AFTER THE END OF THE "NEW AMERICAN CENTURY": PROSPECTIVE GLOBAL ARCHITECTURES AND THEIR SUSTAINABILITY

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"When the music stops, in terms of liquidity, things will be complicated. But as long as the music is playing, you've got to get up and dance. We're still dancing."

Citigroup chief executive Chuck Prince, *Financial Times*, July 9, 2007 (Nakamoto & Wrighton, 2007)

I. An Economic Fable: When the Elephants Dance

Once upon a time, there was a beautiful jungle, lush with trees and fruit, in which all of the animals lived in peace and happiness. Unfortunately, only the very tall animals could reach the fruit, and the smaller animals had to be satisfied with windfalls and whatever roots, berries and grubs could be found on the ground. The elephants could, of course, tear the trees down, but they had learned through painful experience that this was not a good way to ensure a continuing supply of fruit. So they, too, ate mostly windfalls.

One fine day, as the animals were rooting around in the underbrush for food, a mysterious tune began to waft through the jungle. No one was quite sure from where it came, but it was haunting and beguiling, starting slowly and picking up speed (a bit like *The Sorcerer's Apprentice*, although most of the animals did not much care for Paul Dukas). The elephants were particularly entranced by the melody, and started to shuffle back and forth in time with the beat. Knowing how much damage dancing elephants could cause, the smaller animals began to seek shelter from their flashing feet.

The music became even more mysterious and energetic, and now the elephants rose onto their hind legs, dancing more and more wildly. They brushed against the trees, knocking off fruit, which the smaller animals eyed nervously. The elephants, seeing new windfalls, began to gorge. There was far more than they could eat and entreating the smaller animals, they called, "Join us! Join us! There is plenty for all, and if you dance, too, more fruit will fall. Besides, this is not only for us, but for you too! Warily, the smaller animals crept out from the underbrush and began to eat and dance, too.

This went on for some time—no one could say for certain how long—until, quite suddenly and unexpectedly, the music died away. The smaller animals stopped dancing, wondering what would happen next. But the elephants,in a trance—drugged by irrational exuberance—still heard the music and kept dancing, harder and faster, knocking down trees, tearing up the ground, wreaking havoc on the jungle. The smaller animals dodged back and forth, no longer looking for windfalls. Their only concern was to avoid the elephants' deadly flashing feet.

Eventually, though, the elephants got hungry and noticed that there was no longer any fruit on the ground, and they were getting hungry. They, too, stopped. Looking around at the destruction, they shook their heads and eyed the smaller animals. "We didn't mean for this to happen," they said. "It will take quite a while to clean up this mess."

And with that, the elephants lumbered off to look for new investment opportunities.

II. What Comes After the End of the "New American Century?"

The trials and tribulations of the world economy over the past few months have served to obscure a darker truth, one not much considered during the recently-concluded U.S. Presidential campaign: the end of the "New American Century" (NAC). that military-strategic utopia envisioned by U.S. neoconservatives and pursued by the George W. Bush Administration (like the much-vaunted Thousand Year Reich, the conceptual inception of this new century and its demise have spanned only about 12 years.) That the NAC *is* over appears beyond dispute, if only because the bleeding from the two wars in Iraq and Afghanistan and the Global War on Terror (GWOT) as well as ongoing global financial crisis—both of which are so reliant on the willingness of foreigners to purchase dollarized American securities and Treasury bonds—have made an expansionist and unilateralist foreign policy much more daunting, if not wholly impossible (see, e.g., Drew, 2008). The metastasizing of the economic crisis, moreover, raises some serious, if largely unexamined, questions about the nature of the global economic arrangements that made U.S. policies possible, if not always very attractive to the financiers. That the NAC will end quietly is less certain; America's firepower far exceeds that possessed by the rest of the world—even if we exclude nuclear megatonnage. Moreover, the growing challenge of other global problems—climate change, poverty and disease, among many—strongly suggests that American resistance to multilateral collaboration must give way to recognition that the era of U.S. hegemony is rapidly approaching its end (NIC, 2008). Consequently, it seems prudent to contemplate new architectures for global economic and political governance and consider how they might be sustained, in preference to the ad hoc and not always successful tactics that more generally characterize contemporary approaches to world problems and crises.

In this article, I attempt to map out two aspects of such architectures: first, the implications of the current economic crisis, especially for the "smaller animals" (Ukraine, among them, which is perhaps best thought of as an *їжак*, i.e., hedgehog); and, second, the necessary features of future global governance and some thoughts about how we might get from here to there. I have no wish to be utopian or to offer plans that have little or no chance of being realized. To paraphrase Donald Rumsfeld, who murdered so many arguments, sentences and civilians, "You start with the architecture you have, not with the architecture you wish you had." Whatever governance framework is built in the future will be constructed on the ruins of U.S. hegemony, not all of which has been reduced to complete rubble. The wild card, of course, is whether the United States and its new President will go along with efforts to devise a new architecture in a systematic, rather than juvenile or violent, fashion. As I lack a crystal ball, and cannot predict the future of the global financial crisis, I can only offer some speculative thoughts on what we are to do.

I begin with a brief review of the objectives of the Project for a New American Century (PNAC). which provided much of the intellectual rationale for the George W. Bush Administration, and how some of its proposals were implemented, especially after 9/11. I believe that a possibly unintended consequence of the American drive for geopolitical and economic domination was the extreme dollarization of the world economy—far more than had previously been the case and one cause of the current global financial crisis. Inasmuch as U.S. hegemony, its two wars, and the massive defense buildup of the past decade were all largely financed by the recycling of foreign dollar holdings into U.S. Treasury bonds, the fiscal base for the PNAC project was bound to be a weak one; that it came to cost so much than anticipated by anyone, and will grow even larger, has undermined that fiscal base entirely. U.S. military power will not vanish, of course, but even its near-term sustainability is very much in doubt.

Barack Obama's foreign policy advisors have not been idle in this respect. "The Phoenix Initiative," a project of the Center for a New American Security under the direction of Susan Rice, who served as Assistant Secretary of State for African Affairs during the Clinton Administration, and a group of scholars led by Anne-Marie Slaughter, Dean of the Woodrow Wilson School at Princeton University, has written "Strategic Leadership: Framework for a 21st Century National Security Strategy" (Slaughter, et al, 2008). This document—clearly intended as a riposte to both PNAC and the two Bush *National Security Strategies*—is an expression of more conventional liberal internationalism, which is to say that it embraces a multilateral approach to the world, albeit one in which the United States continues to exercise "leadership" whenever its "interests most warrant it." In July 2008, the authors hardly recognized that such freedom to choose among issues might not be an option in the future, even though the global financial system was already cracking up. There is little in that document that addresses the global economy. While Obama's choices for financial, diplomatic and security positions in his Administration reflect current concerns, there is little to suggest that they will bring anything very new to the problem of either global governance or America's current situation.

Of particular concern in any new governance architecture will be the role of the dollar, and whether it can or will remain the world's reserve currency. The sheer magnitude of the dollar overhang—quite certainly in excess of $10 trillion and perhaps two or three times as large or more; no one really seems to know—means that its longer-term value and international role are not givens. Inasmuch as the only material basis for the dollar's value is the American economy—now entering what promises to be a deep recession—the United States as a site for direct investment, and the "guarantees" of the U.S. Treasury and Federal Reserve, it is not altogether clear what, besides rationality and fear, prevents a panic that will make the currency worthless.[1] It would seem prudent, therefore, to establish a new basis for a global reserve currency. But what might replace or displace the dollar in the near future is hardly evident.

In the third part of the paper, I consider which of the institutional structures built during the Cold War and after, and which did so much to support the expansion of American capitalism throughout the world, might have residual utility in a future global architecture. During the current economic crisis, international economic institutions have played only minor roles, even as the U.S. Treasury and Federal Reserve have become, de facto, the world's central bankers and lenders of last resort for international transactions. This is a reflection, of course, of the dollar's global centrality, the fact that the World Bank and IMF are very poorly capitalized relative to the magnitude of demand for capital, and the secondary roles of the world's other major currencies outside their regional domains, especially the Euro and the Yen. But it also suggests a contradiction whose resolution will not be easy, since there is little, if any, discipline on the Fed and Treasury, who can create dollars at will.

Finally, I map out a scenario that seems, to me, to be most practical and sustainable, requiring few heroics or new institutions. This proposal involves a central role for the recently-constituted G-20—something like a Bankruptcy Consortium—to deal with the dual problems of overcapacity in the U.S. military, the growing recession, and the global dollar overhang. The Obama Administration could offer an opportunity to create a new currency regime through the kind of Global Clearing institution originally envisioned by John Maynard Keynes as well as the transfer, in some fashion, of some fraction of U.S. military capabilities to the United Nations. I am hard put to imagine that such an architecture, as necessary as it might be, will emerge in the near term; it is, however, a reasonable goal for the next 50 years.

III. Fear of Peers: The Problem of Imperium

No one has been able to answer very satisfactorily the following question: Why did the Bush Administration feel it necessary to so overreach in its foreign policy? That is, what drove the effort to make even stronger what was an already well-entrenched global hegemony? In a recently-published book, (Lipschutz, 2009). I consider these two questions. There, I define Imperium not as control of territories outside of an original metropolitan core, as we understand empire and imperialism but, rather, as a form of *rule* based on sets of specified *rules* (Onuf, 1989). In brief, these rule sets have been put forth as irreducible requirements for participation in a U.S.-dominated global system—in opposition to a UN "Republic" which lacks both authority and tools for enforcement (Lipschutz, 2002). The rules of Imperium include specifics about democratization, free markets, and military subordination, all inscribed, as it were, in an emergent global "constitution" composed mostly in the White House and the U.S. Department of Justice. These rules are not, strictly speaking, new ones, having first been articulated by Woodrow Wilson, among others, more as norms than law. After the end of the Cold War, however, they were reintroduced, first as the "Washington Consensus," backed by economic power, and later, after 9/11, in *The National Security Strategy of the United States* (2002). as a "Balance of Power that Favors Freedom" to be enforced through threats of preventative action. States that failed to meet these standards were characterized as "rogues," while those that wavered were sternly lectured that they were "either with us or against us," and warned of punishment were they not to commit to the American Way. Of course, rules are made to be broken but, as both Carl Schmitt (1965) and George W. Bush argued (Henry & Starr, 2006). it is the "Decider" who makes such decisions, and not those who are subject to his Decisions.

The documents of the Project for the New American Century (PNAC, 1997) provide a snapshot of what was expected from the Rest of the World under a future Republican Administration, and they attacked the Clinton Administration for insufficient devotion to these principles. Thus, according to the project's Statement of Principles, whose 25 signatories was a roster of Bush Administration appointees, we cannot safely avoid the responsibilities of global leadership or the costs that are associated with its exercise. America has a vital role in maintaining peace and security in Europe, Asia, and the Middle East. If we shirk our responsibilities, we invite challenges to our fundamental interests. The history of the 20th century should have taught us that it is important to shape circumstances before crises emerge, and to meet threats before they become dire. The history of this century should have taught us to embrace the cause of American leadership.

From this, they drew four objectives or "consequences":

- we need to increase defense spending significantly if we are to carry out our global responsibilities today and modernize our armed forces for the future;
- we need to strengthen our ties to democratic allies and to challenge regimes hostile to our interests and values;
- we need to promote the cause of political and economic freedom abroad;
- we need to accept responsibility for America's unique role in preserving and extending an international order friendly to our security, our prosperity, and our principles.

In the view of PNAC's members, it was not enough that the United States be dominant in the post-Cold War world order; it was necessary that no "peer competitors" be allowed to challenge that dominance, now or in the future. Moreover, in order to demonstrate both American capabilities and will, some target would have to be chosen, some example would have to be made. The target was, of course, Saddam Hussein's Iraq.

It can be argued that PNAC's vision would have remained little more than a utopian fantasy were it not for the events of September 11, 2001; until then, the Bush Administration was finding the "new unilateralism" a difficult sell inside as well as outside of the United States. But the attacks on New York and Washington, DC provided a "window of opportunity" through which the White House and its odd right-wing movement of neo-conservatives, born-again Christians, and Revolutionaries in Military Affairs jumped with alacrity and hardly a second thought (Lipschutz, 2009). The early success in Afghanistan—now looking less and less like victory and growing to encompass Pakistan (Filkins, 2008)—and the apparently rapid "regime change" in Iraq suggested that Imperium's wars could be cheap, quick and easy. Moreover, the demonstration effect would give pause to other countries that did not follow the rules—as seen in Libya's coming in from the cold—or thought to offer strategic competition with the United States. As I will argue below, the focus on state challengers badly misconstrues the structure of the contemporary world system and its future politics. But the two wars did meet the idealistic visions of the governing Republican coalition:

- For neo-conservatives, it seemed to demonstrate the sheer ability of U.S. forces to quickly overpower any "rogues" who were deemed to be challenging the American world order;
- For Christian evangelicals and fundamentalists, it seemed to secure a new foothold in the Middle East that would permit transformation of the region into a replica of the "shining city on the hill," whence would return Christ for the Second Coming; and
- For military strategists, it seemed to exhibit the efficacy of the Revolution in Military Affairs (RMA) and generate support for reconstructing the U.S. military machine by pushing out old-line Cold Warriors from the Pentagon and Armed Forces and replacing them with younger and more malleable officers.

I need not point out that, six years later, none of these goals has been fulfilled. American military power is badly depleted, the Christian utopia and Christ's return are as far off in the future as they ever were, and the RMA has been bested by IEDs, social warfare and those insurgent wedding parties that seem, again and again, to get in the way of American missiles and bombs (Wafa & Burns, 2008; Gall, 2008).

A corollary of the New American Century was, as noted above, the deeper global institutionalization of the Washington Consensus (Serra & Stiglitz, 2008). In effect, this "consensus" set economic and political standards to which subordinate states were expected to adhere and against which their behavior would be measured. Such a "missionary position," as it has been called, was not a new one, evident in 19th century efforts by American Christians to spread the Gospel abroad, especially in East Asia, Woodrow Wilson's interventionist liberal internationalism, the imperialist Point Four development programs launched by Harry Truman and continued ever since through U.S. AID and humanitarian non-governmental organizations (Paris, 2002). But the Bush Administration went far beyond anything earlier attempted, in both evangelical and teleological terms: those who failed to behave properly were not only damned but also regarded as mortal threats to the United States, to be tamed, if possible, or even eliminated, if necessary. The trope of "Axis of Evil" was as far from classical realism, in its variants as espoused by either Henry Kissinger (1957) or George Kennan (1985). as it is from the liberal idealism attacked by E.H. Carr in *The Twenty Years Crisis* (1939). Indeed, the Bush Administration's neoliberal practices are more closely akin to a form of Christian millenarianism (see, e.g., Northcott, 2004). albeit expressed in terms of a teleology based on "free markets" and "free men," than anything in the canon of international relations. That it has now come a cropper should hardly be a surprise.

A less ambitious project—one that did not seek to remake the world on its own terms, with such conviction and hubris —could well have succeeded in entrenching U.S. hegemony for some decades to come. Unfortunately, the True Believer cannot tolerate difference or dissent where doctrine is concerned—consider the Bush Administration's attacks on those experts who expressed prudent doubts about invading Iraq or questioned the presence of WMDs in that country—and feels the need to force non-believers to acknowledge Truth (just as many Protestant sects believe that those who do not accept Jesus as their savior are damned to Hell, with no exceptions). While there was certainly much to criticize in the U.S.-led world order of the 1990s, as argued by the so-called antiglobalization movement and other critics, it is doubtful that even very many of those dissenters sought to bring down the whole capitalist temple. To extend the religious metaphor, such critics were closer to Jesus driving the moneylenders from the Temple than Sampson bringing down the building (although the Bush Justice Department and Homeland Security came to regard such dissenters as the moral, if not literal, equivalent of terrorists).

The more recent report of the Phoenix Initiative's members (Slaughter, et al, 2008)—some of whom are still likely to turn up in the new Obama Administration—tempers much of PNAC's hubris, but it does not shy away from asserting both America's ability, as well as its obligation, to sustain its hegemony (here termed "leadership"). According to the authors of the paper,

> The most important and solemn responsibility of any president is to ensure the security of Americans at home and abroad. The United States must invest in the capacity to prevent any threat (be it human or natural) to the wellbeing and safety of Americans, to mitigate consequences if such a threat does occur, and to recover rapidly from any major damage. America must also continue to be a robust provider of security in the world, bolstering the peace and safety of its allies and partners, enhancing international stability more broadly, and pursuing the peaceful resolution of conflicts around the world. Providing security abroad protects Americans at home. The United States cannot disengage from the rest of the world and expect that menacing states, anti American social movements, terrorists, infectious diseases, or the myriad of other threats beyond U.S. borders will leave our country alone (p. 13)
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> The next administration must demonstrate a commitment to using American power and position for mutual benefit in word and in deed. Leadership that serves common goals is the best way to inspire the many different peoples of the world to make shared commitments...When the United States leads effectively from within rather than working against or around international institutions, burdens can be shared, complementary roles and expertise can be maximized, and legitimacy can be enhanced in ways that help America achieve its own objectives as well as those shared with friends and allies (pp. 14-15).

There is little recognition here, or elsewhere in that document, that global conditions might have changed so greatly as to render American "leadership" difficult if not wholly impossible in the way that these and other liberal internationalists might hope.

IV. What *about* those Moneylenders?

To better understand where the bid for Imperium went awry, and why Imperium will end, we need to turn from geopolitics and military strategy to the mechanisms that have generated the current global financial crisis, facilitating unregulated capital flows through the global economy and into and out of national economies, the worldwide acquisition of securitized American home mortgages (as CDOs, aka, collateralized debt obligations) whose value is now in doubt. This is also the cause of the imminent insolvency of so many banks, in so many countries, whose asset base was comprised of those CDOs. In classical terms, it has long been a pillar of strategic thinking that a state's military strength must be based primarily on the internal resources it can bring to bear to its national goals (Hamilton, 1791; List, 1856; Rudolph, 2005). This point was, of course, a major bone of contention during the 1930s, when the "have-nots"—Germany, Italy and Japan—pursued mercantilist strategies and sought autarky from the great European empires and the United States in order to minimize their external resource dependence and conserve hard currency (Lipschutz, 1989).

During and after World War II, the United States engineered a major transformation in strategic and economic practice through growing importation of energy and strategic resources from sources not under its direct control and efforts to assert control over those resources through markets, as well as the outsourcing of both defense and military industry to its allies. For the most part, by contrast, the U.S. Government did not go abroad in search of the capital required to finance either the domestic defense industry or the military, paying for it primarily through domestic tax revenues. Industrial collaboration across borders was acceptable, but not to the extent that control was lost over military research, development and deployment. That approach to financing began to fail during the Vietnam War, which Lyndon Johnson paid for through inflation rather than taxation, but this liberal internationalist approach to "Free World" security changed most markedly during the late 1970s and the subsequent

Reagan Administration. It was then that foreign financing of burgeoning budget deficits, attributable in no small part to rising military expenditures, was institutionalized. The very high interest rates imposed by the Federal Reserve in 1980, designed to put an end to the virulent inflation of the 1970s, also drew in large inward flow of foreign capital that was tapped to cover the domestic revenue shortfall.[2] As a result, during the eight years of the Reagan Administration, the United States went from being a global creditor to a global debtor,[3] while the public debt rose from about one trillion dollars to $2.5 trillion.

The same pattern characterized the New American Century: During the eight years of the Bush Administration, public debt rose to more than $10 trillion (Treasury, 2008). while foreign holdings in American debt and equity are at least as much (Asiang.com, 2008; this does not, of course, take into account the other trillions of dollar-denominated paper in the world's hands). all of this during a period of historically-low interest rates.[4] At the same time, the effective "purchasing power" of the dollar has declined by a factor more than 7 since 1960 and almost 3 since 1980 (Federal Reserve Bank of Minneapolis, 2008). while its exchange rate has declined considerably relative to European currencies and the Japanese yen—which represents a slow form of debt default.[5] It is difficult to argue that the foreign purchase of U.S. Treasury bills and other dollarized paper has been driven by high rates of return (especially now, when real interest rates are close to zero). One cannot say the same for CDOs or, apparently, credit default swaps, both of which are at the heart of the current financial crisis. These, too, are denominated in dollars and it seems clear that, at the peak of the late U.S. housing bubble, the nominal value of such paper was in the trillions of dollars (the face value of the swaps was estimated at some $65 *trillion*). paying rates of return considerably greater than basic interest rates offered by the U.S. Government. All the same, what those dollars are "worth" now and in the future is not at all clear—which is why so many banks in so many countries face insolvency and need to be "bailed out."

The upshot has been an elaborate Ponzi scheme (Sorkin, 2008; Chan, 2008) that allowed the U.S. Government to juggle a number of balls at the same time. First, in order to minimize the impact of the recession following the collapse of the high tech bubble in 2000, the U.S. Federal Reserve lowered the interest rate to very close to zero. This, in turn, drove real estate values upward, as it now became possible to borrow money, at virtually no cost, in order to buy property appreciating at 10-20% per year due to demand driven by the availability of "free" money. Rising real estate values also increased the equity in houses available to their owners, against which they could borrow to fuel personal consumption. These funds, loosed into the economy, fostered a post-2001 recovery with minimal job and wage growth, but respectable quarterly increases in GDP. With recession, that period has now come to an end.

Second, due to changes in the global structure of production, American consumers found themselves buying goods made abroad, primarily in China. These were relatively cheap and, especially through the efforts of Wal-Mart, low prices served to foster the illusion of growing purchasing power and living standards in the face of largely-stagnant incomes. The dollars spent on imported products flowed to China and other Asian countries from whence, in effect, they were loaned back to the United States, at low interest rates. These funds were then available to cover U.S. government deficits, which were due especially to massive growth in the defense and homeland security expenditures and the supplemental costs of the wars in Iraq and Afghanistan, and against Terror.

Third, the Bush Administration was able to push through enormous tax cuts and, through their purchase of Treasury bills, effectively tax foreigners. Indeed, real estate asset inflation released a pool of "stagnant" untapped capital in the United States that, on the one hand, could be cycled through China and back into the U.S. Treasury and, on the other hand, could become the base for the enormous speculative bubble that so enriched those working on Wall Street and in other financial centers. Although the United States must pay interest on those T-bonds (a kind of rebate on the tax). there is little expectation or chance that the principal will ever be repaid in full or even in part. Nor does it seem likely that the holders of these promissory notes will be permitted to trade them for real property within the United States. America's creditors are trapped in the dollarized global economy.

Fourth, this ingenious mechanism of capital extraction and recycling has also made it possible to pay for the wars in Iraq and Afghanistan, as well as the Global War on Terror, none of which was, originally, expected to add much in the way of a financial burden to the U.S. budget. The cost of the intervention in Iraq is now in the range of $600-700 billion, and will almost surely exceed $1 trillion before it is all over. If the tribal areas of Pakistan blow up and Afghanistan collapses, as is increasingly likely, the total costs of the Global War on Terror could rise much, much higher. Given projected deficit spending due to the recent Wall Street and banking bailouts, and Barack Obama's proposed stimulus plan, the entire global tax system could well be strained beyond its capacity to finance the United States. What might happen then is anybody's guess.

Finally, using its power of seignorage, the United States has been able to dollarize the global economy to an extent unimagined 35 years ago, when the dollar was divorced from gold and allowed to float in international currency markets. At that time, there was at least some expectation that the exchange value of the dollar somehow reflected the relative strength of the American economy and the goods it produced; today, the use value of U.S. products is much diminished, and the dollar's value vis á vis other currencies and stuff is purely a matter of faith. That the dollar's exchange rate bears no relationship to anything material can be seen in comparing its high domestic purchasing power relative to the Euro and the British pound. Nor are either exchange rate or PPP apparently linked to the enormous dollar overhang in the global system—which would argue for an even greater decline in its exchange value in the future. For the moment, the dollar not only remains the world's reserve currency; it is also the de facto world currency, and there is no replacement in sight. Neither the Yen nor the Euro seem to be sufficiently independent of the dollar to become a viable reserve currency any time in the foreseeable future (but, see Chinn & Frankel, 2007).

But while dollarization has made it relatively easy for the United States to tax the Rest of the World, one result is likely to be a longer-term decline in American military capabilities. The authors of PNAC and the Bush Administration no doubt saw budget deficits as a way to ultimately limit the size of government in response to an inevitable "fiscal crisis of the state"—this was the reasoning behind the Reagan Administration's deficit spending during the 1980s, as articulated by David Stockman (1986). and many members of the Bush Administration cut their teeth running the government under Reagan. What these people failed to anticipate was the dependence of the Bush Administration's deficit spending on the speculative bubble that made it possible to pay for such indulgences. It is worth noting that, since 2001, the size of the Bush tax cut, the amount extracted from household equity, foreign loans to the United States, and the cost of defense spending (including the wars) are all roughly the same amount: $2-3 trillion (Lipschutz, 2009).

During 2008, the financial institutions of the American state have created and guaranteed as much as $8 trillion, a considerable fraction of which has gone into the world's money supply in order to support failing companies, banks, and mortgage holders. With predictions of a 2009 budget deficit exceeding $1 trillion, there is little reason to believe that this amount will not grow larger over the coming year (Kuhnhenn, 2008). Inasmuch as Obama has announced that taxes on the wealthy will not be raised, this money, too, will have to be borrowed, although to what extent the world will continue to be willing to support such tactics is difficult to assess. Those currently holding dollarized paper do not wish their investments to be further devalued but the possibility of a real global panic and run on the dollar cannot be ruled out. Over the longer term, either domestic taxes in the United States will have to be raised substantially or federal spending will have to be reduced considerably (the Pentagon is already anticipating reductions in its budget, although initially these are unlikely to be very large; Shanker & Drew, 2008). The costs of an imperial military will not be supportable under such circumstances, especially if the Rest of the World refuses to pay for it (Setser, 2008).

In addition to this international overhang, there is also developing a comparable internal overhang. In response to banks' reluctance to lend and consumers' reluctance to buy, the Federal Reserve has not only reduced the federal funds rate to "a range of 0 to 0.25 percent," it is also injecting as much as three trillion dollars into the domestic currency supply in an effort to jumpstart the American economy (Andrews, 2008). At some point, if and when economic conditions are restored to something akin to historical "normality," these dollars could trigger a severe bout of inflation.

A more problematic aspect of this financial debacle is who can or will take on the burdens of supporting and managing the post-dollar world? None of the existing economic institutions associated with the United Nations has the capital or the capacity to take on the role of both global central bank and supplier of currency; they are dependent on national governments. For that matter, what could be the basis for a new reserve currency? While many countries hold Euros and Yen in their foreign reserves, and these are, in essence, "as good as gold," they are basically dollar surrogates rather than autonomous currencies (Reuters, 2008). It would seem, then, that the trick is to eliminate the United States' freedom to create money at will—that is, seigniorage—so as to avoid a collapse of global currency systems and all that would follow. This would, in effect, require a deliberate effort to reduce the role of the dollar in international transactions and imposition of an IMF-style structural adjustment program on the U.S. Government, something that would be strongly resisted, at best, and opposed outright, at worst (Wade, 2008).

It is in both the United States' and the rest of the world's interest to avoid the hyperinflationary consequences of such a panic. This is the time—before such a panic starts to develop—to begin discussing the shape and structure of a future global currency system—even George Soros (1987) has advocated a new currency regime, and one should pay attention to George Soros. One possibility is to retain the dollar but create a "Global Reserve" that would hold national currencies as its capital base and issue dollars in volume commensurate with those "foreign" reserves. A not very different alternative would be creation of a new global currency based on a basket of major national currencies. The dollar would be included in the basket, but fluctuations and decline in the new currency's value would be buffered by comparable variations in its counterparts. In both instances, the global currency would have to be guaranteed by a broad group of central banks, each of which would manage the money supply within its own area of jurisdiction and make contributions to and withdrawal from the basket whenever necessary. The supply of global currency could be based initially on a stock of foreign reserves provided to the managing institution by national banks, in a mixture equal to the contribution of each national currency in the basket to the currency's value. Initially, of course, dollars would probably dominate the basket but the representation of the dollar in the basket could be gradually reduced over time, so as to limit its rapid depreciation and to reduce the dollar's dominance in the global economy.

Such a currency system might resemble the monetary structure of the Eurozone: interest rates would be set collaboratively by the group of central banks, so as to limit the rapid movement of speculative capital; at the same time, national governments could issue bonds in order to finance deficit spending, but an excessive debt burden would lead to a decline in the role of the national currency in the global basket and, therefore, an increase the cost of debt. Finally, economic transactions across borders would be denominated in this new currency, with central clearing, which would impose some degree of fiscal discipline on individual national currencies. No doubt, there are major flaws in this proposal, some of which might make it unworkable; nonetheless, there are sound reasons to reduce the dominance of the dollar in the global economy, and it makes great sense to begin this process now rather than in the face of a global depression.

V. The New Global Century

What has been largely ignored in the current financial crisis is the developing architecture of the "New Global Century" (NGC). The interconnected nature of the financial crisis suggests that autonomous "national" economies, regulated by national governments and central banks, no longer exist in the long-understood sense (Friedman, 2008; Beck, 2008). Short of restricting capital flows into and out of countries—something like the modern equivalent of the protectionism of the 1930s—national currency authorities neither anticipated, nor are able to do very much about, the threatened insolvency of their banks and banking systems. Both Ukraine and Iceland, among others, illustrate how cheap dollars, intermediated via banks in other countries, fuelled borrowing, high domestic interest rates, real estate booms and busts, and incipient national bankruptcy. Because "cheap money"—much of which was due to the growing piles of dollars in bank vaults and computers—could make more profit loaned out to banks and investors than put into Treasury bills which, in turn, bolstered largely-fictitious American economic growth, everyone became part of a global pyramid scheme (Henriques & Kouwe, 2008).

Under these circumstances, although central banks and fiscal authorities are in a position to inflate domestic currencies and set "local" interest rates, they are hardly in a position to do so as independent actors. For example, the price of the IMF's $16.5 billion loan to Ukraine, which will bolster the foreign reserves of the country and the capital bases of its banks, is structural adjustment. Stability of the hryvnia's exchange rate and guarantee of foreign debt and investment are more important than the general welfare of the Ukranian people. Domestic fiscal stimulus would increase the budget deficit, which is forbidden under the terms of the IMF loan. While Britain is regarded as being sound enough to finance a $30 billion domestic stimulus package, even it is limited by threats to the exchange rate of the pound, which is now in decline relative to the dollar. Because all of this money must, in effect, be borrowed in capital markets, moreover, too much domestic spending may, eventually, become inflationary and devalue debt. That prospect, in turn, will increase reluctance to lend.

The imminent collapse of the U.S. automobile industry, offers another example of the ever-closer relationship among "national" economies. Paradoxically, perhaps, it might seem that disappearance of the Big Three would be of benefit to All the Rest (Japanese, German, French, Indian, Korean, etc.). Even in a recession, the American demand for cars would be of great interest to foreign manufacturers; once the economic downturn is over, the U.S. market will become even more attractive (Uchitelle, 2008; Maynard, 2008). But the rest of the world is not necessarily immune: not only do U.S. automakers have subsidiaries in many other countries, they also own major stakes in a number of foreign auto manufacturers. And there is at least an even chance that foreign companies will, over the next few years, purchase a stake in what remains of the Big Three (Chrysler, of course, was owned by Daimler-Benz before it was sold to Cerebrus Capital Management in 2007).

There is also an interesting subtext to the integration underway here: the financing of the U.S. military by the world. Defense spending continues to be calculated on a national basis; thus, American military spending is roughly equal to that by the rest of the world. While the United States has certainly pursued a highly-unilateralist foreign policy since 2001—and, arguably, long before that—it has also facilitated lower relative rates of military spending by the rest of the world. During the 1970s and 1980s, American policymakers complained bitterly about Japanese and European resistance to "burden-sharing," generally disregarding the fact that U.S. expenditures reduced costs elsewhere in the integrating Western economic system. Today, the American military presence in Asia allows China to spend less than it might were Japan to arm itself or Taiwan seek to acquire an effective defense against invasion. At least part of the tax paid by China to the United State in the form of loans is, arguably, "protection money." This does not mean, however, that China and the United States see eye to eye on many military issues; only that their interests are not only not in diametric opposition or overtly antagonistic, they are frequently one and the same.

Such features of production and finance point toward the emergence, or existence, of a single world political economy, one of networks and nodes, rather than interdependent centers, in which action at one node affects all the others, causing them to respond, and so on (Beck, 2008). Capitalism requires uneven development and differential production in order to operate as it does, and depends on flows of information about relative costs and availability of factors of production as well as demand for goods and services. Now, however, information flows rapidly through these global networks and tends to produce quick feedbacks and responses, especially in financial markets. This system resembles more closely, moreover, an organic entity than a mechanical or electrical one. Consequently, it will take all of the combined efforts of the recently-constituted G-20 to ensure that it can be restructured to operate sustainably.

What does this mean for global politics? Contrary to much discussion of a return to international "multipolarity" (NIC, 2008) we may be in the process of moving "beyond unipolarity," to a more organized global political system. This is by no means guaranteed, and there is good reason to think that this process will not be all-encompassing and that there will be frequent "backsliding" (nor is it necessarily the case that this will be a "progressive" arrangement). Much as national unification was never, either historically or contemporaneously, a smooth or unidirectional process, we should not expect anything much different in the future. Lest this be thought a form of the idealism so strongly condemned by E.H. Carr and others, most cases of unification have been violent; global "unification" and is bound to be exceptionally violent, as well. Nonetheless, as Sandra Halperin (2004) has observed,

> European [absolutist] monarchs were concerned with undertaking a wide-ranging series of economic, fiscal, political, and social reforms: to improve agriculture, to encourage freer trade within their realms, to eliminate the privileges of religion and religious orders, to set up independent judiciaries, to substitute salaried officers for hereditary officeholders, and to improve the status of peasants. The landed and wealthy elite resisted every measure of reform and, throughout the [17th] century, were at constant odds with royal administrations.

The efforts of such monarchs to bring the aristocracy under state control were motivated by the formers' need to generate revenues to pay for their own bureaucracies and armies. This was possible only if they could find new sources of taxes and, according to Halperin (2004: 53). "One way of doing this was to extend market privileges to foreigners and to found cities with foreign and minority industrialists and commercial classes in order to obtain high ground rents and subjects capable of paying high taxes." The nationalist wars that followed during the 19th century were, according to Halperin, a continuation of the class struggles of the 18th, representing efforts by social and economic elites to wrest control of the state from kings and queens and to reassert their local rights and privileges through exclusion of these urban groups. That democratic systems eventually emerged from these struggles—and, for the most part, Halperin argues, not until *after* World War Two—is quite unrelated to the state-building projects undertaken during those two centuries.

This is an excellent moment, therefore, to consider what might constitute a sustainable governance architecture for the New Global Century. While Barack Obama has yet to clearly articulate a U.S. foreign policy—aside from some relatively minor shifts in focus—the new Administration's initiatives will inevitably rely heavily on collaboration with others and, indeed, on recognizing the very real limits imposed by the global economy, on the one hand, and the growing disutility of large-scale military force, on the other. Unfortunately, these are two areas in which the United States has a global comparative advantage: printing dollars and producing weapons and war. The former can be continued only at the pleasure of foreign countries and capitalists, and the latter only if there is a global willingness to kill wantonly and randomly.

President Bush has proposed, at various times, a kind of "alter-UN" consisting of a group of existing and emerging democracies; this represents his attempt to legitimize his Administration's aggressive Wilsonian internationalism through a new "League of Nations." We might doubt that the Obama Administration will be of quite this mind, although the structures and arrangements put in place over the past ten years will not go away overnight (Lipschutz, 2009). Nonetheless, it will be more realistic—and more realist—to establish an international Consortium, perhaps based on the G-20, whether democratic or not, to work with the UN in constructing a new global political and economic architecture. Ultimately, the place of the United States in the world must become more like the place of Germany in the European Union—large, well-off, and influential, but not in a position to dominate or act unilaterally. This means new money, new military practices, and a new global politics. The opening for such action may not last very long, and propitious times for doing such things do not arise very often—usually only at the end of major wars when one or a few Great Powers are able to manipulate others. We have been offered a chance to engage in some serious global work, and we would be very foolish to forego this rare opportunity.

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Endnotes

[1] The spectacle of investors purchasing Treasury Bonds, paying negative effective interest rates, out of fear of the reliability of the alternatives, suggests that a reckoning may not be far off (Bajaj & Grynbaum, 2008).

[2] The Reagan Recession put numerous unionized heavy industries, such as steel, out of business, and helped to break the backs of the unions. This also proved an electoral boon for the Republicans.

[3] There is some reason to question this point: much of the balance of payments deficit of the past 30 years might be illusory, and reflect corporate activity abroad, cross-border transactions within corporations, and exchange of local currencies and dollars for host country costs.

[4] While Treasury Bonds are attractive because of their apparent reliability—and a lack of alternative low-risk investment opportunities—so-called collateral debt obligations (CDOs) offered much higher interest rates. Foreign banks could borrow dollars at low interest rates and put them into much more lucrative CDOs—which is why their capital bases were so degraded when the U.S. mortgage bubble burst.

[5] The recent rise of the dollar exchange rate, driven by a flood of capital into U.S. Treasury Bonds (noted above). says little about the currency's long-term prospects and is more a reflection of uncertainty about the value of other dollar-denominated paper assets, especially CDOs.

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