



Review of International Political Economy

ISSN: 0969-2290 (Print) 1466-4526 (Online) Journal homepage: <https://www.tandfonline.com/loi/rrip20>

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To cite this article: Jan Nederveen Pieterse (2007) Political and economic brinkmanship, Review of International Political Economy, 14:3, 467-486, DOI: [10.1080/09692290701395726](https://doi.org/10.1080/09692290701395726)

To link to this article: <https://doi.org/10.1080/09692290701395726>



Published online: 02 May 2008.



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Political and economic brinkmanship

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ABSTRACT

According to liberal arguments for American hegemony a dangerous world needs American power. How does the liberal view hold up against the reality test of how political aims are interpreted and implemented by security professionals? I argue that many security operations are embedded in strategies of political brinkmanship. The second part explores whether American economic policies too can be viewed as brinkmanship. This concerns the ramifications of 'free market' policies for the United States at a time when exports become imports, the trade deficit deepens, income inequality widens and external deficits rise to unsustainable levels. In closing I reflect on the rationality of political and economic brinkmanship.

KEYWORDS

American hegemony; liberal views; economic policies; rational choice.

INTRODUCTION

The neoconservative case for American power, as set forth in the Project for a New American Century, is a straightforward geopolitical argument alongside a Wilsonian argument for 'benevolent global hegemony' to spread democracy. The former is relatively easy to deal with; since it does not claim legitimacy it is plain geopolitics. The latter dominates in policy speeches and is a harder nut to crack because it resonates with a wider constituency that shares the liberal case for hegemony. Many liberals (not only Americans) also endorse strong American power. According to Michael Ignatieff, it is the 'lesser evil' (2004). According to Paul Berman, in response to terrorism war is just (2003). It resonates with a long standing idea that spreading democracy is an 'American mission' (Smith, 1994).

At a recent meeting of the American Political Science Association, Joseph Nye said 'the United States cannot win by hard power alone, but must pay

more heed to soft power and global communications'. I asked him why should the United States win and he replied, 'the United States must win because it is the world's largest democracy and this is a dangerous world'. This is a quintessential liberal position and a tenet that runs the gamut of political positions. This may be a 'dangerous and chaotic world', but the question is does American hegemony and 'preventive war' make it less or more dangerous?

While much recent criticism targets the neoconservatives, criticism should rather focus on the liberal position because it claims a legitimacy that the neoconservative view lacks, is shared by many more than the neoconservative view, is used by neoconservatives to garner support for forward policies, and underpins bipartisan and public support for the defense industries. 'Promoting democracy' is controversial because exporting democracy and 'democracy from the barrel of a gun' are difficult propositions and inconsistent with policies of cooperating with authoritarian governments. Indeed, the liberal view should be examined not in terms of its declared intentions but in terms of its implementation.

In the first part of this paper I discuss the views and methods of American security professionals and argue that these stand in contrast to the declared liberal aims of American policy. This is not merely a matter of unintentional messiness of action on the ground but is often intentional and, I argue, part of a posture of political brinkmanship, which goes back at least to the Kennedy administration. The Vietnam War, too, was part of Kennedy's 'global liberalism'. Entering hegemony through the service entrance reveals the tension between ends and means and exposes fundamental flaws in the liberal position.

The term brinkmanship was first used in relation to American policy during the Cuban missile crisis. 'Brinkmanship refers to the policy or practice, especially in international politics and foreign policy, of pushing a dangerous situation to the brink of disaster (to the limits of safety) in order to achieve the most advantageous outcome by forcing the opposition to make concessions' (Wikipedia). Brinkmanship was part of the American stance during the cold war and has since become part of the habitus of superpower.

During the Reagan administration American foreign policy shifted from containment to rollback, pushing back Soviet influence. Support for the Mujahideen in Afghanistan and the contras in Nicaragua and the Iran-contra affair were part of this (Mamdani, 2004). Rollback means occupying offensive positions, war of maneuver and involves risk taking and brinkmanship. The unilateral policy which the United States increasingly adopted after the end of the cold war (Skidmore, 2005) may be considered a form of brinkmanship. 'Prolonging the unipolar moment' as advocated by Charles Krauthammer (2002/2003) and the grandiose defense policy guidance formulated by Paul Wolfowitz in 1992 to build American military

preparedness beyond rival challenges represent brinkmanship elevated to strategic posture. The reigning theme of the 1990s, humanitarian intervention or the use of military force for humanitarian ends, merges military force and Wilsonian ideals as 'an idea that Paul Wolfowitz and Kofi Annan can agree on' (Rieff, 2005). The neoconservative approach and the Project for a New American Century is part of this series. It is a project for turning American cold war victory into lasting supremacy and the willingness to take bold risks to achieve this.

There is ample discussion of the outcomes of American policies, but this treatment focuses on the *intentions* driving policies. Brinkmanship is a strong interpretation because it assumes deliberate, calculated risk taking on the part of policy elites. It can be described as political 'maximalism' (Sestanovich, 2005). It may be difficult to demonstrate because the intentions of policymakers are often classified. At times they are implied in policy statements and conceded retroactively, in memoirs and biographies, though usually only in relation to policies that have proven successful. As a source I use the views of security professionals, which are less guarded than those of policymakers.

The cumulative effect of American economic policies are that exports become imports, the trade deficit deepens, the economic base shrinks, income inequality widens and external deficits rise to unsustainable levels. Could we view current American economic policies too as brinkmanship? Political brinkmanship, though difficult to validate, is reasonable in outline and familiar as a theme. Economic brinkmanship, which I explore in the second part, is a more difficult and unusual hypothesis. I argue that *laissez-faire* and neoliberal policies represent willed risk taking by policy elites. As a source I use the arguments of economists who argue that current trends and US debt are actually positive signs (e.g. Levey and Brown, 2005).

These hypotheses may enable us to see larger patterns in American policies and raise new questions, in particular on the relationship between intentional and unintended, unanticipated risk. The risks accepted by policymakers and their adherents are often different from the public record and the unanticipated consequences that follow are different again. This means that three scenarios are in play: the public one, which is usually couched in terms of liberal hegemony and promoting democracy; the classified script held by policy and security insiders; and the script of actual processes as they unfold and the political and operational responses they elicit.

Another question concerns policy coherence. I do not assume coherence; rather I think policy is multi-level and set and implemented by inner and outer circles. Public discourse and insider representations tend to diverge more the greater the risks that are at issue. The closing section considers whether from the viewpoint of policymakers brinkmanship is a rational choice.

REVIEW OF INTERNATIONAL POLITICAL ECONOMY

**POLITICAL BRINKMANSHIP: PRODUCING
INSTABILITY**

A major test of the liberal approach to American power is the reality test: how do lofty political aims such as bringing stability and democracy translate into practice; how are they implemented by security professionals? Much attention devoted to the neoconservatives focuses on their role as ideologues and policymakers (e.g. Mann, 2004) rather than on the implementation of their projects. But both hard power and liberal hegemony must be implemented by a professional security apparatus.

The exercise of American power involves both deliberate ('Shock and Awe') and unintentional heavy-handedness, such as the abuse of Iraqi detainees in Abu Ghraib prison. More precisely, much heavy-handedness that is portrayed as accidental and unintended is intentional because it is part of the culture of inner circles of the military and is sanctioned through the chain of command (Hersh, 2004). From security professionals one typically hears quite different rationales for military action and different action programs than from public platforms. Thus, according to Michael Scheuer, a senior CIA analyst who headed the Afghanistan desk until 2004, 'the way ahead' is

To secure as much of our way of life as possible, we will have to use military force. . . Killing in large numbers is not enough to defeat our Muslim foes. With killing must come a Sherman-like razing of infrastructure. Roads and irrigation systems; bridges, power plants and crops in the field; fertilizer plants and grain mills—all these and more will need to be destroyed to deny the enemy its support base. Landmines will be massively reintroduced to seal borders and mountain passes. . . such actions will yield large civilian casualties, displaced populations, and refugee flows. . . (2004: 241–42).

Ralph Peters, a former army intelligence Major assigned to future war, who is widely admired in security circles for his outspokenness, outdoes George Kennan by formulating a philosophy of 'constant conflict' in these terms: 'We are entering a new American century, in which we will become still wealthier, culturally more lethal, and increasingly powerful. We will excite hatreds without precedent. . . The de facto role of the US armed forces will be to keep the world safe for our economy and open to our cultural assault. To those ends, we will do a fair amount of killing' (1997; cf. Peters, 2002, 2005).

In an article titled 'Stability, America's enemy' Peters notes, 'Our insistence on stability above all stands against the tides of history, and that is always a losing proposition. . . Historically, instability abroad has been to America's advantage, bringing us enhanced prestige and influence, safe-haven seeking investment, a peerless national currency, and flows

of refugees that have proven to be rivers of diamonds...’ (2001: 5). He criticizes diplomatic tradition and realism as morally corrupt and not in the national interest, and discusses several regions in which ‘the quest for stability may prove antithetical to American interests’, such as the Balkans, Russia (‘demand an accountable Russia’), China (‘A fractured, squabbling China would be less threatening to US strategic interests in the region and might well emerge as a far more advantageous business partner (or partners)’), Africa (‘separatism is a natural and healthy force, until it is perverted by delay’), the Middle East (‘would a peaceful resolution of the Middle East confrontation benefit the US, after all? ... wouldn’t we lose critical leverage?’), Indonesia (‘the ultimate illogical state... [the US should] manage and facilitate Indonesia’s breakup’).

Striking in this perspective is the casual mix of moral sounding arguments (‘what on earth is wrong with people wanting their freedom’, 20) and American self interest. The net effect is geopolitical opportunism crudely masquerading as democracy, with large helpings of opinion unhindered by area knowledge, unlimited self confidence (‘we are a phenomenally strong and resilient nation’, 19) and plain aggression. In November 2004 Peters told Fox News that in Falluja ‘the best outcome, frankly, is if they’re all killed’ (Drayton, 2006).

According to naval strategy analyst Thomas Barnett (2005: 305), in the new American economy ‘exporting security’ will be a major American industry. ‘As jobs move out of the US the primary export product of the nation will be ‘security’. Global energy demand will necessitate US control of the oil producing regions’ (in Gagnon, 2005). The neoconservative journalist Robert Kaplan calls for *Warrior Politics*, advocates ruling empire by stealth (2003) and offers romanticized accounts of Special Forces on the outposts of empire (2005).

Thus, many security professionals echo the neoconservatives *without* the Wilsonian trappings. Their rationales for military action are to preserve the American way of life, to build a new American century or simply that the United States specializes in security operations. Their tactics on the ground match these rationales and bear little or no relation to the liberal aims enunciated in media and diplomatic forums. ‘Saving’ or ‘improving’ countries is not part of the vocabulary of Special Forces in combat theatres (Kaplan, 2005).

Scheuer, Peters, Barnett and Kaplan are not extreme fringe voices; they write bestsellers and are frequent and respected media commentators and security consultants. Conservative think tanks and administration policies amplify and reinforce these views. Withdrawal from the International Criminal Court, declaring the Geneva conventions inapplicable in the war on terror, legal justifications of torture, secret overseas interrogation of terrorism suspects, using depleted uranium munitions, cluster bombs and white phosphorous, private military contractors operating in legal limbo,

limited prosecution of soldiers accused of homicide of Iraqi civilians, expanded surveillance and future combat planning that relies on robot technologies, all point in the general direction of unencumbered military force.

This culture is matched by several developments in the Pentagon approach. The force modernization of the military combines applying advanced technology with deploying more special forces (Rumsfeld, 2002). Neoconservative defense intellectuals advocate a downsized military that is leaner, nimbler and more lethal, as the successor doctrine to the Weinberg-Powell doctrine of 'overwhelming force' (Boot, 2003). Ruthless methods have been part of American counterinsurgency and low-intensity conflict all along. Now special operations and smart weapons should make up for fewer boots on the ground. This reasoning was behind the reluctance to deploy large numbers of troops in Iraq and the Pentagon and White House instructions to sidestep the Geneva Conventions. This institutionalizes Special Forces and covert ops techniques, so covert standards become overt and what used to be background becomes foreground (Kibbe, 2004).

The second trend is to apply corporate standards of lean, efficient and flexible production to the organization and delivery of force, a Wal-Mart approach to military force economy and an armed forces productivity squeeze (Hudson, 2004). Thus, technowar, troop cutbacks, economizing on veterans' benefits and medical care, secret detentions and torture are also part of a new 'economy of force'.

The third variable that drives the US military is the invocation of political will. Ever since Vietnam, hawks have argued that the real cause of the defeat was a 'failure of will'. The Project for a New American Century is both a call to rearmament and an invocation of political will. Repeatedly invoking 9/11 and media products such as the television series '24' establish ruthlessness as a new performative standard in American culture (Baker, 2003). Rumsfeld calls for a military that is 'speedier and deadlier' and Scheuer pleads for 'manliness'. The culture of force intimidation is the backdrop to the abuses in Abu Ghraib, Guantánamo and Afghan prisons. 'Roughing up' and abusing prisoners is a military tactic. While such exhortations and policies produce real abuses they are also symbolic exercises, performances and posturing.

This high-risk approach faces growing opposition within the military, particularly in the Army where many adhere to the Powell doctrine (Boyer, 2002). It is brinkmanship also because it exposes military personnel and policymakers to prosecution under international law. The force economy approach is at odds with patriotism and the media rhetoric of 'fallen heroes'. Besides, this approach is not particularly effective on the ground. The American military has traditionally been a naval and air power and ineffective in fighting ground wars on foreign soil (Todd, 2004; Reifer, 2005). Institutionalizing abuse and malpractice as doctrine do not make

a stronger case. On the contrary, wars fought without legitimacy are more costly, invoke more resistance and trumped up patriotism provides a thin foundation.

A total of 737 American bases and 370,000 troops deployed in 120 countries, putting pressure on Iran, Syria and North Korea, military operations in the Niger delta, Somalia and counterterrorism in North Africa, establishing an Africa Command and offensives for democracy in the Middle East and other flashpoint regions, set forth a tough geopolitics that pushes positions to the brink of regional instability and military overstretch. Brinkmanship is not a fanciful interpretation. The brink is virtually daily news. Why this high-risk strategy is chosen is a larger question.

Brinkmanship and producing instability carry several meanings. The American military spends 48% of world military spending (2005) and represents a vast, virtually continuously growing establishment that is a world in itself with its own lingo, its own reasons, internecine battles and projects. That this large security establishment is a bipartisan project makes it politically relatively immune. That for security reasons it is an insular world shelters it from scrutiny. For reasons of 'deniability' the president is insulated from certain operations (Risen, 2006). That it is a completely hierarchical world onto itself makes it relatively unaccountable. Hence, to quote Rumsfeld, 'stuff happens'. In part this is the familiar theme of the Praetorian Guard and the shadow state (Stockwell, 1991). It includes a military on the go, a military that seeks career advancement through role expansion, seeks expansion through threat inflation, and in inflated threats finds rationales for ruthless action and is thus subject to feedback from its own echo chambers. Misinformation broadcast by part of the intelligence apparatus blows back to other security circles where it may be taken for real (Johnson, 2000). Inhabiting a hall of mirrors this apparatus operates in a perpetual state of self hypnosis with, since it concerns classified information and covert ops, limited checks on its functioning.

The military stages phirric victories that come at a price of lasting instability. In Afghanistan the US staged a swift settlement by backing and funding the Northern Alliance, which brought warlords and drug lords to power and a corrupt power structure that eventually precipitated the comeback of the Taliban. In Iraq the US backed the Kurds and permitted Shiite militias to operate (until the Samarra bombing of April 2006) and thus created conditions for lasting instability.

The American rules of engagement are self-serving. But because the military inhabits a parallel universe and the media are clogged with 'defense experts', discussion of these tactics and hence the capacity for self-correction is limited.

Part of the backdrop is the trend of the gradual erosion of state capacities because of 25 years, since the Reagan era, of cutting government services except the military and security. The *laissez-faire* state in the US has created an

imbalance in which the military remains the major growing state capability, which leaves military power increasingly unchecked because monitoring institutions have been downsized or dismantled too. When recently the Pentagon wanted to review all the subcontracts it has outsourced this task was outsourced too. This redistribution of power within the US government played a key part leading up to the war and in the massive failure in Iraq. Diplomacy was under resourced, intelligence was manipulated and the Pentagon and the Office of Strategic Planning ignored experts' advice and State Department warnings on the need for postwar planning (Packer, 2005; Lang, 2004).

American military posture and action on the ground, then, do not merely fail to implement a well intentioned project because the real world is messy and chaotic, but are in fundamental respects designed to achieve the reverse of the liberal mission. Real time hegemonic operations are schizophrenic double acts: establishing order while following a 'politics of tension'. The security institutions are layered in formal and informal cultures and overt and covert operations (Baer, 2003). Liberal hegemony is about bringing stability while security insiders may be concerned with producing instability as part of a strategy of tension.

The United States uses trade, aid, debt and international financial institutions as strategic instruments to enforce its hegemony and there is usually a sizeable gap between American rhetoric and American policies. A common perception in the global South is that American and western interventions often result in the weakening of states and Balkanization, as in former Yugoslavia, Afghanistan, Iraq and Somalia. IMF and World Bank policies while ostensibly geared to promoting economic stability and development impose Washington orthodoxy and often trigger economic chaos, financial crisis and political upheaval. Campaigns for democracy and human rights through agencies such as the National Endowment for Democracy tend to focus on flash points (the Middle East, Sudan, the republics bordering Russia, Central Asia, Venezuela and Colombia) and foment political instability. In the global South American strategies of tension are familiar experiences; here I focus on the boomerang of brinkmanship for the US.

The declared intent of the Reagan project of 'getting government off our backs' was to release market forces, but since it coincided with cold war victory it also produced a military turn in government (Bacevich, 2002; Priest, 2003). Over time and manifestly so during the G.W. Bush administration this brought about two paradoxical effects. With the military turn in government came a relative disconnect from Wall Street and corporations other than the defense industries and energy companies, which leaves a narrow economic foundation and gradually institutionalizes a new 'war economy'. The second paradox of the neoliberal state is the retreat of the state as a strategic economic actor. *Laissez-faire* and preoccupation with geopolitics in effect leave national economic strategy and terrains such as

innovation and research and development to other states, which may be interpreted as another form of brinkmanship.

ECONOMIC BRINKMANSHIP: *Laissez-faire*

The United States faces a current account deficit of unprecedented proportions and if this is costly (with interest payments of \$300 billion per year) and precarious (in view of an unstable dollar), the trade deficit (at \$818 billion in 2006) is more problematic because it is embedded in the structure of the economy. To finance its current account deficit the US borrows \$2.6 billion each trading day and absorbs 80% of the world's net savings. Combine the net external debt at \$4 trillion with the US treasury debt at \$7.6 trillion and the annual borrowing need is \$1 trillion, or 10% of GDP (Buckler, 2005).

The US share of world manufacturing has shrunk steadily and so has the place of manufacturing in the American economy (at 12% of GDP it is smaller than the health care sector; Stiglitz, 2006). In cars and electronics American producers have lost their lead to Asian producers. The new economy has not made up for the decline of manufacturing. In service jobs there are wide skills and pay gaps.

These outcomes are the result of policies of risk taking. We can distinguish different levels and stages of economic brinkmanship: *laissez-faire* economics as a general trend, Dixie capitalism since the 1970s, and the policies of the G.W. Bush administration. Each represents deliberate risk taking or economic brinkmanship; I will argue that in combination with political brinkmanship they bring the US into the uncharted waters of unanticipated risks.

***Laissez-faire* economics**

Laissez-faire economics is anchored in American exceptionalism. It reflects a society in which other power centers (feudalism, monarchy, court) were absent or weak (church), so business forces and their ethos occupy a much larger social and political space than elsewhere. *Laissez-faire* is brinkmanship because it assumes that the market is self-regulating and provides no safeguards to mitigate economic crisis or provision for the losers in the process. This policy generated the 1929 Wall Street collapse, which led in turn to the New Deal and Keynesian policies.

Dixie capitalism

In response to the 1970s profit squeeze American corporations turned to the part of the country where the New Deal reforms were never implemented, the American South and its anti-union, low taxes, low services, low wages

model. The Reagan administration turned these corporate strategies into government policy. Government rollback to 'unleash market forces' eventually became an international policy known as the Washington consensus. The Southern strategy satisfied corporate profitability as well as the Southerners' long-term campaign of dismantling the New Deal. It generated economic and population growth and accumulated conservative political capital in the South, was institutionalized by subsequent administrations and in Clinton's welfare reforms, while its shortcomings were papered over by the new economy boom.

Bush economics

The G.W. Bush administration resumed the Reagan policies of tax cuts and jacking up deficits so high that it becomes a matter of fiscal necessity to cut social government spending. Hence 'deficits don't matter'. They do not matter because the objective is to 'starve the beast'. Cutting social government deprives the Democrats of their policy tools and would bring about a lasting Republican political realignment that would make the GOP the party of government.

Because *laissez-faire* and the Southern strategy distribute risks to vulnerable groups with little electoral clout, they entail limited risk for elites. Elites underestimate the need for capable government intervention or national economic strategy. As long as corporations have a free hand dire consequences for the American economy and jobs will be temporary and things will be for the better eventually. This is ideological economic brinkmanship. Republicans believed that by manipulating 'cultural issues' they could offset the political damage of economic risk (Frank, 2004), a gambit that was disproved by the 2006 elections.

It is a risk-prone strategy because federal tax cuts defer taxes to states and local governments where deficit spending is ruled out by law. States remain solvent by postponing maintenance of infrastructure and cutting social programs. The results are neglect of infrastructure, growing social inequality and hardship and mounting debt. The country finds itself ill prepared for natural disasters such as the Katrina hurricane because safety margins have been crossed.

Plant relocations to the Sunbelt have been followed by offshoring and outsourcing overseas. Tax incentives, declining corporate tax rates, offshoring and outsourcing deepen the fiscal crisis of the state. A basic dilemma of *laissez-faire* capitalism is that corporations have no inherent commitment to the nation, which becomes manifest in accelerated globalization. The 'pro-growth' business-friendly policies that also the Democratic Party adopted in the 1990s no longer necessarily benefit the American economy. In the throb of turbo globalization—which is now cast as 'competition from China'—they bring the American economy to the brink.

We can view this as the passing of an accumulation era. Mass production went with post-Fordism. This is working itself out through the cumulative impact of offshoring and outsourcing, a layered process in which the Norman Rockwell capitalism of the New Deal is making place for the turbo capitalism of Enron and Wal-Mart. Wal-Mart, a signal success of this era, the country's largest company and the world's largest retailer, represents a Southern strategy of low wages, no unions, and extracting government subsidies for infrastructure and worker benefits. Its logistics system runs on Indian software (Friedman, 2005). As a retail company that functions as an intermediary between American consumers and low cost producers in Asia it is founded on a paradox: making super profits by underpaying its workforce. It offers consumers low prices according to methods that, if pushed to their logical extreme, eventually erode their capacity to be consumers.

In the American case the neoliberal state is a national security state, which carries economic implications in itself. The political economy of political brinkmanship raises several questions. Are the defense industries a wise future investment and do they have a sound multiplier effect? By comparison to the postwar decades the military economy multiplier is shrinking and the 'military Keynesianism' of the past is no more. The mammoth military-industrial complex makes leading industries uncompetitive by drawing them into government military contracts (Hutton, 2002). Does geopolitics make money and for whom? Eighty percent of Pentagon spending is with six major corporations and over 40% is in no-bid contracts. Does it halt the decline in American manufacturing? Can it turn the trade deficit? The military is also a major technology importer.

Unilateralism without legitimacy also carries economic ramifications. 'Brand America' is losing points. An advertising executive notes, 'We know that in Group of 8 countries, 18% of the population claim they are avoiding American brands, with the top brand being Marlboro in terms of avoidance. Barbie is another one. McDonald's is another. There is a cooling towards American culture generally across the globe' (Holstein, 2005).

POLICY RESPONSES

Business reports describe the world economy as a Ponzi scheme, 'a giant pyramid selling scheme' (Giles, 2005), 'a strange cycle in which trade deficits help fund the US budget deficit and make up for its low savings rate' (Warde, 2005). The massive American debt is sustained by dollar surpluses and vendor financing in Japan, China (about \$1 trillion each) and East Asia. Poorer nations sustain American overconsumption. Not only are American levels of debt high—including states' debt, corporate debt and household debt (at \$650 billion)—but manufacturing capacity is eroded, there are no reserves, and the savings rate turned negative for the

first time in 2005. Ten percent of Americans, those in the lowest income bracket, spend 40% of their income on debt.

One reasoning is that the problem is not American deficits but a 'savings glut' in Asia and Europe. Developing countries hold surplus dollars as a safeguard against financial turbulence and Asian countries do so to sustain their exports. According to the 'dark matter' hypothesis, the numbers are wrong and underestimate American earnings from foreign investment (Hausmann and Sturzenegger, 2005). Even so the US is deeply in the red to Asian central banks and the general understanding is that these deficits are unsustainable. The debate is whether it will be a soft or a hard landing (Peterson, 2004).

What optimistic readings there are of the situation do not generate consensus nor do forward policies such as increasing the savings rate and reducing the value of the dollar (Bergsten, 2004). The main policy responses under discussion are boosting exports, assuming dollar loyalty, new investments in technology, and imposing tariffs on imports.

Boosting exports

A common argument is that free trade will boost exports. 'Each new trade agreement has been heralded as a market-opening breakthrough that would boost US exports and thus move toward balanced trade. That is not what happened—not after NAFTA (1993) and the WTO (1994), not after China normalization (2000). In each case, the trade deficits grew dramatically' (Greider, 2004: 14).

Another view holds that a lower dollar will reduce imports and boost exports. But for this to take effect the dollar should still fall 20 or 30% lower, to $\text{\$}0.55$. But even then the capacity to expand exports significantly does not exist (Prestowitz, 2005). Besides, offshoring and outsourcing limit this option because they turn the production of American corporations into US imports. Outsourcing is export substitution (Roberts, 2004).

Assuming dollar loyalty

Alan Greenspan used to repeat that the fundamentals of the American economy are sound. As a safe haven and market of last resort the US remains so attractive that it can sustain large deficits. Indeed, indebtedness may be a virtue: 'the world's appetite for US assets bolsters US predominance rather than undermines it' (Levey and Brown, 2005: 3). Assuming dollar loyalty is vintage economic brinkmanship. It is the belief that *external* deficits do not matter. Take this a step further and the record American debt becomes an economic strategy. In plain language, incur mounting deficits and let foreign governments and investors hold the bag because creditors are hooked to the dollar as world reserve currency and to the US

as the world's largest market and the 'consumer of last resort' propelling the world economy.

Financial trends, however, do not confirm dollar loyalty. A 2005 survey of the leading 65 central banks indicates that central banks are diversifying currency reserves with a decline from 70% of world reserves held in dollars in 2002 to 63% in 2004 and a further expected decline to 60%. Venezuela prices its oil in euros; Russia may shift to euros and similar signals come from Iran, South Korea and even Japan (Johnson, 2005) and China is taking cautious steps to diversify its foreign reserves.

Dollar loyalty is vulnerable to the emergence of alternative currencies and alternative markets. European investors reduced their dollar holdings and several countries have adopted the euro as trading currency. The Chiang-Mai initiative established an Asian Bond Fund. Venezuela proposes setting up a Bank of the South. Japan, China and South Korea may develop a yen-yuan-won based Asian reserve fund. Alternative markets are taking shape in the economic powerhouse of ASEAN+3 (Southeast Asia plus China, Japan and South Korea) and growing trade between Asia and the European Union, Latin America, the Middle East and Africa. Recovery in Germany and Japan (and meeting the rising cost of aging populations) and growing demand and inward investment in China and Asia are turning their savings inward. Hence Stephen Roach, chief economist at Morgan Stanley, sees a growing chance for a hard landing for the US economy (2005).

New investments inflow

Some economists expect that private investment into the US will resume: 'a renewal of private inflows responding to the next stage of the information technology revolution' (Levey and Brown: 6). Foreign direct investment in the US has recovered from the new economy crash and corporate scandals and resumed at \$110 billion in 2005 and \$190 billion in 2006. Although the US continues to attract almost a quarter of all FDI flows (Williams, 2006) China has overtaken it as the preferred destination of FDI. Besides, over the past ten years the flow of funds into the US has shifted from private investors to central banks. 'These banks are not buying dollar-denominated bonds because they are attracted to US economic strengths. . . they are buying them because they fear US weakness' (Setser and Roubini, 2005: 195). Unlike in the 1990s, these are not productivity-enhancing inflows but simply fund the budget deficit through Treasury bonds.

Imposing tariffs

Fred Bergsten lobbies for a 50% tariff on imports from China as a negotiating tool to press for revaluation of the renminbi. The commerce department plans to impose tariffs on several products from China and Congress ponders tariffs on Chinese imports as well. This goes against the grain of free

trade and WTO rules and against the interests of corporations that depend on imports (Wal-Mart imports alone make up 15% of the US trade deficit with China). Since it would reduce the incentive for exporters to hold dollars it would expose the US current account position. Since a significant share of the trade deficit with China concerns intra-firm trade by American multinationals an appreciation of the renminbi would have limited impact.

None of these options is likely to turn the tide. Raising the American savings rate is unlikely and depreciating the dollar (which is overvalued by 20%) would increase interest rates. A metric to watch is the medium term interest rate (now around 5.25%). If this rises significantly the debt balloon will burst, starting with real estate. Nearly half of new mortgage borrowing is at flexible interest rates. Since fall 2006 the housing market chilled, subprime mortgage lending banks are under pressure (up to \$100 billion is at risk) and foreclosures are increasing (22 million families may lose their homes). Credit card debt is vulnerable too (the total debt of US households is now 85% of the economy), but the bankruptcy law adopted in 2005 shields banks from anticipated retrenchments.

The Federal Reserve raised the benchmark rate twelve times since June 2004 (from 1 to 4%), yet the medium interest rate has barely risen. Central banks' dollar holdings have decreased and foreign investors reduced their US investments. Where then is the \$600–700 billion per annum that the US borrows externally coming from? A major factor is the high oil price and the recycling of oil revenues into dollar assets. 'The current account surplus of the oil producers will be about three times that of developing Asia in 2006 and close to that in 2007' (Magnus, 2006). This suggests that the American economy is borrowing time from a precarious conjuncture. The US general comptroller notes, 'Debt on debt is not good'.

The American currency must be slowly, carefully managed lower to boost U.S. exports, but without triggering a sudden plunge in the greenback that could spark a devastating jump in inflation. Interest rates must gradually rise to ward off inflation and encourage consumers to save more of their earnings. Spending must be reined in, but not so severely that it compromises U.S. security and other public priorities. And taxes must be raised, but not so drastically that they stunt economic growth. (Maich, 2005)

None of these matches current policies. Seeking a solution implies admitting there is a problem. The Federal Reserve anticipates smooth adjustments. Implementing a solution implies a bipartisan grand bargain, which clashes with the Republican agenda of shrinking government. The majority in Congress still favors maintaining tax cuts. The remaining scenario is to close the trade gap by reducing imports and that only happens through a recession (Greider, 2004).

BRINKMANSHIP AS RATIONAL CHOICE

Several policy outcomes are now familiar. The war in Iraq is now widely viewed as brinkmanship that backfired, 'a flawed policy wrapped in illusion' (in the words of Representative John Murtha), mismanaged in planning and execution. But interpreting policies as brinkmanship concerns not just the outcomes but the agendas and risk assessments underlying them.

An analysis of the Savings and Loan collapse found that poor accounting and lax regulation made it 'rational for executives to loot their companies' (Akerlof and Romer, 1993). The executive reward system of stock options along with lax monitoring of how stocks are sold precipitated the Enron wave of corporate scandals (Nederveen Pieterse, 2004: 147). Can we argue along similar lines that for American policy executives brinkmanship is 'rational', even if the overall consequences spell disaster? A factor common to corporate and political brinkmanship is that executives obtain the gains but may be sheltered from the losses; a difference is that in the case of brinkmanship by politicians, ideology and public perceptions carry greater weight.

Political brinkmanship produces gains for defense industries and, in the case of operations in energy rich areas, potentially energy companies, which are linked to policy elites via 'revolving doors'. Special Forces and private military contractors deal with the fallout from military interventions, in part off the record. This scenario is vulnerable on two points, both of which materialized in the Afghanistan and Iraq wars. The long duration of the wars stretches the armed forces beyond capacity and as the cost of war increases and the prospects for victory dim, their political support decreases.

Ideological and cultural brinkmanship is part of the equation. Many blame the neoconservatives for warmongering and the G.W. Bush administration for incompetence and deception, but their brinkmanship is the apotheosis of decades of rightwing campaigning for 'free market' values and militarism, for tax cuts and against welfare, unions, gun control and abortion. Lavishly funded campaigns in defense of extreme capitalism and extreme militarism have deeply affected American public culture (Brock, 2004) and set the stage for American overreach, though this would not have materialized without the endorsement of liberals.

Neoconservatives hold that 'globalization is Darwinian' (Kaplan, 2002: 119) and cherish Machiavelli's counsel to the prince that 'it is better to be feared than loved'. However, ignoring soft power requires massive expenditure in hard power. Because the new wars have been driven by ideology rather than area knowledge and only consider short time frames, their risk assessments have been wishful. Policymakers underestimated the resistance in Iraq and Afghanistan and the wrath in the Islamic world. They

miscalculated the price of unilateralism, which massively raises the cost of intervention, and the consequences of sidestepping international law, which leads nations to think that since international law is inoperative they can find protection only in nuclear arms.

Economic brinkmanship is rational in that low taxes and low benefits in combination with rising productivity, offshoring and outsourcing, generate super profits for corporations, which are represented by lobbies in Washington and linked to the political elite through revolving doors. The free enterprise principle of privatizing gains and socializing losses applies. The downsides (job loss, no medical insurance for 42 million Americans, long working hours, double earner households, stagnant wages) are carried by an electorate that is socialized in 'free market values' and abstains from voting in growing numbers. The idea that market forces are inherently superior to government intervention stems from earlier dispositions but has been promoted ideologically especially during the past decades. Brinkmanship is holding on to this in the face of mounting deficits. In Stiglitz's words, 'the reason that Adam Smith's invisible hand is invisible is that it does not exist' (2005: 133). But economic uncertainty may seem worth the long-term Republican objective of using deficits to shrink government and cut social spending. Wall Street now seeks to rollback the Sarbanes-Oxley law that has been enacted in the wake of the Enron scandals to regulate corporate accounting methods.

However, faced with downsizing, outsourcing, stagnant wages and rising deficits, the *laissez-faire* consensus is coming apart at the seams. Conservatives worry about the deficit, the United States imposes tariffs on imports from China, CEO remuneration is under scrutiny, communities protest against Wal-Mart, election candidates speak of 'Benedict Arnold CEOs' who outsource American jobs, and plant closures, bankruptcies and declining infrastructure are increasingly visible. Paul Krugman (2005) notes, 'the fact is that the U.S. economy's growth over the past few years has depended on two unsustainable trends: a huge surge in house prices and a vast inflow of funds from Asia. Sooner or later, both trends will end, possibly abruptly'.

What makes political and economic brinkmanship possible is the concentration of power in the American presidential system and the 'winner takes all' political system. This may produce incentives for the executive branch to engage in 'political maximalism' and transfer risks to taxpayers. That resignations or firing policymakers when policies fail are rare in this system suggests power-with-impunity. Cracks appear, however, when through mid-term elections the legislative majority represents a different party than the executive branch.

Economic brinkmanship takes on an ominous character for two other reasons, one conjunctural and the other long term. First is the interplay with

political brinkmanship. While both political and economic brinkmanship are damaging, their combination is ominous. They merge in the image of 'Baghdad on the Mississippi' (Trichur, 2006). Baghdad and New Orleans merge in people's minds as emblems of government recklessness and ineptitude, resulting in national humiliation on both scores. The combination of tax cuts and war, expansion of military and security outlays and cutbacks in all other government programs, is gradually creating a different kind of United States. In the words of Timothy Garton Ash (2005), 'when the next recession comes along, it will be no use sending for the marines'.

The long-term problem is that the United States is undergoing a transition from a manufacturing to a high-end service economy. The question is how to steer this reorganization without creating a two-thirds society and a second-rate economy. Brief notes are, first, that it is not easy to split basic and high-end manufacturing. Second, in offshoring production the technical and knowledge infrastructure that sustains high value-added services shrinks too. Third, outsourcing includes white collar jobs. Fourth, China has overtaken the United States in exporting technology goods and is rapidly upgrading to high-tech production, as do other emerging economies. Fifth, a consumer economy based on borrowing from poorer countries is not sustainable. In this light, policies of economic brinkmanship take on further meanings. They neglect inward investments in infrastructure, education and research and development; follow short-term thinking that postpones strategic policy and leave strategic policy to corporations, which have different agendas than national wellbeing.

The widening shear between the American economy and the military-industrial complex and geopolitics leads to fictional politics. It is a fiction of state that the United States can have tax cuts and hegemony, tax cuts and war, that it is possible to have hegemony on the cheap and do empire on the basis of a world historic deficit. Neoconservatives are long on power and ideology and short on economics. Combining tax cuts and war damages both the economy and hegemony. The United States has become a source of international instability, politically because it withdraws from or ignores multilateral agreements and economically because it runs unsustainable deficits, hence it is losing influence in international forums. Liberals who endorse American primacy would be wise to contemplate its real world implementation and economic implications.

ACKNOWLEDGEMENTS

I thank Howard Wachtel and reviewers of the Review of International Political Economy for helpful comments.

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