



The decline of the US empire

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FROZEN capital markets, impending global recession and governments and central bankers flailing around unable to do anything about it.

It is no surprise that the history books are being scoured for clues as to what's next for America and the world — including Australia.

Prophets of doom hark back to the worst decade of the 20th century, the 1930s death march of financial crisis, depression, protectionism, fascism and world war.

Optimists go back just 20 years, as the world fell quickly into a financial crisis that looks a lot like today.

But the US led a recovery just as fast, turning the 1990s into an era of unprecedented global prosperity.

Far from collapsing, the US empire went from strength to strength — a "hyperpower", not just a superpower.

The chances are fortunately very slim that the 2010s will end up as dismal as the 1930s.

The stock market lost 90 per cent of its value from 1929 to 1932.

Unemployment in 1930s America (and Australia) was over 20 per cent for several years.

The current crisis might get much worse before it gets better.

But things would have to fall off a cliff to rival the 1930s, and that just doesn't seem plausible. Unlike the passivity then, the alarm bells have already rung loud, clear and quickly.

Governments and the private sector today have many more tools for cushioning the markets' wild ride from fiscal and monetary stabilisers to elaborate ways to hedge against risk.

But it is equally implausible that

America, and with it the global economy, will bounce back in the 2010s the way they did in the 1990s.

The US, acting alone or with other countries, can no longer control the global economy as it did 20 years ago.

And American power, in relative terms at least, is bound to decline in the coming decade because China and the Gulf states are more formidable economic rivals than Europe and Japan were 20 years ago.

When the dust settles, the US will have to share power in a more decentralised world that will not accept the outlandish excesses, and stunning vulnerabilities, of America's unfettered free markets and messianic democratisation at gun point.

Kinder, gentler versions of capitalism

and political freedom, the twin foundations of America, will stay the world's core organising principles.

But it will be because people worldwide choose them in their own ways. The US will no longer be in a position to impose them.

The optimists are right that there are some striking parallels between today and the mid-1980s.

Then, the US was fighting an incredibly expensive but apparently unwinnable Cold War against the Soviet Union. Now the same seems true for Iraq and Afghanistan, and potentially Iran too.

The US was also losing in economic competition to Japan, complaining that the competition was unfair.

Replace Japan with China for today.

In 1987, the global stock market plummeted more than it did last week.

Soon after the American housing bubble burst, creating panic among

banks and people with mortgages.

Today's \$US700 billion Wall St bailout was matched then by the American government's rescue of savings-and-loan banks.

But the similarities between now and 20 years ago end there.

Everything broke America's way.

Things are quite different today.

Back then, America was able to orchestrate global capitalism through the Group of Seven industrial nations and the International Monetary Fund, in ways that furthered US interests.

OPEC kept pumping oil to pay for the Iran-Iraq War, pushing down prices, banishing inflation for the first time in a generation.

America's rivals imploded.

The Soviet Union collapsed.

Japan went into an economic funk from which it has not yet recovered.

Germany spent a decade dealing with the fall of the Berlin Wall.

Now the tailwinds that aided 1990s America have become headwinds.

The US Treasury and Federal Reserve, even if they can enlist the support of other Western nations, no longer can control global markets.

Private capital flows dwarf central bank reserves. Sovereign wealth funds from China and the Persian Gulf move markets as much as the US Fed does.

It is inconceivable, for example, that the US could force China to double the value of its currency overnight, the way the US forced Japan to do with the yen in the late 1980s.

China certainly has its own share of problems, but no one expects China to descend into 15 years of no growth the way Japan did after 1990.



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The Middle East is even less stable than 20 years ago but, coupled with endless Chinese demand, this is likely to keep oil and gas prices — and Middle East political power — high.

Perhaps it is not so surprising after all that President Bush, America's cheerleader-in-chief for almost eight years, has lost his defiant optimism.

Who would have believed this president would have told Americans "our entire economy is in danger".

Bush was speaking about the financial crisis, but he could have been talking about America's place in the global order.

We are not on the edge of the 1930s all over again.

But no one should expect America ever to be quite the same again either.

The world can only hope that the US — whoever is elected president — is reborn as a first among equals, global economic engine and political leader.

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