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By Michael Hirsh

The plunging greenback threatens to cripple US power. Why are the candidates ignoring this critical issue?

GREAT powers die slowly. It took years before the world realised that Great Britain was an imperial corpse, sapped of its strength by two world wars. The funeral finally occurred on Feb. 21, 1947, a freezing winter day in bomb-torn, bedraggled London, when the British wrote their own epitaph. That was the day that London cabled Washington: "His Majesty's Government, in view of their own situation, find it impossible to grant further financial assistance to Greece", amounting to a half billion dollars a year and a garrison of 40,000 troops. The British also announced the same day that they were withdrawing from Turkey. "The British are finished", remarked a stunned Dean Acheson, who was soon to be Harry Truman's secretary of State. And so they were. It was the early cold war. With the Soviet Union threatening to extend its influence over Greece and Turkey, there was no time for elegies. Instead, a quick passing of the baton took place: the United States would now fill Britain's role and become the central, stabilizing power in the West. This was the moment of "creation" of the US-led world order, Acheson later realised.

One has to wonder now whether the American superpower is also experiencing a terminal illness, with its decline marked by the dollar's downward drift. The one difference being that there is no successor on the horizon (the Chinese have a long, long way to go), and the currency that is replacing the dollar, the euro, is backed not by an emerging superpower but by the feeble cacophony of voices that is the European Union. Yet the signs of imperial decadence are unmistakable. The world is losing confidence in the dollar, in no small part because it has lost confidence in America's strategic judgment and in its sustainability as a great power in the face of record budget and trade deficits, which are forcing the United States to borrow ever more money from future rivals like China and Russia.

Even as the Bush administration savours the calming news out of Iraq, and prepares for a major Mideast peace conference in Annapolis on Tuesday that will look and feel like grand American gestures of the past, finance ministries and central banks around the world-especially in places like Beijing and the wealthy Persian Gulf states-are making decisions that will further undermine US power, perhaps permanently. The irony for George W Bush, of course, is that more than anything else he began as a president who wanted to build up American power, which he presumed to have been frittered away by Bill Clinton. Bush believed that enemies such as Osama bin Laden and Saddam Hussein perceived America as soft. "It was clear", he said after 9/11, "that bin Laden felt emboldened and didn't feel threatened by the United States." Bush vowed to reverse that image.

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Instead, the world monetary system now is making unfavourable comparisons to America at the height of the Clinton years. And bin Laden seems to be achieving his publicly avowed goal of provoking the United States into overextending itself and draining its economy. In a blistering essay in the

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current Vanity Fair, Nobel laureate Joseph Stiglitz, a former World Bank economist, notes that Bush took a nation with a budget surplus upon assuming office and turned it into a global debtor, and he has underinvested in education and alternative energy. "In breathtaking disregard for the most basic rules of fiscal propriety, the administration continued to cut taxes even as it undertook expensive new spending programs and embarked on a financially ruinous 'war of choice' in Iraq. A budget surplus of 2.4 percent of gross domestic product (GDP), which greeted Bush as he took office, turned into a deficit of 3.6 percent in the space of four years. The United States had not experienced a turnaround of this magnitude since the global crisis of World War II," Stiglitz writes. "Up to now, the conventional wisdom has been that Herbert Hoover, whose policies aggravated the Great Depression, is the odds-on claimant for the mantle 'worst president' when it comes to stewardship of the American economy. The economic effects of Bush's presidency are more insidious than those of Hoover, harder to reverse, and likely to be longer-lasting. There is no threat of America's being displaced from its position as the world's richest economy. But our grandchildren will still be living with, and struggling with, the economic consequences of Mr Bush".

If the passing of American hegemony happens, it will occur very slowly-death by a thousand cuts of credit. One reason why it's so hard for Americans to contemplate their loss of prestige, symbolised by the fall of the once-almighty dollar, is that politicians and pundits tend to cast the issue as all-or-nothing. What would happen, they say, if China suddenly decided to dump the trillion dollars of US debt it holds in reserves? This, however, will almost certainly never occur. While China and other big dollar-holding countries such as Singapore, Russia and the Persian Gulf states are very worried about the erosion in value of their dollar-denominated holdings and inflationary pressure, they also know that an abrupt move to cut their pegs to the dollar or to sell off in large amounts would force a run on the currency. That would leave them even poorer. Instead these countries are pursuing careful reallocations of their investment holdings, shifting slowly to the euro or a "basket" of currencies that will allow them to hedge against the dollar's decline. Credit will become more expensive, the US economy will find itself increasingly crimped, and America's ability and willingness to act as the defence umbrella to the world will gradually peter out. The effect will be more like a slow-acting poison: drip, drip, drip.

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But the financial world order is such a precarious house of cards today that the markets are getting increasingly jittery. Markets operate on confidence. And today's markets seem to have little confidence that the Bush administration can emerge from its economic never-never land, one in which as Dick Cheney's first-term pronouncement that "deficits don't matter" was allowed to stand unchallenged, in which zero-saving Americans continue their profligate spending habits and descent into deeper indebtedness by simply assuming the rest of the world will continue to fund those habits. "The American consumer is dramatically overleveraged", says Bob Hormats a vice chairman of Goldman Sachs International. That "means we have to borrow roughly $3 billion a day from rest of world. That inflow is now slowing down. Foreigners will say 'we're concerned about lending in dollars, so we're going to be more cautious about lending money to you.' At some point, if we get a lot less money, the dollar will plunge and interest rates will go up." Even wealthy Americans, Hormats notes, are beginning to ship their money abroad, to Europe and Asia, to hedge the dollar.

We should be careful, of course, not too pronounce the death of Pax Americana too quickly. That has been done before. The illness need not be terminal: deficits can be cured, and foreigners still crowd cargo containers and the backs of trucks to sneak into the land of opportunity. (China, by contrast, is not undergoing an immigration debate.) But the country is in such a fiscal hole right now that, as David Walker, the comptroller general of the United States, told my colleague Jeff Bartholet last week, "You could decide not to renew the Bush tax cuts, you could eliminate all foreign aid, eliminate all earmarks, eliminate NASA, eliminate the National Endowment for Humanities and eliminate the entire Defense Department tomorrow, and you still wouldn't solve the problem." This most critical of issues has barely made it into the presidential debates. The drooping dollar is driving it to the public's attention, particularly as gas, oil and other essentials continue to go up in price. Perhaps the next president, whoever he or she is, ought to pay more attention, too. **COURTESY NEWSWEEK**