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Bush Administration Reaganism and US primacy.

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Abstract:

In US Republican Party discourse, President Ronald Reagan has iconic status as the conqueror of the Soviet Union who rolled back communism, restored American power and pride, transformed the domestic political debate towards a neoliberal limited state, cut taxes, promoted privatisation, advocated balanced budgets and personally endorsed social conservative values. This mythology is at best partially consistent with the actual performance of the Reagan administration.

US military primacy is not vulnerable to a 'peer competitor'. Like Reagan, the Bush administration is making huge investments in US military primacy, but unlike Reagan, Bush has engaged the US in quagmires in Afghanistan and Iraq that have created present and future burdens for the US armed forces and the US economy that are likely to constrain the military options of the next administration.

US economic primacy is in jeopardy. The international standing of the \$US is again being eroded by chronic trade and government deficits, but unlike the Reagan era, there is now a Euro alternative to the US dollar as an international reserve currency. The US economy is no longer the largest, and US economic primacy is vulnerable to challenge. The economic failings of the Bush administration are in part a product of policies inspired by Reaganomics. US economic primacy has been made vulnerable by huge Reaganomic deficits produced by unfunded tax cuts (with a pronounced bias in favour of the rich) and major expansions in military expenditures, with constraints on social outlays and predictions of balanced budgets in the receding future.

Introduction

The Bush administration has become an object of widespread criticism in the final year of the President's second term. The purpose of this paper is to argue that the Bush administration has focused on securing US military primacy, and pursued tax and fiscal policies that have increased the vulnerability of US economic primacy, and that both of these policy approaches are instances of the Bush administration acting under the influence of the iconic status of Ronald Reagan, particularly within the US Republican Party. To secure US military primacy the Bush administration has hugely expanded military appropriations (apart from those directed to the wars in Afghanistan and Iraq), which has the opportunity cost of diverting resources from securing US economic primacy.

The iconic status of Reagan has influenced the Bush administration, which has referred to (perceptions of) Reagan administration practices to justify its own policies. There are some particularly noteworthy similarities and differences between the two US Republican governments. This paper does not attempt a detailed comparison of the Bush and Reagan administrations, but analyses the consequences of Bush administration policies affecting US primacy that have been influenced by the Reagan icon. The notable similarities in US national politics and policies under Reagan and Bush are the use of the Republican Southern Strategy¹, large socially regressive tax cuts, and major increases in military expenditures and large budget deficits, despite rhetoric about fiscal discipline. The notable differences are in the degree of practical commitment to political imposition of conservative social values. In international relations, the notable similarities are the strong assertion of American leadership, and the international consequences of current account and federal deficits that have contributed to weakening US economic primacy. The notable differences between the two Reagan and Bush (junior) Republican governments are in the relatively restrained deployment of major military force by the Reagan administration compared with the unilateralist adventurism of the Bush (junior) administration, and the substantially more effective exploitation of US cultural, persuasive or 'soft' power by Reagan than Bush.

Global polarity and US primacy

The consolidation of US primacy has arguably been a grand strategy of US administrations since World War II, but President George W. Bush has espoused US primacy particularly explicitly, like President Ronald Reagan. The 2002 and 2006 US National Security Strategies of the Bush administration are based on hegemonic stability theory principles, according to the United States the role of securing a 'balance of power that favours freedom.' (White House September 2002, 1)

The international relations literature has numerous perspectives on the appropriate characterisation of global polarity, with a strong consensus in favour of US unipolarity since the demise of the Soviet Union. The international system can be regarded as 'unipolar' when 'the second most powerful state cannot by itself counterbalance the most powerful state'. (Owen 2001/02, 117)

There are also various perspectives on whether or not US unipolarity should be characterised in terms of empire, hegemony or primacy. America's 'global leadership' is sometimes referred to as America's 'empire', 'hegemony' or 'primacy' as the dominant power in a 'unipolar' global order, in some cases interchangeably, but there are important differences between these terms. Huntington once suggested that the necessary standard for unipolarity was a system in which 'the superpower could effectively resolve important international

¹ Both Presidents Reagan and George W. Bush have campaigned and ruled in a way that is consistent with the Republican Southern Strategy, a political tactic of establishing identification with white Southern constituents through covert 'dog whistle' appeals to white racism. (Rich 2008)

issues alone, and no combination of other states would have the power to prevent it from doing so', (Huntington 1999, 35) but this limits unipolarity to 'hegemony', the strongest form. In the nuclear age the degree of military dominance required for global 'hegemony' is practically unobtainable on a durable basis. Mearsheimer regards global hegemony as an exceptional and probably temporary situation in which the sole superpower has reliable 'nuclear superiority', defined as 'the capability to destroy an adversary's society without fear of major retaliation', so that it has no effective rivals. (Mearsheimer 2001, 128-130) Nuclear weapons also have diminishing returns to investment because relatively small nuclear arsenals can confer an asymmetric nuclear deterrent capability. (Siracusa and Coleman 2000, 277- 296)

Mearsheimer equates unipolarity and hegemony, but that is not usual practice and international relations theory. The attempts to apply 'empire' to US preeminence only tend to dilute the usefulness of that concept in other more applicable contexts. (O'Meara 2006, 4-33)

A country has 'primacy' when it has pre-eminent capabilities and substantially more power than any other in the system. The more flexible concept of 'primacy' is more appropriately applied to the United States, and even then there are significant differences. Those who focus on the military, economic and cultural resources or capabilities of the United States, like Brooks and Wohlforth, assert the unquestionable primacy of the United States.

'If today's American primacy does not constitute unipolarity, then nothing ever will. The only things left for dispute are how long it will last and what the implications are for American foreign policy.' (Brooks and Wohlforth 2002, 21)

Those who focus on the results of US efforts to use those resources or capabilities to produce outcomes preferred by US policymakers tend to conclude that US power is limited. Mandelbaum concludes that 'all of the vast military and economic might of the United States cannot secure what lies beyond the power of guns to compel and money to buy'. (Mandelbaum 2002, 73)

For US presidents from Truman to George HW Bush (senior), US primacy was asserted in US leadership of a network of alliances opposed to Soviet (and other) Communist states, with the Soviet Union confronting the United States in a militarily bipolar international system. After the demise of the Soviet bloc, Presidents Bush (senior), Clinton and Bush (junior) have asserted US primacy in a relatively unchallenged fashion in a militarily unipolar international system. The expectations of Realist international relations theorists that unipolarity would be unstable and brief, because other countries would combine against the US exercising primacy, (Layne 1993, 5-51; Wohlforth 1999, 5-41) have not materialised. Presidents Bush (senior) and Clinton made adroit use of US 'soft power' in multilateral foreign policies that enhanced the acceptability of US leadership. The Bush (junior) administration has pursued overtly unilateralist foreign policies which have tended to provoke increased foreign resistance.

Ronald Reagan as Republican Party icon

The end of the Cold War and the attainment of US primacy in a militarily unipolar international system (during the administration of President GHW Bush) is a major factor in President Ronald Reagan acquiring the status of Republican Party icon. In US Republican Party discourse, President Reagan has iconic status as the conqueror of the Soviet Union who rolled back communism, restored American power and pride, transformed the domestic political debate towards a neoliberal limited state, cut taxes, promoted privatisation, advocated balanced budgets and personally endorsed conservative social values. Like most mythologies, the iconic status of Reagan is at best only partially consistent with the actual performance of the Reagan administration.

The common observation that success has many more claimants than failure is confirmed by explanations of the demise of the Soviet bloc at the end of the Cold War. For US Republicans, President Reagan was the conqueror of the Soviet Union who rolled back communism. The more fanciful variants of this attribute Reagan's success to his personality and his prophetic advocacy of freedom, and those of this persuasion seem to see a worthy successor in the rhetoric of President George W. Bush about an advance of freedom throughout the Middle East. (Kengor, 2008, 77-86) Some of those who see the demise of communism as a spiritual triumph are inclined to see Reagan sharing this honour with Pope John Paul II. (Christensen, CNN Interactive) Somewhat more substantial claims assert that the Soviet Union collapsed because it could not sustain the competitive challenge generated by President Reagan's Strategic Defence Initiative. (Weinberger 1986, 675-697) It is not obvious why those who offer this explanation imagine that former Soviet analysts should have been less able to discern the fanciful nature of Reagan's 'Star Wars' project than Western analysts who were not beguiled by those with political or pecuniary interests in it. (Lebovic, 2002, 455-483) Pressure on the former Soviet bloc from US and allied military power was maintained and possibly marginally enhanced by the Reagan administration, but the foundations of that military capability were established by preceding administrations, notably President Harry Truman. The rapprochement with China by President Nixon and Dr Henry Kissinger was an important shift in the balance of global power during the Cold War. The Cuban missile crisis had made the political leaderships of both protagonists focus on the reality that large nuclear arsenals reduce the efficacy of military power to a stalemate of mutually assured destruction. (Pious 2001, 81-105) Despite the neoconservative fixation with the fungibility and efficacy of military power, it can destroy, deter or coerce but not provide inducements to peaceful change. The ultimate success of the West in the Cold War probably had more to do with the comparative merits of market and command economies, and relative political freedoms under democracy and communism, in a military stalemate, rather than any positive efficacy of military power. (Berejikian and Dryzek, 2000, 193-216) In this respect, the success of the Truman administration's visionary Marshall Plan in rebuilding the economies of Western Europe, and averting communist political successes in the early post-war West, particularly in France and Italy, made a substantial contribution to the eventual outcome of the Cold War. The new Soviet response to the possibility of a peaceful end to the Cold War contributed to the award of a Nobel peace prize to former General Secretary Gorbachev. (McFaul 1999, 103-130) President Reagan contributed to the end of the Cold War, but the singular attribution of victory to him by US Republican and neoconservative rhetoric is fanciful.

After the crisis of Watergate, (which tainted even President Gerry Ford when he pardoned former President Richard Nixon), President Jimmy Carter assisted Americans to recover a sense of confidence in the integrity of American political leaders, but fairly or not he was also regarded as ineffectual by many Americans, especially after the Tehran hostage crisis. The confident assertiveness of President Reagan (astutely combined with an avoidance of any major active hostilities) restored American power and pride. This contributed to President Reagan remaining relatively popular throughout his term (although his positive ratings at the end of his term were not as good as those of President Clinton) and to his legacy being recalled by many Americans with a degree of nostalgia.

President Reagan also consolidated the Republican Southern Strategy that has contributed to reintegrating the South into the national political mainstream, and (at least rhetorically) reinforced conservative political actors committed to a limited state, strong defence, tax cuts, privatisation, fiscal discipline and paternalistic social values. Reagan's core values were those of the free market conservatives and to advance that cause he seems to have used Christian social conservatives and some aspects of the Republican 'Southern Strategy' to

build a broader political movement. President Reagan was not a regular participant in public religious observance, but he enthusiastically 'endorsed' the moral majority and political positions that were important to them as a presidential candidate. In office, Reagan made gestures on issues like prayer in schools but in the decisions that could make a decisive difference he did not support authoritarian social conservatism, and made very few political concessions to the social conservative base of the Republican Party which was so important in his election. (Moen, 1990, 199-207) President George H.W. Bush (senior) had a similar approach. (Norquist 1993, 10-17) In practice, the presidential commitment to conservative social values has been more substantial under President George W. Bush (junior) than under either Presidents Reagan or George H.W. Bush (senior), in judicial appointments producing a conservative majority on the US Supreme Court and public policies related to 'right to life' agendas.

Ronald Reagan has acquired the status of a Republican Party icon principally on the basis of his own merits as perceived by US conservatives, but also partly because of the manifold shortcomings of President George W. 'Dubya' Bush. The Bush administration has sought to steer US political and media discourse towards having its grandiose goals become the basis for assessing the administration rather than its normally unsatisfactory definition of practical implementation programs and its frequently incompetent performance. In doing so, Bush was following as a particularly unhelpful exemplar precedents provided by President Reagan in his proud adoption of simplistic statements of grand strategic goals without achievable implementation programs, such as Reagan's celebrated Cold War 'strategy'² or the fantastic goals of the Strategic Defence Initiative. President Bush's administration has loosely formulated very ambitious goals on education, reform of social security, conservative social values, restoration of Los Angeles after Hurricane Katrina, defeat of al Qaeda, victory in the Global War on Terror, Afghanistan and Iraq, and the consolidation of American prosperity. President George W. Bush enjoyed the highest recorded presidential approval poll ratings when Americans rallied in patriotic solidarity after the terrorist attacks of September 11, 2001, because the Bush administration evaded responsibility for its negligent counterterrorism posture before the attacks occurred. (Clark 2004, 227-246)

However, the Bush administration's actual achievements in relation to attainment of its stated goals and other factors have led to President Bush in April 2008 having the lowest recorded levels of presidential approval data. Furthermore, a unique 69% of American voters judge that his presidency has been a failure. (Page 2008) In the 1988 election, 'four more years' was a popular Republican slogan reflecting the benefits for then Vice-President George HW Bush of association with President Reagan's legacy. During the 2008 Republican primary campaign, the early debates between the contending candidates were marked by a careful avoidance of identification with the incumbent President George W. Bush, and an invocation of a mythological reframing of the legacy former President Ronald Reagan. In 2008, suggesting that the election of Senator John McCain would result in another Republican administration like the preceding two terms of President George W. Bush is already being used by Barack Obama as a Democratic campaign theme. Senator McCain has already dissociated himself from President Bush's Hurricane Katrina fiasco and he is likely to separate himself from other aspects of his predecessor's legacy over the course of the 2008 national election campaign.

Bush, US military primacy and the Reagan icon.

Under the previous GWK Bush (senior) administration, the Clinton and current GW Bush (junior) administrations, a central element in US grand strategy and the US rationale for

² A very positively valued comparison between Reagan's Cold War 'strategy' ('We win. They lose.') and President Bush's Iraq strategy is made in: *Investor's Business Daily* Editorial, 2007.

defense transformation is the prevention of the emergence of a militarily 'peer competitor' to the United States that could successfully challenge American military primacy. (NDP, 1997) That rationale appeals to those who see global order as being essentially the product of control or dominance that is ultimately based on military power, but not exclusively to them. Like Reagan, Bush has initiated major expansions in military expenditures. Under President Bush, on-budget military expenditure has expanded so rapidly that the proposed 2008/09 military budget is the largest since World War II. The huge outlays on the Iraq and Afghanistan wars are largely off-budget contingency expenditures. (Sunshine 2007; CBO December 2007). Despite the Bush administration's huge military outlays, the US defence transformation that was a major preoccupation of policymakers in Clinton's second term and Bush (junior)'s first term has had a diminished priority in Bush's second term.

In the context of the Cold War, the Reagan administration challenged Soviet communism with large-scale military expenditure, notably on the Strategic Defence Initiative mirage, vigorous anticommunist rhetoric and active support for covert action in Africa and Central America, producing the Iran-Contra affair that overshadowed Reagan's second term. However, the Reagan administration carefully avoided exposing the United States to military quagmires like the Bush administration's occupations of Afghanistan and Iraq. Reagan's military expeditions, in Lebanon, Granada and Panama, were brief incursions in minor states. Military expenditure data does not take into account a variety of factors which impact on the effectiveness of armed forces, including economic efficiency of the industrial and support base, management skills, military discipline, capacity to apply new technologies, differences in diversion of resources through corruption and waste, expert leadership and training, strategy, operational doctrines, combat organization and morale. Nevertheless, most of these factors favor the United States and its allies rather than their potential adversaries. Furthermore, the scale of the differences in investment in military capabilities, by the United States and its allies compared with their potential adversaries, are so great that they should be considered an important aspect of the strategic environment. In short, the overwhelming military dominance of the United States and its allies is in serious 'need' of a credible threat, in terms of state vs state military combat scenarios.

The ultimate futility of overt military challenges in state vs state military combat scenarios, by 'rogue' states or any other kind, is the result of the deterrent and response capability of western allies, which needs to be sustained at effective levels to secure this state of affairs into the future. Nevertheless, in a unipolar world in which the US has many allies and few enemies, none of which are major powers, the scale of the Bush administration's huge military outlays is highly questionable and difficult to justify. The present military primacy of the United States is so pronounced that it is most unlikely that any other power will be inclined to challenge it for decades. The European Union will be best placed to do so economically, but it does not yet have a highly developed state structure, and the common values shared by the European Union and the United States and the absence of a significant strategic threat to the European Union are likely to make matching US military capabilities a low order priority.

Neoconservatives in the Bush administration used the entirely understandable emotional US national solidarity response to the attacks of September 11, 2001 as an opportunity to assert US military primacy more vigorously. The Bush administration's series of security strategies incorporated the objective of establishing stable democratic polities with capitalist economies in the central region, and eliminating state sponsors of global terrorism.

The Bush administration's national counter-terrorism strategy issued in February 2003 had a political and security focus. It characterised terrorists as challenging democratic values (like twentieth century totalitarianisms) and seeks to identify, locate, isolate from support, mobilise international opposition to, and destroy terrorists and their organizations; while also

diminishing conditions that terrorists exploit, strengthening weak states, winning the 'war of ideas'; and defending the United States through the homeland security strategy. (White House February 2003)

Despite the political focus of the counterterrorism strategy, the predominant response of the Bush administration has been directed towards military action against 'state sponsors' of terrorists with global reach, which President Bush repeatedly characterised as 'going on the offence', in accordance with the administration's National Security Strategy. (White House September 2002) The Bush administration's occupations of Afghanistan and Iraq have engaged the United States in two military quagmires of the kind that the Reagan administration carefully avoided. Neither occupation has realistic prospects of achieving stable democracies, and both have contributed to the creation of grievances about occupation (especially by adherents of a different religion) which are important motivators for suicide terrorists. (Pape 2006, 79-101) The occupations have also placed damaging burdens on the US armed forces, particularly the Army, Marines and the National Guard, and increased the federal deficit and created additional economic and social burdens for at least a generation of Americans. (Stiglitz and Bilmes, 2008, 33, 112)

The invasion of Afghanistan was, at least initially, given broad international support as an attempt to destroy the Taliban regime that was the state sponsor of Al Qaeda, but the Bush administration's failure to consolidate has jeopardised the initial success and permitted a resurgence of the Taliban, supported from bases in Pakistan. (Grare 2006; Grare 2007)

The US invasion of Iraq to displace Saddam Hussein's Baathist regime was an ideological crusade for leading neoconservatives in the Bush administration.³ The control of Iraq under the direction of the Bush administration after the rapid military occupation by the US-led coalition has produced formal electoral democracy. General incompetence, comparable with the administration's response to Hurricane Katrina, has produced little rule of law or effective government, and tragic death rates, displacement, ill-health, crime, economic regression, social disruption and sectarian conflict among Iraqi Arabs.

The Bush administration ignored Saudi, British and US military advice on a political strategy of co-opting and paying the personnel of the Iraqi state and army to function under coalition authority, maintaining order and essential services, with a selective de-Baathification program using informants to gradually prune committed Baathist operatives. This political force-multiplier approach would have permitted the US to rule effectively with the occupation force it had, and as it has been doing since 'the surge' in 2007. The US occupation posture of the Coalition Provisional Authority (CPA) in Iraq created anarchy and provoked insurgency. (Woodward 2006, 163-164; Ricks, 2006, 158-168) Crime, insurrection Sunni-Shia sectarian conflict in Arab Iraq and countermeasures by the US-led occupation forces destroyed infrastructure, water, sewage, electricity and health services. The successful conduct of two elections in Iraq established a formal electoral democracy with very limited effective state power. Since the invasion there have probably been more than 600,000 additional Iraqi deaths, and 8 million Iraqis are suffering a humanitarian crisis, including many of about 4 million displaced Iraqis, of whom about 2 million are internally displaced and two million are refugees. (Burnham et al 2006; Amnesty 2007; Oxfam 2007) Only Iraqi Kurds in the northern area have had relatively effective government and security, apart from the threat from Turkey, essentially continuing the Kurdistan Regional Government arrangements that preceded the invasion.

In November 2005 President Bush issued a strategy for 'victory' in Iraq with grandiose objectives that were not supported by realistic analysis of the problems confronted or the determination of appropriate means for addressing them. (NSC 2005) Before, during and

³ US neoconservatives had advocated regime change in Iraq throughout the 1990s. See for instance, the neoconservative Project for a New American Century website: <http://www.newamericancentury.org/>

after the November 2006 mid-term election defeat for Congressional Republicans, President George W. Bush seemed to inhabit a 'bubble' of unreality on Iraq sustained by an ideologically closed White House and tightly controlled public engagements. (Froomkin 2005; Brooks 2007; Thomas and Wolffe 2007) The 2006 Baker-Hamilton Iraq Study Group report proposed a major change of direction, including arrangements with regional powers and domestic Iraqi political interests. (Baker and Hamilton, 2006). The Bush administration's response was a temporary 'surge' that provided additional military capability, concentrated in Baghdad, and a domestic US political distraction from a more fundamental change in political strategy. The militias of Iraqi tribal leaders who had been alienated by the excesses of Al Qaeda terrorism against Iraqis were co-opted, paid by the US and in some cases given new weapons to function as local vigilante forces. (Zavis 2008) Al Sadr's Shiite Mehdi militia generally observed a truce from mid 2007, until it was attacked in Basra and Baghdad by Iraqi and coalition forces in March-April 2008, provoking renewed violence that demonstrated the fragility of the reduction in violence that the Bush administration was spinning as 'the surge is working'. The Bush administration's accommodations with Iraqi 'warlords' are creating longer term problems for future governments in Iraq.

The pressures on US military personnel, including National Guard reservists, of rotations to Iraq and Afghanistan that became more frequent, longer and with shorter recuperation times, are creating major military personnel problems for the US armed services that will constrain the next US administration. In addition to the relatively manageable number of US deaths and physical casualties in Iraq and Afghanistan, there are other major problems. Of the approximately 1.64 million U.S. troops deployed during and since the US-led invasions of Afghanistan and Iraq, a Rand study of a sample of 1,965 US veterans estimated that about 300,000 veterans have post-traumatic stress disorder (PTSD) or major depression and about 320,000 veterans may have had a traumatic brain injury (TBI) when in service. Almost half of these are not receiving appropriate medical treatment and less than a quarter are receiving quality care. The costs of continuing treatment and the productivity and social costs of inadequate treatment will be a long-term but largely hidden burden on the United States. (Tanielian and Jaycox 2008) Despite the Bush administration's rhetoric about 'supporting' the Armed Forces, mental disorders have been neglected in a similar fashion to the treatment of Iraq and Afghanistan war veterans exposed at Walter Reed hospital. (*Washington Post* Editorial 2007)

The problems in Iraq and Afghanistan are far from being a threat to US military primacy, but they are creating new political problems that will inhibit US foreign military activities for years to come. US primacy is not threatened by the military power of peer challenger, and no such challenger is remotely in prospect, because US military primacy is secured with massive 'overkill' (literally) capability. The real challenge that has been confronting the United States for more than a decade is to US economic, not military, primacy. It is a standard assumption of Realist International Relations theory that the 'ultimate basis' of national power is military capabilities. (Tellis et al 2000).

This Realist assumption is questionable after the demise of the Soviet Union at a time when it had great in military power than any country except the United States with which it shared a capability of mutually assured destruction. A more valid formulation of the 'ultimate' basis of national power is not international but national: a systemic capability for effective governance with sufficient legitimacy to control and direct a national population. Without that necessary prerequisite, military economic and cultural power cannot be developed or used effectively.

The prospect of serious economic 'peer competitors' to the United States is much greater than the prospect of genuine adversarial military 'peer competitors'. That consideration focuses

attention on the opportunity costs of the Bush administration spending substantially more than prudence requires on military expenditure in the first decade of the twenty-first century, and adding to US debt burdens and other consequences of war for decades to come.

Peer competitors and US economic primacy

US economic primacy has been based on the US economy being the world's largest, by a very substantial margin. However, that has already changed, since the GDP of the European Union is already larger than that of the United States, in both official exchange rate US dollars and purchasing power parity (PPP) terms. The per capita GDP of the United States is still greater, but realistically the United States cannot recover from the European Union the status of world's largest economy. Furthermore, within a decade Asian integration could evolve, on the basis of the Comprehensive Economic Partnership in East Asia (CEPEA) proposed at the second East Asia summit, into a second mega-economy, the aggregate of which is already substantially larger than both the European Union and the United States (in PPP terms). These developments highlight the real challenge to US economic, not military, primacy, that has been confronting the United States for more than a decade.

GDP of selected economies in US dollars and purchasing power parity (PPP), 2007 (est.)

Economy	GDP in \$US (at official exchange rates)	GDP PPP adjusted
European Union	\$16.37 trillion	\$14.45 trillion
USA	\$13.79 trillion	\$13.86 trillion
CEPEA ⁴	\$12.642 trillion	\$19.117 trillion
China	\$3.249 trillion	\$7.043 trillion
Japan	\$5.103 trillion	\$4.417 trillion
India	\$1.09 trillion	\$2.965 trillion
Russia	\$1.286 trillion	\$2.076 trillion

Source: CIA, *The 2008 World Factbook*

During both the Reagan and Bush (junior) administrations US economic primacy has been weakened by extraordinarily federal deficits that have aggravated the effects of a long-term problem of current account deficits. The present Bush administration has presided while the international standing of the \$US is again being eroded by chronic trade and government deficits. The International Monetary Fund noted in 2004 that while the Bush administration's fiscal deficits had provided some stimulus to mitigate the 2001 recession, large continuing US fiscal deficits would pose a problem for international financial stability. (Towe 2004) These concerns have recently been compounded by the financial and credit squeeze repercussions of the sub-prime crisis in the under-regulated US sub-prime mortgage market. These developments have called into question the reliability of the United States dollar as a reliable store of value. During the Reagan era, the German Mark or Japanese Yen were the next largest reserve currencies, but neither was remotely capable of replacing the role of the US dollar, so the Reagan administration could rely on its continuing dominance. (Frankel 1995, 9-16).

The present Bush administration and its successor are confronted with a new reality. There is now a viable alternative to the US dollar as the major international reserve currency: the Euro. At present the US dollar accounts for approximately two thirds of international currency reserves and the Euro accounts for about one fifth. The Euro is a real alternative,

⁴ The proposed Comprehensive Economic Partnership in East Asia (CEPEA) would include 16 countries: Australia, the ASEAN 10, China, India, Japan, (South) Korea and New Zealand.

because it meets all of the requirements for a major international reserve currency. It is not backed by the power of a major national state, but the EU confederation seems to satisfy that criterion for the purposes of securing an international reserve currency in the contemporary world. More importantly perhaps, the Euro is based in a very large and growing market, with mature international capital markets, it is readily accepted as a basis for international trade, and (although it had difficulties in this respect in its first two years) it has become highly regarded as a reliable store of value.

The Euro has already replaced the US dollar as the currency with the highest value in global circulation.⁵ The US dollar is currently clearly ahead of the Euro in the other roles of an international reserve currency, particularly and crucially, the share of international reserves held in US dollars. However, the share of international reserves held in US dollars is coming under increasing pressure. China and Japan have been gradually diversifying their huge holdings in US Treasury bonds into other currencies, and a number of OPEC countries are in the process of undertaking or considering a similar change, because the US dollar has become such an unreliable store of value.⁶ Much more international trade is currently undertaken in US dollars than in Euros. However, the substantial depreciation of the US dollar in recent years has led to serious consideration being given by some OPEC countries, the Russian Federation and others to a move away from negotiating contract terms in US dollars, but to date only Iran, Iraq (since reversed) and Venezuela have decided to switch from trading in dollars to trading in Euros. (Looney 2004, 26-37; Seymour 2007, 38-40)

Changes in international reserve currencies usually take a considerable period of time because of an inbuilt inertia based on familiarity and convenience, which sustained an important role for pounds Sterling long after United Kingdom ceased to be a pre-eminent global power. (Morse 1979, 359-366) The US dollar could benefit from similar inertia despite the existence of the Euro as a viable alternative, and if gradual evolution of established practice is assumed, the US dollar is likely to continue to have a substantial continuing role as an international currency. However, the Reagan-inspired economic policy mix which the Bush (junior) administration has been pursuing over two US presidential terms is certainly not conducive to securing the status of the US dollar substantially the most important international reserve currency. Nor is the continuing failure of US administrations since Reagan to rectify the chronic pattern of US current account deficits, and to restore the pattern of small US current account surpluses that prevailed for several decades after World War II. These destabilising factors have been aggravated by the 2007-2008 international financial crisis that was initiated by the US sub-prime housing mortgage market collapse. (CBO April 2008; IMF, April b 2008). The International Monetary Fund considers that systemic risks to financial stability have risen sharply in the last year. (IMF, April a 2008)

Despite the inertia factor, reputable international economic analysts, including some who have previously been dismissive of the feasibility of replacing the US dollar as the leading international reserve currency are now prepared to foreshadow the Euro replacing the US dollar in that capacity within the next 20 years (Chin and Frankel 2005; Galati and Wooldridge 2006; Chin and Frankel 2008) and possibly the next 10 (Frankel 2008). The European Union has overtaken United States as an economic base for the Euro, and macroeconomic management in the United States is undermining the United States dollar as a store of value. If the United Kingdom joins the Euro zone, which at present seems unlikely, that would accelerate the change but it is not an essential prerequisite.

⁵ At the end of 2006, according to the Bank of International Settlements, in \$US the \$828 billion total value of Euros exceeded the \$753 billion of US dollars in global circulation.

⁶ China, Japan, Indonesia, Iran, Kuwait, Russia, Qatar, Sweden, Venezuela, and the United Arab Emirates are diversifying the official reserves away from US dollars to increase holdings in Euros.

The European Union is already a larger economy than the United States, the Euro has replaced the United States dollar as the currency with the largest value in circulation, and there are real prospects that the Euro will replace the United States dollar within the next one or two decades. US economic primacy is therefore, in substantial jeopardy, and the Bush administration has weakened rather than strengthened the United States in addressing that challenge.

US economic primacy and Bush Reaganomics

Although the Republican Party in 2008 is using Reagan mythology to divert attention from the failings of the Bush administration, the economic failings of the Bush administration that have contributed most to the weakening of US economic primacy are at least in part a product of policies inspired by Reaganomics. The particular Bush administration policies that are of interest are: inadequately funded tax cuts biased towards the wealthiest Americans combined with huge increases in military outlays that have produced chronic federal deficits. The combination of exceptionally large federal deficits with the chronic US current account or trade deficit problem has increased vulnerability of the US dollar. The infamous Enron and the sub-prime mortgage crises were essentially products of malfeasance in the private sector, but the environment in which that malfeasance could flourish was also a result of an ideological commitment to laissez-faire deregulation. The Bush administration was influenced by the Reagan legacy in espousing excessive tax cuts, military expenditure, federal deficits and laissez-faire deregulation.

There was a strong increase in the already high degree of inequality of US income and wealth distribution in the 1980s. This was significantly affected by a global trend in the capitalist system toward a shift in the distribution of national incomes from labour to capital. (Ellis and Smith 2007; IMF 26 March 2001) National governments cannot be expected to successfully reverse such trends, but both Presidents Reagan and Bush adopted policies which accentuated increasing inequality by making major tax cuts to the advantage of the more affluent, with most benefit to the 'super rich', rewarding their key constituency. (Krugman, 2003)

For both administrations, tax cuts were also part of a Republican political strategy called 'starve the beast'. (Tempelman, 2006, 559-572) By reducing tax revenues, (and prioritising military expenditures in the interests of national security), government outlays would seem less affordable. During the Reagan administration, welfare was constrained and privatised to the disadvantage of the poor. (Abramovitz 1986, 257-264) In 2005 the Bush administration spectacularly failed to privatise Social Security, being unable to win even the support of Republican-controlled Congress. (Sawicky 2005)

During the Reagan administration federal deficits expanded to extraordinary levels. When President Reagan took office in January 1981, the federal deficit was almost \$US74 billion, and federal debt was \$US 930 billion. In 1988, President Reagan's final year in office, the federal debt was \$US 2.6 trillion. President Reagan managed to combine this record with political rhetoric about fiscal discipline and occasional symbolic support for a constitutional referendum to mandate balanced budgets (for his successors). Republican apologists asserted that the Reagan deficits were a product of entitlement programs that a Democrat controlled Congress failed to control. (Garten 1985, 538-559; Muris 2000, 365-376; Reynolds 2000, 277-278; Roberts 2000, pp 279-281; Roberts 1990, 114-117) While the nominal dollar growth in entitlement programs was substantial, as a percentage of GDP entitlement programs fluctuated within a 1% band during the Reagan administration, after a substantial increase occurred between the Johnson and Carter administrations. (*Congressional Quarterly*, Fall 1993, p 102).

A notable difference between the Reagan and Bush (junior) administrations is that Reagan maintained much stricter constraints on non-military discretionary expenditure than Bush.

The Bush administration has been characterised by rhetorical budget balancing, like Reagan's, but Bush's rhetoric has principally taken the form of essentially fanciful and unbelievable predictions of balanced budgets in the receding future. (CBO January 2003; CBO January 2008) In reality, discretionary expenditure in the Bush administration has been loose, except in relation to the occasional ideological gesture towards constraint by opposing expenditures which have political connotations that are objectionable to Republican social conservatives. Even conservative Republicans have been offended by the Bush administration's lack of fiscal discipline. (Samples 2004, 96-114) During the Bush (junior) administrations, huge Reaganomic deficits have been produced by unfunded tax cuts (with a pronounced bias in favour of the rich) and major expansions in military expenditures, with constraints on social outlays and predictions of balanced budgets in the receding future, and increasing inequality of US income and wealth distribution. The iconic stature of Reaganomics in the Bush administration was shown in 2002, when at a meeting in Vice President Cheney's office the then Secretary of Treasury Paul O'Neill objected to Cheney's proposal of a second round of tax cuts, because the federal deficit was already \$158 billion. Cheney reportedly said: 'Reagan proved deficits don't matter.' (Weisman 2004, A11) The unfunded tax cuts and major expansions in military expenditures by the Reagan and Bush (junior) administrations resulted in budget deficits as a share of GDP that were only exceeded in World War II, and Bush's increased military outlays threaten to burden subsequent administrations. (CBO December 2007).

Like Reagan, the Bush administration has ruled at a time of substantially increasing inequality of US income and wealth distribution. (Caputo 2005, 3-18; Kim 1993, 18-19) Income inequality has increased under the Bush administration. Only the top 5% of Americans have enjoyed a real increase in their incomes, while the remainder experienced no increase or a decline in their incomes to 2005. The trend of increasing income inequality is likely to be aggravated by very slow growth and possibly a recession in 2008. US wealth inequality impacts most heavily on African-Americans. (Conley 1999/2000, 595-623) Wealth inequality has also increased under the Bush administration. (Wolff, 2003)

The Reagan administration's federal deficits aggravated debts accumulating from US current account deficits. The economic legacy of the Reagan administration changed the United States during the 1980s from the world's largest creditor nation to the world's largest debtor nation. The US double deficits placed considerable pressure on the value of the US dollar. (McKinnon 2001) There is growing concern that under the Bush administration the US current account and federal deficits are unsustainable and increasing risk of an abrupt change that would be a problem for global financial stability. (Schott 2000, 72-73; Edwards 2005, 2006; Brenner 2006, 317-332). The large foreign holdings of US securities are sustaining the US economy, and (among other things) a reversal of the sharp decline in US savings since the mid-1980s is required. (Orszag 2007).

Taking into consideration the Bush administration's policies on tax cuts, military expenditure, federal deficits and laissez-faire deregulation, it is indeed the case that the economic failings of the Bush administration that have contributed most to the weakening of US economic primacy were influenced by the Reagan icon. US recovery from the current cyclical downturn, induced by among other factors the global financial ramifications of the sub-prime mortgage crisis, can be expected with a high degree of confidence. However, while many find comfort in the falsification of 1980s predictions of US economic decline after two terms of Reaganomics, that is a glib resort of little substance in relation to the different circumstances and much more substantial challenges in the contemporary situation in which Reaganomics are being pursued by the Bush administration.

The Bush legacy and US 'soft' power

Cultural, persuasive or 'soft' power, the ability to persuade based on broadly shared values, has been an important aspect of US primacy since World War II, with OECD countries and much of the 'Third World' favouring capitalist market economies throughout the Cold War, and most of the OECD countries sharing a US commitment to liberal democracy. (Nye 2004, 16-20) President Reagan had generally positive relations with his allies and most of the countries, apart from the international effects of Reaganomics, his Strategic Defence Initiative and the Iran-Contra affair.

Capitalist market economies are almost global since the demise of the Soviet bloc, and many more countries are at least electoral democracies. In this context, US soft power should be stronger than ever, but it has been weakened by the Bush 43 administration through a freeloader climate change posture, inconsistent nuclear non-proliferation policies, the occupation of Iraq and other US exceptionalism on international law, imposition of sectarian values in aid programs, supporting agricultural protectionism in the World Trade Organisation Doha round, lax policies on corporate governance (the Enron fiasco and the sub-prime crisis) and chronic federal and current account deficits that are producing adverse international economic consequences. The Bush administration's loss of soft power was highlighted at the 2008 Bali conference on climate change at which the US delegation was repeatedly challenged to 'get out of the way' if it was not prepared to give constructive leadership.

In 1988 President Reagan recommended to the US Senate the ratification of the Convention Against Torture. Contrary to Reagan's example, the Bush administration's preoccupation with military and coercive measures to the neglect of the 'war of ideas' includes detention of 'enemy combatants' as exceptions to the Geneva Convention, renditions, and 'enhanced interrogation' torture. (Savage 2007, 145-156) Seeking US exemptions from the International Criminal Court was specified as national policy in the 2002 US National Security Strategy. The Bush administration's systemic abandonment of a long-standing US position of global opposition to torture has damaged the reputation and 'soft power' of the United States in ways that will be difficult to repair. This change from previous US policy on torture seems to have been adopted by many US social conservatives, as most of the Republican candidates in the 2008 primary debates indicated. Even Senator John McCain, the 2008 Republican presidential candidate, supported President Bush in vetoing legislation that would have prohibited any US official (including CIA) using any interrogation practices that are inconsistent with the US military code. (Serrano 2008)

US primacy, the Bush legacy and the Reagan icon

The Bush administration has followed Reagan's example in making huge increases in military expenditures, but its engagement of the US in military quagmires through the invasions of Afghanistan and Iraq does not. The long-term costs of the Iraq and Afghanistan wars will probably be one of the most enduring elements of the legacy of the Bush 43 administrations, and they have imposed major burdens on the US armed forces, their families and the US economy, that are unlikely to constrain the policies of the next administration. Nevertheless US military primacy is not vulnerable to challenge, by any country or coalition that would be plausibly disposed to do so.

US economic primacy is in serious jeopardy. The United States is still a major world economy and it is still possible to use that strength to prioritise the restoration and promotion of US capitalism as a fundamental basis of America's power. However, prevention of a US economic decline (relative to the European Union and Asian integration) will not occur without a significant reorientation in US politics and policies. That reorientation will not occur if the November 2008 US federal elections produce a President and Congress that prolong the excessive tax cuts, military expenditure, federal deficits and deregulation and the

preoccupation with military power that are manifested in the policies of the present Bush (junior) administration.

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