the red ink. All the while, the White House will be telling Americans that budget deficits are manageable and don't really matter. But it is far from certain that this prescription will cure the ailing U.S. economy. Interest rates are already near 50-year lows — and will likely remain there for months to

come. Yet, there seems little prospect of the happy rebound that Americans have come to expect. The lure of all those initial public offerings has been replaced in the public mind by the scourge of bankruptcy filings. There cannot be a more depressing symbol of failure to eradicate the memory of easy success that fueled the New Economy.

With this long list of economic negatives, how can it be that America is still a superpower? Two factors come to mind: First, the U.S. military is still the mightiest fighting force in the world — even if the nation's patrimony is being looted to maintain this capability. Like ancient Rome and Britain during Pax Britannica, the United States has leveraged its future in order to pay for today's geopolitical adventures — part of the legacy of Britain's military withdrawal from the Middle East that was concluded in the 1950s.

A Gentler Global Policeman

Unlike the long-dead British Empire, which paid for centuries of global hegemony by sacking conquered nations and forcing them to import British goods, America pretends to be a kinder, gentler policeman. It emphatically claims not to seek to extract the cost of the conquest from the nations it subdues. But can America really afford such compassion? President Bush says that the Iraqi oil belongs to the people of Iraq. But that only means that the U.S. taxpayer must ultimately foot the bill for the acts of terrorism committed by rogue nations — as well as the costs for the broad restructuring of the Middle East that the adminis-

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tration has chosen as the appropriate means of dealing with the terrorist threat. The price tag of this benevolence is measured in lost jobs for U.S. workers, bankrupt U.S. companies — and a steeply rising mountain of public debt. The long-term costs to the U.S. economy of maintaining a globe-spanning empire will be much greater

than Americans were led to believe.

While President Bush enjoys the glow of the military triumph in Iraq, he should remember that economic reality that humbled the great empires of Rome and Britain. U.S. voters may soon forget the image of military daring in Iraq — and ask Washington why they and their children cannot find work, housing, adequate schooling or healthcare. In short, people will start to wonder whether they will be better off tomorrow than they are today. The damage done to the U.S. economy by decades of borrow-and-spend policies supported by both major political parties makes the threat of the next terrorist attack seem almost trivial by comparison.

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