

THE END OF THE AMERICAN EMPIRE

I write about our dying empire just about every day in my links posts. But given the debt limit debate and Friday's S&P downgrade, I wanted to look at four pieces that examine where we are more closely (note, all of these are well worth reading in full—do click through to read them).

There are two issues to grapple with: first, with the undeniable evidence that our government has become a clusterfuck, we have become incapable of taking obvious steps—like taking the profit motive out of our health care system or taxing the wealthy that just got a giant government bailout—that we need for the well-being of the country. At this level, S&P's downgrade makes sense.

But then there's the question of why we let a thoroughly discredited entity like the S&P be the one to dictate whether we merit our world leadership position or not. That's not just a question of letting one of the agencies that created the bubble retain any position of authority in the world afterwards (though, again, the fact we left the rating agencies in place after the crash is another sign our governance has failed), but also why a nation-state would let a corrupted entity like S&P do so in the first place.

Therein lies the paradox here: the downgrade is at once a real measure of the collapse of our governance, one of the best symptoms of it, and a key piece of evidence of why our governance is failing. So what's going on?

This column at Spiegel Online looks on this as a problem of culture. It argues the US has left "the West."

America has changed. It has drifted away from the West.

The country's social disintegration is

breathtaking. Nobel economist Joseph Stiglitz recently **described the phenomenon**. The richest 1 percent of Americans claim one-quarter of the country's total income for themselves – 25 years ago that figure was 12 percent. It also possesses 40 percent of total wealth, up from 33 percent 25 years ago. Stiglitz claims that in many countries in the so-called Third World, the income gap between the poor and rich has been reduced. In the United States, it has grown.

Economist Paul Krugman, also a Nobel laureate, has **written** that America's path is leading it down the road to "banana-republic status." The social cynicism and societal indifference once associated primarily with the Third World has now become an American hallmark. This accelerates social decay because the greater the disparity grows, the less likely the rich will be willing to contribute to the common good. When a company like Apple, which with €76 billion in the bank has greater reserves at its disposal than the government in Washington, a European can only shake his head over the Republican resistance to tax increases. We see it as self-destructive.

The same applies to America's broken political culture. The name "United States" seems increasingly less appropriate. Something has become routine in American political culture that has been absent in Germany since Willy Brandt's *Ostpolitik* policies of rapprochement with East Germany and the Soviet Bloc (in the 1960s and '70s): hate. At the same time, reason has been replaced by delusion. The notion of tax cuts has taken on a cult-like status, and the limited role of the state a leading ideology.

Now, it is true that America's political culture has been hijacked, and that those who have hijacked it used hatred as a way to convince others to act against self-interest. But that's what (perhaps) distinguishes us from Europe; that's what explains why we, a country with our own currency, can be in as dire a situation as Europe with its common currency. Moreover, I'm skeptical whether, mere weeks after the terrorist attack in Norway, Europe should really be lecturing the US about hate.

Craig Murray looks elsewhere—at the military we feed at the expense of feeding our own people. He takes some impolite but understandable pleasure out of the way events will soon mark an end to the US empire.

That China now views the risks to world trade from the US' indebtedness, to outweigh the potential loss in value of its own dollar reserves, is the tipping point that spells the inevitable beginning of the end of the US empire.

The reserve currency system has since 1795 allowed empires to be built on the economic output of weaker powers. If you achieve sufficient economic power and control of resources that yours is the currency everyone holds, you can print as much of it for yourself as you like and the devaluation effects are spread around not just your economy, but everyone else who holds your deposits. Being the reserve currency is a license to print money. Both the British and the Americans used this position to build military forces which could dominate both formal and informal empires. Both eventually experienced overreach, with military expenditure pushing deficit finance to the point of implosion. Then you lose reserve currency status.

It happened to the British and now it is happening to the Americans.

The colossal 4.7% a year of its wealth the US throws away on defence and security expenditure (broadly defined) – more than double the European average – is a huge factor in US indebtedness. There is an extraordinary failure to mention this in the mainstream media.

And he's right. It's not so much that China has made a gamble that it can financially afford to ease off the dollar. Rather, China (and Russia, which of course is in nowhere near as strong a position as China) have gambled that this is the moment to press for power, to challenge US hegemony in the world.

But to replace it with what?

To answer that question, I think you have to look at what it means that the S&P, not China itself, is driving this moment. In a piece that also links to a bunch of other worthwhile posts, zunguzungu notes the following on what S&P's downgrade says about power.

But even to ask that question – it seems to me – is to invest with legitimacy and explanatory power an underlying premise that I do not accept: that a “Nationally recognized statistical rating organization” having such profound power over our government's economic policy has or could have anything to do with “deserve,” or that there could be a “right” or “wrong” way for them to use their power. I don't concern myself with that question, because it would be like a death-penalty abolitionist trying to answer whether a murderer *deserved* to get the chair: whether or not a particular person committed murder is something completely different than whether a murderer deserves to be executed. An opinion on the facts do not dictate a judgement of the moral imperative, nor should they be confused

with each other.

After all, it's obviously the case that our current government is dysfunctional and useless, divided as it is between those who want to destroy government's social use and those who will not stand up for it. But as Kathy Gill observes, McGraw-Hill owns S&P, and this is who owns McGraw-Hill:



And whether or not McGraw-Hill itself has particular ties with the Bush family – or has a particular interest in driving the politics in this direction – are important questions that I can't answer, and only point us towards a simpler way of addressing the problem: Standard and Poor's is a self-interested corporate entity and it is acting in accordance with what it perceives its self-interest to be, in precisely the way that self-interested corporate entities will consistently do. To ask whether a privately owned corporate entity is passing the *correct* judgment on our political process is to obscure that underlying, anti-democratic fact. They have the *power* to do so because they've been given it: a "Nationally Recognized Statistical Rating Organization" must be "nationally recognized" for its ratings to have the force that it has, and the way the system of financial regulation is constituted is what defines that force. If you're so inclined, you could even argue that this is all a good thing. God speed to you. As for me, to the secular theology of a "just market," I am somewhere between a practical agnostic and an angry atheist. The finance market is certainly real and powerful, but the *only* important question is whether we think the self interest of these kinds

of entities is the same as that of the American people, how we will regulate their ability to make decisions, and whether we will continue to cede them the power that they presently have and are using to impose their will on the US's political economy.

While I definitely think Jane and Scarecrow and Stoller are right that the S&P is doing something here other than just weighing the governance of the US, I think the implications of the fact they are succeeding are more important. MacroBusiness goes further. It argues that this is about whether our world will be governed by states, or by corporations. (h/t Yves)

The idiotic ideological battle in Washington over the debt ceiling was yet more evidence of the failure of governance in Western economies, which is the real crisis. Then, after the stock market carnage of last week, the attention was focussed, reasonably enough, on government's MANAGEMENT skills – how good they are at being efficient bureaucrats pulling levers in the financial system and in keeping debt levels under control.

But this crisis goes much deeper than that. In a sense the Tea Partiers are right. This is a POLITICAL battle over the state's right to be a state.

That was the lesson from last week's debacle in the US Congress. It was argued that if no deal could be struck, then the ratings agencies will reduce the US government's AAA rating. This then happened, with Standard & Poor's downgrading America's debt to AA+.

Who exactly are these ratings agencies? Oh, those corrupted, easily deluded companies who are to sane analysis what

a croupier at a roulette table is to an insurance policy. They showed in the lead up to the GFC that they go to the highest bidder and that they have little or no credibility. Suddenly these private companies have authority over the US government?

[snip]

They are nevertheless a symptom of a much deeper, long term issue – the replacement of the nation state with the market state, as historian and professor of law Phillip Bobbitt describes it. The issue is not about big government or small government, although they are certainly issues in a country that is rapidly losing its middle class. The problem is whether government itself? So successful has been the attack of the libertarian market worshippers, there is no government worthy of the name in the Western post-industrial financial system.

Mind you, I think we're headed where Bobbitt deluded himself we would not go: to corporations governing, not just "market-states." One of the major flaws in Bobbitt's work was an unwillingness to consider the possibility the state would fall.

It looks, increasingly, like it might. Not only have ratings agencies and those that back them coerced an increasing number of advanced democracies to renege on the promises that lie at the heart of the democratic nation-states, but in the US especially, the ideology behind this process has made common sense, necessary decisions politically impossible.

It's unclear where this is going to end (in a sense, I'm more interested in the contest between China's corporate-driven governance and advancing power versus the banksters than I am in China versus the US).

But I am amused by the spectacle that has resulted. In response to the panic of a fascist-friendly mogul, Silvio Berlusconi, the G7 is holding desperate talks this weekend to try to stave off the assault of the debt-rating agencies on their countries. In addition to Berlusconi, those desperate talks will feature a pack of neoliberals—Obama, Cameron, Sarkozy, and Merkel—frantic to somehow put the genie they embraced back in the bottle.

Yes, recent events probably represent the beginning of the end of the American empire. But that empire represented more than just US affluence and power. It also represented a version of “the West” that has gotten out of control, that has burst free of the nation-states that first harnessed it.