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## Tomgram: Aziz Huq, Imperial Pretensions and the Financial Crunch

Don't trust me as a gambler. You'd probably make more by putting your money into credit-default swaps. Nonetheless, I'd like to make a small wager on who the single significant holdover from the Bush administration might be should an Obama presidency actually happen. Keep a close eye on Secretary of Defense Robert Gates. He was clearly sent into the Rumsfeld breach back at the end of 2006 to begin the clean-up of the Bush administration's foreign policy mess and -- my guess -- to prevent Dick Cheney and pals [from attacking Iran](#). And this, with a little help from onrushing reality, he seems to have accomplished. He remains the singular adult in the Bush foreign policy playpen, a [skilled bureaucratic maneuverer](#) from his CIA days, who claims he plans to leave Washington in January but would never say "never" to an offer ahead of time.



Like Obama, he's plunked for an intensified Afghan War and, just last week, a key national security advisor to the candidate, former Navy Secretary Richard Danzig, [praised](#) Gates, suggesting he had been a splendid secretary of defense and adding that "he'd be an even better one in an Obama administration."

So, when Gates gives a speech aimed at the Pentagon's future, it's worth listening carefully. On September 29th, he went to the National Defense University and offered a [peek](#) into that future as he imagines it. Now remember, the U.S. financial meltdown was already underway and, after seven unbelievably fat years, Pentagon weapons contractors were starting to express worries about possible [future cutbacks](#). Nonetheless, Gates offered a vision of a U.S. military-plus. There was the usual support for a range of conventional weapons systems for wars that will never be fought and their futuristic equivalents, as well as for a larger Army, a larger Marine Corps, and a larger Navy. (The Air Force, except for unmanned aerial vehicles, looks to be in trouble in Gatesworld.) But above all, the once and (possibly) future secretary of defense wants to invest in "institutionalizing counterinsurgency skills, and our ability to conduct stability and support operations." Backed by a growing [lobby](#) eager to put ever more warm bodies in the military, he's opting for a major build-up to deal with future insurgencies out there in the global badlands. Think... gulp... "nation building." Think, as well, future Afghanistans and Iraqs.

Though Gates has also [claimed](#) of late that the Pentagon's gargantuan budget will no longer outpace inflation, that growth in military spending is "probably a thing of the past," this is still a recipe for a relatively unrestrained imperial future that, as Aziz Huq, author of [Unchecked and Unbalanced: Presidential Power in a Time of Terror](#), points out below is a disaster waiting to happen. It is, in fact, a potential recipe for [American bankruptcy](#).  
Tom

### Use It or Lose It?

#### How to Manage an Imperial Decline

By Aziz Huq

Do empires end with a bang, a whimper, or the sibilant hiss of financial deflation?

We may be about to find out. Right now, in the midst of the financial whirlwind, it's been hard in the United States to see much past the moment. Yet the ongoing economic meltdown has raised a range of non-financial issues of great importance for our future. Uncertainty and anxiety about the prospects for global financial markets -- given the present liquidity crunch -- have left little space for serious consideration of issues of American global power and influence.

So let's start with the economic meltdown at hand -- but not end there -- and try to offer a modest initial assessment of how the crumbling U.S. economy might change America's global stance.

From its inception, the financial panic stemmed from, and also exposed, a form of imperial overstretch -- that of Wall Street's giant financial firms. For them, it took the form of highly leveraged positions grounded on fragile, poorly assessed collateralized debt. As John Grey recently [observed](#) in the *British Guardian*, however, the panic also uncovered another kind of imperial overstretch -- that of American geostrategic power, raising questions about how the gap between stressed political and military assets and Washington's global ambitions will be resolved.

It's important to clarify what's currently at stake globally. Otherwise, depending on one's druthers, this is a subject that tends to be either overblown or underplayed. Few in the mainstream media even countenance the possibility of catastrophic changes in the U.S. position in the world. On the other hand, some in that world are already [ascribing seismic significance](#) to what's happening, before the dust has even settled. As historian Andrew Bacevich [cautions](#), the future has yet to be written and so neither outcome is -- as yet -- a foregone conclusion.

Nonetheless, it's worth trying to grasp just how today's financial crisis is converging with two other trends -- the weakening of American hard and soft



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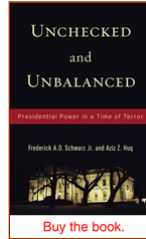
power -- to transform the geopolitical landscape.

### Melting Down

Start with the financial crisis, which emerged from an industry-wide mismanagement of credit and risk. Sophisticated instruments such as [credit-default swaps](#) were intended to cushion institutions from default risk on speculative housing assets by breaking those assets into small bits and spreading them widely among financial institutions. Like any kind of insurance, this was a way of spreading risk around to minimize the consequences of catastrophe.

Instead, of course, those "instruments" seem to have cushioned investors only from a frank assessment of risk. Worse, the very splintering of risk, originally designed to insulate financial merchants from too-hard blows, meant that it would prove exceedingly difficult to assess the soundness of all sorts of other institutions.

Paradoxically, what were fashioned as tools to eliminate risk became tools for risk contagion. As a consequence, it is still unclear whether the tumbling of world markets was a consequence of a confidence-based liquidity crunch, or of a more fundamental problem of worthless assets.



For all but a hardline core of Republicans in the House of Representatives, the ten-pin-style collapse or near-collapse of Lehman Brothers, A.I.G., WaMu, Wachovia, and other outfits signaled the failure of a decades-old deregulatory approach to finance. (The credit-default swap market, in large measure the font of today's crisis, has never been regulated thanks in important part to former Fed chief [Alan Greenspan's confidence](#) in them.) The distinctively modern American model of deregulatory fervor reached its fever point in the Bush years, and has now broken. The crisis of finance, however, was also a crisis of national governance, [highlighting](#) structural weaknesses in the national political system that [render a president](#) a lame-duck months before his term in office ends. The crisis has also highlighted the striking difficulty Congress has in sustaining meaningful legislative inquiry and action on complex issues. Since the panic began, its leaders have proven incapable of imagining alternatives to a deeply regressive and barely re-regulatory response. Not only is the nation's financial framework unsustainable, its political architecture seems seriously flawed.

All of this has an immediate, practical aspect, which has not exactly gone unnoticed in the rest of a panic-stricken world. For decades, the United States has run [consistent and growing](#) current-account deficits -- basically a measure of how indebted over time a country is in relation to its foreign trading partners -- to the tune of \$6.7 trillion since 1982. That was then, though. This is now, and the [sustainability](#) of a political economy, no less a global geopolitical strategy that hinges on international credit markets, is today in question.

Even before the mid-September unraveling began, international creditor goodwill toward the "sole superpower" and its fiscal overreach seemed to be evaporating fast. Asian investors, for instance, were quick to evince ["unprecedented" skepticism](#) about U.S. assets in the opening moments of the crisis. Earlier this year, vast Middle Eastern and Asian sovereign wealth funds, many bloated by petrodollars, were still willing to [furnish crucial injections](#) of capital to U.S. banks, probably staving off the current liquidity crunch. (Paradoxically, their help may only have pushed the onrushing crisis back to a point where it became even more politically toxic to the still-ruling Republican Party.)

Since September, however, the same sovereign wealth funds have proved [skittish indeed](#) about helping U.S. financial outfits, thus eliminating another possible resource for responding to credit shortfalls.

### American Power on the Wane

At some point, tighter global credit conditions are sure to significantly constrain America's freedom of action internationally. After all, Chinese and East Asian investors, to offer but one example, are now quite capable of reining in, and even undermining, the federal government (if they choose to), rather than vice versa.

Though it may not yet have penetrated American consciousness, a national fiscal crisis is also bound to be a crisis of national security. In the coming years, a new president will have to deal with a growing disparity between the historically hegemonic role of this country on the world stage and its diminishing capacity. Simply put, the U.S. will have to do more with less, even to maintain a semblance of its current strategic profile. What effect this has on geopolitical stability, on the number of small and big wars that occur globally, and on collective problems ranging from climate change to human rights remains to be seen.

This might not matter so much if it hadn't been for the Bush administration's myopic focus on the Middle East as the sum of all evils and the bind it has put future policymakers in by shredding U.S. capacity elsewhere. The recent Russian invasion of Georgia offered a graphic illustration of just how hobbled American power had become even before the present financial crisis hit. Apart from [spasm](#) of vice-presidential denunciations, American has not taken and cannot take action in response to Russian moves in Georgia. Indeed, the White House has found itself in a situation uncomfortably like that of our erstwhile European allies, who have been confined to plaintive whining.

Worse, the Bush administration may have been fully complicit in Georgia's strategic error that precipitated the crisis: As military analyst George Friedman has [noted](#), the U.S. had 130 military "observers" in Georgia, who knew of its military deployments and also had the satellite capacity to view

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Russia's buildup in North Ossetia. Despite this knowledge, the U.S. failed to restrain its ally from launching its forces against that breakaway region. Indeed, it may have been American training and support for the Georgian army (in exchange for its contributions to "the coalition of the willing" in Iraq) that emboldened President Saakashvili to invade. In which case, the administration succeeded only in enticing an important ally to throw egg in our face.

Nor is the U.S. position in the Middle East any more impressive. However successful the "surge" has been in the American partisan political theater, it has not resolved the fundamental sectarian instabilities in Iraq, nor has it altered a growing regional imbalance as Iran gains unprecedented influence.

The mountainous Pashtun border areas in Afghanistan's east and Pakistan's west, by contrast, are in a state of open revolt against U.S. regional desires, while the Pakistani regime favored by the Bush administration has collapsed. Obituaries are [now being written](#) for Afghanistan's Karzai regime (for those who didn't notice that it was moribund on arrival six-plus years ago).

Diminishing U.S. economic and military influence only underscores a third trend: the wilting of America's "soft power." At the U.N. in September, for instance, President Bush [faced](#) a tsunami of whispered complaints about America's flawed stewardship of the global economy. Manifest failure in an area in which Americans took such pride saps Washington's ability to persuade and build alliances in areas like resisting slaughter in Darfur, fighting piracy in the Gulf of Aden, or stemming Russian designs on what it calls its "near abroad."

What, in retrospect, must be termed the Cheney White House has reduced America's reputation as a moral beacon to junk-bond level. As senators Obama and McCain have both recognized, any claim to human rights leadership the United States may have once possessed has run aground on the shoals of its torture and "extraordinary rendition" policies, all approved [at the highest government levels](#).

In addition, the insular parochialism of the country's increasingly conservative judiciary has [sliced away](#) at the nation's reputation as a font of constitutionalism. It remains to be seen whether similar judicial parochialism will help undermine the country's attractiveness as an *entrepôt* for financial deal-making.

#### Managing Imperial Decline

The United States today stands in a position somewhat reminiscent of imperial Great Britain after the Second World War: its currency no longer *the* pillar of global financial stability, its armies and navies no longer capable of enforcing its policy desires, and its reputation battered by formally successful but functionally catastrophic military conflicts.

Britain's World War II-eviscerated economy and infrastructure can't, of course, be compared to its present-day American equivalents, even glutted with the detritus of two successive boom-and-bust cycles. Nonetheless, the analogy may be suggestive for Washington when it comes to possible shifts in geopolitical and economic tectonics.

As was true in the Britain of those years, so today, even as the U.S. position in the world undergoes a radical diminishment, the extent to which this is being grasped by a policymaking establishment in Washington unused to dealing with uncertainty remains unclear.

In foreign policy terms, the overextended nature of British imperial power only struck home in 1956, nine years after the world war ended. That was the moment when British Prime Minister Anthony Eden fundamentally miscalculated British power in response to Egyptian President Abdul Nasser's nationalization of the Suez Canal Company. With the French and Israelis at his back, Eden reckoned that Nasser was overreaching and saw an opportunity to undermine the Egyptian regime in an area where British power had long been dominant.

Eden reckoned, however, without a newly dominant United States. American President Dwight D. Eisenhower, angry at being cut out of Middle Eastern affairs, threatened Eden. He would, he indicated, "pull the plug" on the British pound by withdrawing American fiscal support for the recovering British economy. The country's monetary weakness led directly to its military collapse in the crisis. The Suez fiasco not only destroyed Eden's prime ministership, it also marked the end of British imperial ambitions.

How, then, will the United States deal with the uncertainty attendant on its present declining fortunes? A "virtual" history of parallel events featuring a new American president is not hard to imagine, with the weak dollar playing a starring role similar to that of the vulnerable pound back in 1956. Suez was, of course, disastrous for the British exactly because Eden so dramatically misjudged the gap between British assets and his version of its national ambitions. The question today is whether a new American president might do the same.

The most obvious temptation remains an attack on Iran, which would almost certainly fail, even as it exposed U.S. operations in Iraq, Afghanistan, and elsewhere to blowback of a magnitude hard for many American politicians to conceptualize at the moment. It would just as surely mark an unpredictable reordering of political relations in the Middle East and possibly, like Suez, the end of American global imperial pretensions as well.

Iran is but one possible place for a new Suez. Others, from Pakistan to the Straits of Taiwan, abound. Such dramatic miscalculations are easy to imagine, especially if the nationalistic pressures of inside-the-Beltway politics drive international commitments. In addition, other global actors recognizing American weakness in ways Americans may not could add to the mayhem.

In a fast-transforming economic climate, a new president will be faced with a difficult balancing act: exercising flexibility while coming to terms with

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weakness, compensating for strengths lost during the past eight years while giving up ground in pragmatic ways. If that doesn't happen, then hard questions will linger, even after the last credit-default swaps have been unwound, about America's capacity to project influence in the world.

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