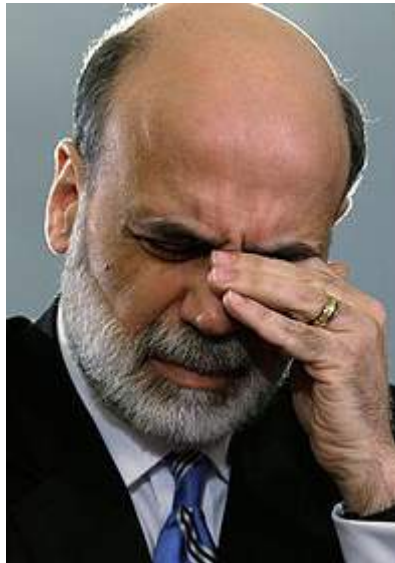


America's Fall From Power

by John Gray via rialator - Guardian UK Sunday, Sep 28 2008, 10:53am

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Our gaze might be on the markets melting down, but the upheaval we are experiencing is more than a financial crisis, however large. Here is a historic geopolitical shift, in which the balance of power in the world is being altered irrevocably. The era of American global leadership, reaching back to the Second World War, is over.



You can see it in the way America's dominion has slipped away in its own backyard, with Venezuelan President Hugo Chávez taunting and ridiculing the superpower with impunity. Yet the setback of America's standing at the global level is even more striking. With the nationalisation of crucial parts of the financial system, the American free-market creed has self-destructed while countries that retained overall control of markets have been vindicated. In a change as far-reaching in its implications as the fall of the Soviet Union, an entire model of government and the economy has collapsed.

Ever since the end of the Cold War, successive American administrations have lectured other countries on the necessity of sound finance. Indonesia, Thailand, Argentina and several African states endured severe cuts in spending and deep recessions as the price of aid from the International Monetary Fund, which enforced the American orthodoxy. China in particular was hectorred relentlessly on the weakness of its banking system. But China's success has been based on its consistent contempt for Western advice and it is not Chinese banks that are currently going bust. How symbolic yesterday that Chinese astronauts take a spacewalk while the US Treasury Secretary is on his knees.

Despite incessantly urging other countries to adopt its way of doing business, America has always had one economic policy for itself and another for the rest of the world. Throughout the years in which the US was punishing countries that departed from fiscal prudence, it was borrowing on a colossal scale to finance tax cuts and fund its over-stretched military commitments. Now, with federal finances critically dependent on continuing large inflows of foreign capital, it will be the countries that spurned the American model of capitalism that will shape America's economic future.

Which version of the bail out of American financial institutions cobbled up by Treasury Secretary Hank Paulson and Federal Reserve chairman Ben Bernanke is finally adopted is less important than what the bail out means for America's position in the world. The populist rant about greedy banks that is being loudly ventilated in Congress is a distraction from the true causes of the crisis. The dire condition of America's financial markets is the result of American banks operating in a free-for-all environment that these same American legislators created. It is America's political class that, by embracing the dangerously simplistic ideology of deregulation, has responsibility for the present mess.

In present circumstances, an unprecedented expansion of government is the only means of averting a market catastrophe. The consequence, however, will be that America will be even more starkly dependent on the world's new rising powers. The federal government is racking up even larger borrowings, which its creditors may rightly fear will never be repaid. It may well be tempted to inflate these debts away in a surge of inflation that would leave foreign investors with hefty losses. In these circumstances, will the governments of countries that buy large quantities of American bonds, China, the Gulf States and Russia, for example, be ready to continue supporting the dollar's role as the world's reserve currency? Or will these countries see this as an opportunity to tilt the balance of economic power further in their favour? Either way, the control of events is no longer in American hands.

The fate of empires is very often sealed by the interaction of war and debt. That was true of the British Empire, whose finances deteriorated from the First World War onwards, and of the Soviet Union. Defeat in Afghanistan and the economic burden of trying to respond to Reagan's technically flawed but politically extremely effective Star Wars programme were vital factors in triggering the Soviet collapse. Despite its insistent exceptionalism, America is no different. The Iraq War and the credit bubble have fatally undermined America's economic primacy. The US will continue to be the world's largest economy for a while longer, but it will be the new rising powers that, once the crisis is over, buy up what remains intact in the wreckage of America's financial system.

There has been a good deal of talk in recent weeks about imminent economic armageddon. In fact, this is far from being the end of capitalism. The frantic scrambling that is going on in Washington marks the passing of only one type of capitalism - the peculiar and highly unstable variety that has existed in America over the last 20 years. This experiment in financial laissez-faire has imploded. While the impact of the collapse will be felt everywhere, the market economies that resisted American-style deregulation will best weather the storm. Britain, which has turned itself into a gigantic hedge fund, but of a kind that lacks the ability to profit from a downturn, is likely to be especially badly hit.

The irony of the post-Cold War period is that the fall of communism was followed by the rise of another utopian ideology. In American and Britain, and to a lesser extent other Western countries, a type of market fundamentalism became the guiding philosophy. The collapse of American power that is underway is the predictable upshot. Like the Soviet collapse, it will have large geopolitical repercussions. An enfeebled economy cannot support America's over-extended military commitments for much longer. Retrenchment is inevitable and it is unlikely to be gradual or well planned.

Meltdowns on the scale we are seeing are not slow-motion events. They are swift and chaotic, with rapidly spreading side-effects. Consider Iraq. The success of the surge, which has been achieved by bribing the Sunnis, while acquiescing in ongoing ethnic cleansing, has produced a condition of relative peace in parts of the country. How long will this last, given that America's current level of expenditure on the war can no longer be sustained?

An American retreat from Iraq will leave Iran the regional victor. How will Saudi Arabia respond? Will military action to forestall Iran acquiring nuclear weapons be less or more likely? China's rulers have so far been silent during the unfolding crisis. Will America's weakness embolden them to assert China's power or will China continue its cautious policy of 'peaceful rise'? At present, none of these questions can be answered with any confidence. What is evident is that power is leaking from the US at an accelerating rate. Georgia showed Russia redrawing the geopolitical map, with America an impotent spectator.

Outside the US, most people have long accepted that the development of new economies that goes with globalisation will undermine America's central position in the world. They imagined that this would be a change in America's comparative standing, taking place incrementally over several decades or generations. Today, that looks an increasingly unrealistic assumption.

Having created the conditions that produced history's biggest bubble, America's political leaders appear unable to grasp the magnitude of the dangers the country now faces. Mired in their rancorous culture wars and squabbling among themselves, they seem oblivious to the fact that American global leadership is fast ebbing away. A new world is coming into being almost unnoticed, where America is only one of several great powers, facing an uncertain future it can no longer shape.

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