THE RISE AND FALL OF POWERS AND STOCK EXCHANGES

It certainly seems that stock markets and riskier assets have forgotten about geopolitics. Ukrainian drone attacks in downtown Moscow, as well as the U.S. decision to increase arms supplies to Taiwan, fail to dent the optimism of those who are fueling the *momentum* of world indexes. The reality is probably different. It is precisely because geopolitics has been clearly delineated that stock markets can afford to reason about inflation, growth and the money supply at their disposal. U.S. President Joe Biden, in the aftermath of the invasion of Ukraine, did not mince words in assuring all the support needed to respond to the Russian attack, managing the full involvement of NATO and all the countries revolving around the Atlantic axis. The firmness with which the United States has defined its approach does not leave much room for maneuver for states that have traditionally claimed some autonomy (including rebellious Turkey, which is paying with the collapse of the lira) or have historically chosen to live within the framework of neutrality (such as Switzerland). The stock exchanges have sensed that Joe Biden will not stop: the defeat of Russia is the tool to contain Chinese ambitions over Taiwan and prolong dollar hegemony. The U.S. military apparatus is the expression of power, but also the tool to consolidate the economic system in a self-feeding dialectic. The new bill defining defense spending (National Defense Authorization Act) sets a record ceiling at $886 billion: the increase for 2024, more than 8% above the resources currently available to the Pentagon, follows the steady increases in the defense budget approved by the last administrations, Republican and Democratic. It is a dynamic that has contributed to the impressive growth of the U.S. national debt.[1]

[1] Luca Veronese, "Budget record per la difesa USA ma è scontro al Congresso", *Il sole 24 Ore*, 29th July 2023.

In 2000, the U.S. government debt was $3.5 trillion, which was 35% of Gross Domestic Product (GDP). By 2022, the debt had risen to $24 trillion (95% of GDP). From analysis by the Watson Institute at Brown University, if the debt-to-GDP ratio had remained at the levels of the beginning of the millennium (35%) today the debt would be $9 trillion, not $24 trillion. The difference can be attributed to military spending. The cost of wars incurred by the United States between 2001 and 2022 amounts to $8 trillion, more than half of the extra $15 trillion. The other 7 trillion is more or less equally divided between deficits caused by the 2008 financial crisis and spending on the COVID-19 pandemic. America's annual military spending, now close to $900 billion, is worth about 40% of the world total, triple that of China.[2]

Paul Kennedy, in his famous 1987 essay carefully read and analyzed by world diplomacies, *The Rise and Fall of the Great Powers*[3], had explored the causes of the rise and fall of great powers in modern history. Its complex analyses also outlined some clear conclusions based on historical parallels: continued expenditures that generate structural deficits, especially for military buildup, are central to the decline of any great power. Beginning in 1960, the United States - according to Kennedy- experienced a relative decline in world production and global trade.[4] From 1980 the world's leading power experiences decline in the export of agricultural and manufacturing products. In the space of a few years, the United States went from being major creditors to becoming the world's largest debtor.[5] As a result, the federal debt continued to rise.[6] This situation," he concludes Kennedy - is typical of declining hegemonies.[7] According to the economic historian, increased military spending reduces other investments and "leads toward a downward spiral in growth, higher taxes, deep internal splits in the setting of spending priorities, and a weakening of the ability to bear the burdens of defense."[8] In

[2] Jeffrey Sachs, "America's Wars and the US Debt Crisis, 20 maggio 2023, www.jeffsachs.org, https://www.commondreams.org/opinion/military-spending-debt-crisis
[3] Paul M. Kennedy, *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000*, Vintage Books, New York 1987.
[4] *Ibi*, p. 432.
[5] *Ibi*, p. 527.
[6] *Ibidem*.
[7] *Ibi*, p. 529.
[8] *Ibi*, p. 533,

his powerful study, Kennedy also allows himself to make a clear piece of advice: "The task facing U.S. statesmen in the coming decades, then, is to recognize that major trends are underway and that it is necessary to manage affairs so that the relative erosion of the U.S. position occurs slowly and smoothly and is not accelerated by policies that bring only short-term benefits but long-term disadvantages."[9] Even before the fall of the Berlin Wall, Kennedy clearly saw the decline of the Soviet Union, the strength of China and Japan, and the strains of the emerging European Economic Community.

What the English historian does not analyze sufficiently, only partly because of a context that has changed with the new millennium, is the role of the dollar and digitization. Through the hegemony of the greenback, the United States is able to attract and modulate financial flows to the United States. For years the basis of this movement was petrodollars (the dollars that Saudi Arabia derived from the sale of oil). Then, as production shifted to China and products were imported from there, the Chinese were effectively forced to invest their export earnings in Treasuries, helping to finance U.S. debt and defense. The Japanese, victims of their trade exuberance in the 1980s, found themselves in a deflationary spiral that, by canceling out the yields on their bonds, pushed them into financing Washington's debt, which also serves to ensure Tokyo's defense. A partially similar discourse concerns the European Union, which, after the fall of the Berlin Wall and the consecration of the euro, was positioned as a soft power in relation to the United States. The ambitions of Jacques Delors (then president of the Commission), supported by François Mitterrand (president of France) and Helmut Kohl (German chancellor), carried an inherent contradiction: to become an economic power, with the euro as an alternative currency to the dollar, without being a military power. Moreover, in the 1990s, European technology in telecommunications was at the forefront: just think of the prodigious development of communications companies on the Old Continent and the strategic positioning in

[9] *Ibi*, p. 534.

telephony, with Nokia, Ericsson, Siemens, to mention a few names.

But then the digital revolution was almost completely absorbed by the U.S. production system where the role of the state, through the Pentagon, was significant. Telecommunications companies had to bow to the revolution moved by Apple, that of telephones becoming computers and complete communication tools. Global research centers were concentrated in American universities and industries supporting the planetary development of Apple, Alphabet, Microsoft, Meta, Netflix, Tesla, American Express, Visa and Paypal. This renewed digital power has further supported the dollar's role in international payment dynamics. While, on the other side of the Atlantic, European self-defeat has forced the Old Continent into long years of austerity, undermining the planetary ambitions of the euro.

But as the U.S. military industry continued to grow, trade and manufacturing dynamics created the new Chinese power that, particularly with Xi Jinping, decided to challenge U.S. hegemony precisely on the digital level, preparatory to the financial one. Putin's Russia, concerned about its geopolitical security as NATO continued to expand, decided to invade Ukraine convinced that the United States, after its unseemly withdrawal from Afghanistan and occupation of Crimea, would respond with much rhetoric and little concrete action. But this has not been the case. The challenge on the two fronts, China's targeting Taiwan and Russia's targeting Ukraine, has in fact convinced Biden that all of Washington's strength, military, financial, and diplomatic, must be focused to maintain American hegemony. The markets have understood this. Although it is clear that the United States is no longer the outright power that defeated the Union Soviet, it is equally clear that Biden's country remains the top relative power with the most powerful military in the world. The dollar remains at the heart of the power system, and attempts to weaken it, through inflation caused by the war in Ukraine or supply-side problems, must be countered by all means. According to Bidenomics, fighting inflation in the hands of the Federal Reserve, and powerful fiscal policies to support the economy and infrastructure, even if contradictory, remain the tool for a soft landing. Joe Biden's U.S. has thus decided that financial and trade flows to China should be revalued, while those that strengthen the interests of the United States and, if necessary, its staunchest allies, supported.

China has been the destination of major financial flows for the past twenty years. During the same period, Europe was considered a destination for tactical, almost speculative, but not strategic investments. The approach has now changed. The European Union and, especially, some individual members within the NATO framework, such as Italy, are now considered strategic investment opportunities. And the low valuations of Old Continent equities will continue to attract liquidity from the dollar area. Japan is an inescapable ally precisely because of the shared fear of Chinese power. Although this country has emerged from a long deflationary phase, it is not in the U.S. interest to accept an excessive rise in rates and a quick curbing of the Bank of Japan's (BoJ) expansionary monetary policy: it could push Japanese pension funds to sell Treasuries and invest in local debt. On the other hand, however, Warren Buffet also realized the strategic and commercial importance of Japan by investing in Japan's stock market.

The expansion of stock markets between the two sides of the Atlantic and in Japanese Asia is thus the financial expression of an underlying geopolitical design clearly understood by financial markets. The latter can continue to measure the ability of the United States to counter inflation. With rates above 5%, the Federal Reserve is probably exhausting its restrictive cycle. A weakening of the dollar relative to the euro, on the other hand, is a sign that the bullish phase is still open in Europe, which also facilitates investment in the Old Continent's stock markets and the exports of some major U.S. companies. The correction in the indices, at times physiologically inevitable, cannot be too much as long as the United States is able to demonstrate its strength. But Washington's relative power still has to reckon with the BRICS (Brazil, Russia, India, China, South Africa), which seek their own independence and hope that time will play in their favor, either through the destructive effect of the war in Ukraine, or through the dangers of excessive U.S. indebtedness, as just in these days the agency Fitch wanted to signal, which lowered the U.S. rating from AAA, to AA+. If markets have been toasting to U.S. resolve, they will soon be back to reckoning and waiting for confirmed power to soon become the instrument of constructive flexibility.

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