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Cold War 2.0 Not a Likely Win for the U.S.

Robert Freeman
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Chinese president Xi Jinping holds a welcoming ceremony for Russian president Vladimir Putin after his arrival in Beijing in May of 2014

November marks the 25th anniversary of the fall of the Berlin Wall. One of the totemic structures of the Cold War came down. But with conflict between the U.S. and Russia heating up again, is another Cold War in the offing? More importantly, will Cold War 2.0 end the same as did 1.0, with a U.S. victory?

In one sense, the conflict has already begun. The U.S. and Russia are grappling over Ukraine, beginning with the U.S.-sponsored coup against the democratically elected Ukrainian government in February. At the same time, the U.S. has been working to overthrow Russia's allies in Syria and Iran. Conflict through such proxies was one of the hallmarks of the first Cold War—think Cuba, Korea, Nicaragua, and Vietnam. It's the reason the Cold War was "Cold." The protagonists never fought each other directly.

But Cold War 2.0 pits the U.S. not only against Russia, but against China as well. And the outcome for 2.0 may be quite different than it was for 1.0. This should give the U.S. pause before it escalates any further.

The U.S. is a much less formidable power today than it was when the Cold War started at the end of World War II. It was the only major participant in that War that was not devastated by the fighting. In fact, its economy was strengthened, mightily. Its political and cultural systems were bolstered as well. In the entire history of the world, there has never been so great an asymmetry of power between one nation and the rest as there was at the beginning of Cold War 1.0.

Today, things are dramatically different. Other countries have caught up with and even surpassed the U.S. in economic power. Last month, China's economy became the largest in the world in purchasing power parity terms. It is China that loans the U.S. hundreds of billions of dollars a year needed to fund its budget and trade deficits. It holds some \$3 trillion of U.S. notes from this lending. Going to war with your banker may not be the smartest idea.

The U.S.'s relative military power has shrunk dramatically as well. At the end of World War II the U.S. had the best equipped army and the largest navy and air force in the world. It possessed a monopoly on nuclear weapons. But it has failed to win any of its four major wars since then: not Korea, Vietnam, Afghanistan, or Iraq. The U.S. can obviously destroy weak states, for example Iraq and Libya, but if it cannot defeat the likes of Afghanistan, does it really want to pick a fight with Russia, or China?

Another fact bodes ill for the U.S. in Cold War 2.0: it now faces not one, but two major adversaries. In the early 1960s, the Soviet Union and China fell out of favor with each other. Nixon's 1972 visit to China exploited that division, allowing the U.S. to ultimately defeat the Soviets.

Today, thanks to the U.S., Russia and China are allies. U.S. sanctions against Russia over Ukraine have driven it closer to China. And the U.S. "pivot to Asia" to contain China has driven it into the arms of Russia. More sobering is that each of them has adopted far more potent economic systems than either of them fielded in Cold War 1.0.

Russia lost the first Cold War because communism not only stifled individual freedom, it offered no incentives for efficiency or innovation. It has now embraced its own variant of capitalism. China has too. It abandoned communism in 1979 with the reforms of Deng Xiaoping and now operates the most successful neo-liberal capitalist regime in the world. The results have been bracing, even startling.

While median male income adjusted for inflation in the U.S. is lower today than it was in 1974, the income of the average Chinese has risen 10-fold over the same period. More unsettling is that in 2008 the U.S. suffered the greatest economic collapse since the Great Depression, thanks in large part to the predatory fraud of its largest banks. It was bailed out by loans from China and by China's aggressive fiscal policy which buoyed global demand.

Since the collapse, the U.S. economy has only been revived by the sordid artifice of printing money—the Fed's Quantitative Easing program. More unsettling, under the guise of "austerity" the U.S.'s elites will not allow the nation to even rebuild its decrepit infrastructure, rated D+ by the American Society of Civil Engineers. This, despite the fact that the U.S. government can borrow money at less than 2%, far less than the return on such investments. All such monies must be reserved for reducing taxes on the wealthy and for paying interest on the national debt, which is held by the same wealthy.

And U.S. corporations cannot move their jobs to China fast enough to access its vast pool of low-cost labor. The only losers are U.S. workers, its citizens. U.S. corporations also get access to the largest market in the world for automobiles, cell phones, washing machines, televisions, and almost every other category of industrial and consumer durables. More than 40% of the U.S.'s trade deficit with China comes from U.S. corporations shipping back into the U.S. products that had once been made in the U.S. but that are now made in China.

In other words, the Chinese economy is both vibrant and coherent; it works for its people, and its institutions work for the country. The U.S. economy is stagnant and incoherent; it only works for its elites, while its middle class vanishes and its working class teeters on poverty. The U.S.'s major institutions—its corporations—only work for themselves and their wealthy owners, not for the country or its people.

This is the reason the U.S. government spies on all of its citizens, has suspended habeas corpus, obstructs journalists, persecutes whistleblowers, and has moved to criminalize dissent. It is not because it fears terrorists. Rather, it fears its own people against the day when social order can no longer be maintained in the face of economic collapse. Since military power is ultimately founded on economic power, and since economic power depends on the vitality of the economy and the coherence of the society, this is not a good portent as the U.S. contemplates Cold War 2.0.

Finally, the U.S. is vulnerable today in a way that it never was during Cold War 1.0. The dollar is the currency used for most international transactions, especially oil. Countries that need to buy oil, must acquire dollars. Since oil accounts for a greater volume of international trade than any other commodity, this allows the U.S. to pay for its deficits by simply printing money. But this "exorbitant privilege" (as it has been called) is now under attack.

Both Russia and China have moved to overthrow the dollar standard so that the U.S. cannot fund its wars by simply printing money. It has been joined in this pursuit by several oil producing countries: Iraq; Iran; Libya; and Venezuela. It is a measure of the seriousness of the threat to the U.S. that all of these countries were attacked by the U.S. when they announced they would no longer accept dollars for their oil.

If the dollar falls as the international reserve currency other countries will not need dollars to purchase oil. Demand for dollars will collapse, and with it, the dollar's value. Inflation in the U.S. will soar. Interest rates will skyrocket as investors seek returns over and above the rate of inflation. Investment will cease altogether. And more and more of the country's output will go to servicing its massive debts. The U.S. economy will implode, again. Its place of power in the world will crumble, probably irretrievably.

Triumphalism is a reliable polemical staple in the U.S., though it is increasingly rendered as fantasy. Note, for example, that it is the same neocons who lied the U.S. into the war in Iraq who now lead the cheering section for a new Cold War. The chest thumping over the Berlin Wall and the bravado championing a new Cold War are the counsel of arrogance, ignorance, and failure. True, such a war would be a god-send to the weapons makers and the bankers who fund the neocons and who control so much of U.S. policy. But it will devastate the rest of the society.

The U.S. has enormous work to do putting its own house in order. Caution commends that it back off from any further escalation of Cold War 2.0 and begin that rebuilding work at home.