

Forget the Great In Britain

Its fall was inevitable, but the economic crisis will shrink the last pretenses of empire faster than anyone expected.

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Even in the decades after it lost its empire, Britain strode the world like a pocket superpower. Its economic strength and cultural heft, its nuclear-backed military might, its extraordinary relationship with America—all these things helped this small island nation to punch well above its weight class. Now all that is changing as the bills come due on Britain's role in last year's financial meltdown, the rescue of the banks, and the ensuing recession. Suddenly, the sun that once never set on the British Empire is casting long shadows over what's left of Britain's imperial ambitions, and the country is having to rethink its role in the world—perhaps as Little Britain, certainly as a lesser Britain.

This is a watershed moment for the United Kingdom. The country's public debt is soaring, possibly doubling to a record high of 100 percent of GDP over the next five years, according to the International Monetary Fund. The National Institute for Economic and Social Research forecasts that it will take six years for per capita income to reach early-2008 levels again. The effects will cascade across government. Budgets will be slashed at the Ministry of Defense and the Foreign and Commonwealth Office, affecting Britain's ability to project power, hard and soft. And there's little that can be done to reverse the trend, either by Prime Minister Gordon Brown or by the incoming government of David Cameron's Conservatives, assuming they win a general election that must be held within the next 10 months. As William Hague, Cameron's deputy and shadow foreign secretary, said in a recent speech: "It will become more difficult over time for Britain to exert on world affairs the influence which we are used to."

History has been closing in on Britain for some time. The rise of giant emerging economies like China and India always meant that Britain would have a smaller seat at the increasingly crowded top table of nations. It also meant that the United States would recalibrate the so-called special relationship as it sought new partners and alliances, inevitably shrinking the disproportionate role Britain has long played in world affairs. Brown's predecessor, Tony Blair, made a final stab at greatness with what amounted to a 51st-state strategy: by locking Britain into America's wars—on terror, in Afghanistan, and in Iraq—London achieved an importance it hadn't had since Churchill and the war. But whatever advantage Britain gained in the short term was wiped out by the political damage Blair's strategy caused at home. Ordinary Britons and even members of the British establishment grew increasingly critical of what they saw as London's subservient relationship with Washington. Blair's authority was diminished, his political agenda at home suffered as a result, and it became clear that Britain's geopolitical default setting would no longer be to automatically follow America's lead. In fact, Blair may merely have postponed the inevitable: a lesser Britain is a consequence of world events, not unlike the slow relative decline of the United States, which finds itself today where Britain was at its apogee.

The global recession has hit virtually every country, but Britain more than most. The great engine room of British prosperity, the financial sector, now feels like an anchor. Britain has slipped into deflation—a decline in general price levels—for the first time in 50 years. The IMF believes Britain's economic slump will be deeper and longer than that of any other advanced economy. The number of Britons claiming unemployment benefits has jumped from 1.3 million (4.6 percent of the workforce) in 1999 to more than 2 million and is on track to top 3 million. The Organization for Economic Cooperation and Development says Britain's recovery may begin later this year, but will lag behind those of other rich countries like Japan and the United States. At the moment, Britain is arguably saddled with the worst public finances of any major nation, thanks to voracious spending in recent years and to borrowing that is growing faster than in other developed nations or even fast-growing developing ones. Britain is so heavily indebted that one political commentator dubbed it "Iceland-on-Thames," suggesting Britain could follow that nation into bankruptcy.

What makes the British case stand out even more is that it is the only country of its size in recent history that has sought such a disproportionately large role on the world stage. During the Cold War, Margaret Thatcher saw herself as second only to Ronald Reagan as a leader who helped to bring down the Soviet Union and make the world safe for capitalism. During Blair's decade in office, from 1997 to 2007, Britain fought three wars—in Kosovo, Afghanistan, and Iraq—in which its military participation was right behind that of the United States. Now that's changing. "Although we are a relatively wealthy country and we have a seat on the U.N. Security Council, we are a power in decline," says Ian Kearns of the Institute for Public Policy Research, which recently conducted a British security review. Paddy Ashdown, a former leader of the Liberal Democrats who took part in the IPPR study, recalled the gibe by the late U.S. secretary of state Dean Acheson in 1962: "Great Britain has lost an empire and has not yet found a role." Britain found its footing for a while, but Acheson's words sting again today. "If you were to say we haven't found a role," says Lord Ashdown, "it's true."

The U.K. still maintains one of the largest defense budgets in the world, but probably not for much longer. Recently, as the number of British deaths in Afghanistan has risen dramatically during the summer fighting season, both Labour and the Conservatives have felt obliged to say

they would not reduce defense spending, so as not to put troops at greater risk. But in the longer term, experts say big cuts are inevitable. In a recent paper for the Royal United Services Institute, Malcolm Chalmers estimates that the Ministry of Defense budget will be cut by 11 percent in real terms over the next six years. Other estimates are much higher. Ashdown, a former Royal Marine, has said the annual £35 billion Ministry of Defense budget might have to be cut by almost a quarter, which would put Britain more in line with traditionally lower-spending continental powers.

Britain's role in the world will shrink with its budget. A cash-starved British Army would have important implications for NATO, already weakened by the fuzziness of its post-Cold War mission. As it stands, Britain is usually second only to the United States in terms of troop commitments to NATO operations such as Afghanistan, and its loyalty to the cause has encouraged other European NATO partners to do their part. Flagging British commitment will have the opposite, depressing effect and could further alter transatlantic alliances by boosting the relative power of France, which only recently reentered NATO's integrated military-command structure. Long before Britain's withdrawal from Iraq earlier this year, the U.S. military hierarchy was concerned about growing British domestic opposition. Now, as the focus shifts to Afghanistan and British military casualties rise there, public support for that war is waning, too; in a July poll, a majority said the war is "unwinnable" and that British troops should be withdrawn immediately. It hasn't helped that troops and officers have complained of equipment shortages. It was the cause of some embarrassment a few weeks ago that Gen. Richard Dannatt, the head of the British Army, had to hitch a ride on an American Black Hawk helicopter while visiting British troops in Helmand province because a British chopper wasn't available.

The future of Britain's nuclear force, the ultimate symbol of a great power, is also uncertain. Britain's submarine-based Trident missile system is due to be replaced over the next decade at a cost of some £20 billion. But according to a recent *Guardian*/ICM poll, 54 percent of the British people say Britain should give up its nuclear deterrent altogether. That's unlikely, but it may force the next government to find a cheap way to extend Trident's life span. Traditionally, being a nuclear power was one way of securing permanent membership on the U.N. Security Council, and any downgrading of Britain's deterrent could strengthen the demands of big emerging powers that they should have more seats on the council, possibly at Europe's and the U.K.'s expense.

Britain, having paid a steep political price for the hard power it wielded in Iraq and recognizing the limits to the money it can pour into weapons systems and the like, is keen to project soft power. But the government is seemingly weakening what should be a chief instrument of soft power, the Foreign and Commonwealth Office. The legacy of Iraq and Afghanistan is "strategic incoherence" and has left the FCO adrift, says Christopher Meyer, a former British ambassador to Washington. FCO cuts suggest that the diplomatic corps, once the envy of the entire world, is losing the bureaucratic wars. In 2004, the FCO closed 19 overseas missions out of about 300. In Australia, New Zealand, Germany, France, Spain, and the United States, some consulates were downgraded, leaving only local personnel in place. Since then, the FCO has cut staff from 6,000 to 4,000. This year's FCO budget of £2 billion is widely expected to be pared to £1.6 billion in the next fiscal year.

The glory days of the City of London are now grinding to a halt, too. The main symbol of Britain's global might—the City boasts walls from Roman times—found financing for some of the world's earliest and most prominent multinational companies, and has had greater influence in global finance than Westminster has had in geopolitics. London stole the march on Wall Street by seizing the highest-growth areas, like hedge funds, exotic derivatives, and the like. Unluckily for London, these areas were also the hardest hit by the financial crisis. But now London, like New York, awaits a slew of new national, regional, and global regulation that appears likely to diminish its role in the world for years to come. The European Union has already endorsed the creation of a Systemic Risk Board with oversight powers that will include the City, even though Britain is outside the euro zone and is not a member of the European Central Bank, whose members will appoint the SRB chair. Britain has sidestepped such intervention in the past, but this time is different. Germany and France appear intent on restraining the excesses of Anglo-Saxon capitalism and may seek to engineer reforms that steer a greater share of global capital flows into more cautious continental hands.

When the dust settles, both the City and Wall Street will likely remain preeminent but less so, confronting rival financial power centers in Europe and Asia. It can also be argued that London, as the glitzier icon of *laissez faire*, will pay a steeper price than Wall Street in the financial new world order. Ever since the "big bang" of the 1980s, London has regulated the banking industry with a light touch—controlling bankers' practices with sets of principles, rather than law on the books as in the U.S. If European regulations are "harmonized" to include London and if London's light touch gets a little heavier, the City could suddenly become "more antagonistic to the institutions that are being regulated," as Andrew Hilton of the Centre for the Study of Financial Innovation in London puts it. In that event, financial centers like Singapore and Hong Kong could draw business away from the City.

Britain's bout of reflection on its last gasps of empire comes at a natural point in its history. The Great Recession came as a surprise and has accelerated the trend, but the rise of China, India, and Brazil, and the changing ties to a declining America, have been visible for many years. As America turns to building new ties with the advancing powers of Asia and Latin America—even sending its top envoys to promise its creditors in China that the U.S. will handle its debts responsibly—Britain can only feel less special. The nation is in the totally predictable grip of the ennui and general grumpiness that accompany the end of a political era.

Eleven years ago, the year after Tony Blair's Labour Party had swept to victory, ending 18 years of Conservative rule, he spoke in Dublin of a Britain that was "emerging from its post-empire malaise." He was characteristically optimistic. He said he hoped the Irish saw Britain as a country that was "modernizing, becoming as confident of its future as it once was of its past." Those were indeed heady times for Britons. Phrases like "New Labour" and "new dawn" and "new Britain" were not yet curdling on the tongue. Today, Blair is two years out of office, Labour's reign 12 years old. His successor, Gordon Brown, suffers from a gray, been-there-too-long aura. Long gone is the cultural ferment of "Cool Britannia" that made London the capital of cool in the early Blair years. The gloom was made all the deeper in recent months by a parliamentary-expenses scandal that heaped public scorn on politics and politicians alike.

Pity the prime minister who takes over from Brown. A Conservative victory at the next election—a victory by any party at the next election—would have little of the game-changing feeling that accompanied Blair's triumph 12 years ago. Then, Britain bought into Blair's mantra because it was real enough: the economy had already begun a period of unprecedented growth, immigration was enriching the country, an entrepreneurial fervor crackled across even the old industrial heartland. Today that has evaporated. The great test of the next prime minister, and probably the one after that, will be not only to redefine Britain's place among great nations but also to renew the kind of spirit that has ruled Britannia in the past.

With Christopher Werth

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