



AN AMERICAN SUEZ?

Mark Twain once said that history does not repeat itself, but it can rhyme. Unfortunately, America's current course rhymes ominously with the British experience during the Suez Canal crisis of 1956. Fifty-three years ago, the British Empire appeared to be a major world power. It had recently fought off a Nazi assault during World War II and had played a major role in the formation of the post-war world order, even receiving a permanent seat at the United Nations Security Council in the process. While it had begun to lose some of its larger colonial possessions, it retained strategically vital military bases in the Caribbean, Kenya, the Persian Gulf, and Hong Kong. Britain also had its own nuclear weapons, commanded a well-respected if not fully-funded army, and still possessed one of the world's most preeminent navies. Yet British geopolitical power stood on an unsustainable foundation, a fact that came to light during the Suez Crisis of 1956.

When then President of Egypt, Gamal Abd al-Nasser, nationalized the Suez Canal on July 26 of that year, Britain, who had a major stake in the Suez Canal Company, feared such an action could threaten the British oil supply and other national interests. In response, Prime Minister Anthony Eden, Winston Churchill's successor, began considering a military option to regain control over this vital strategic asset. Eden failed to convince U.S. President Dwight D. Eisenhower to intervene militarily and proceeded to ally himself with two like-minded powers who favored regime change in Egypt—France and Israel. This “coalition of the willing” concocted a secret plan that would allow for Anglo-French military intervention in the Canal Zone under the guise of safeguarding the canal. After Israel's initial invasion of Egypt, Britain and France launched a military intervention under the auspices that they were safeguarding the canal. Anglo-French military forces proceeded to decimate the Egyptian Air Force and an expeditionary force landed in Egypt, captured Port Said, and inflicted heavy casualties on the Egyptian forces.

The accomplishment of British strategic objectives appeared well in hand, but severe fiscal weakness rendered its battlefield success inconsequential and thwarted its strategic goals. In the aftermath of World War II, Britain focused its economic growth strategy around its strong currency. During World War II and its aftermath, Britain amassed unsustainable levels of debt and depended largely on the United States for loans. In 1956, the pound sterling was considered an international currency and had a role similar to that of today's U.S. dollar. Because of these debts, the United States owned significant sterling reserves, which gave them the ability to manipulate the value of British currency.

President Eisenhower was strongly opposed to the British military intervention. Believing that such an armed action would turn Arab and world opinion against the West and bolster support for the Soviet Union's presence in the region, President Eisenhower took advantage of Britain's weakened fiscal position to force it to withdraw from Egypt. Because of Britain's reliance on American support for sterling, when the U.S. withdrew that support by refusing to allow the International Monetary Fund to grant emergency loans to Britain, Britain had no choice but to capitulate and halt the Suez operation.

President Eisenhower used America's superior fiscal position to force Britain to change its course of action. The damage done to Britain's prestige and international position in the wake of the crisis was substantial. Within ten years, Britain withdrew from all of its bases in the region and there was a widespread understanding that Britain was now incapable of acting independently of America in the geopolitical sphere.

After the British withdrawal from the Canal Zone, Harold Macmillan, the Chancellor of the Exchequer and future Prime Minister, told American Secretary of State John Foster Dulles, “the British action [at Suez] was the last gasp of a declining power...perhaps in two hundred years the United States would know how we felt.” Unfortunately, due to America’s looming fiscal crisis, we could face a similar situation much sooner than Macmillan prophesized.

While many regard America as the world’s sole military and economic superpower, our fiscal situation is becoming eerily reminiscent of Britain’s in 1956. According to the Congressional Budget Office, the current combination of declining revenues and increasing spending will drive the nation’s debt over 100 percent of GDP by 2023. Our escalating debt exacerbates U.S. dependency on foreign governments to continue purchasing U.S. Treasury bonds.

If a country like China, which holds about a quarter of U.S. Treasury securities, were to liquidate their dollar-based assets, the value of the dollar would plummet, and the United States would face dire economic consequences. Our geopolitical and economic freedom of action could be severely hindered by even the threat of this action.

This is not to say we are destined to become enemies with China, or any other significant holder of our foreign debt. In both 1956 and over the course of the last 50 years, one would be hard-pressed to find two more closely aligned nations than the United States and Britain; yet, despite this closeness, differences in geopolitical objectives emerged over the Suez Crisis, and President Eisenhower was not afraid to take advantage of Britain’s perilous fiscal situation to ensure that American geopolitical interests supplanted Britain’s.

China and the United States will likely have diverging geopolitical interests in the future. In this case, China could potentially use fiscal leverage to force us to change course. In order for the United States to avoid the fate of the British Empire and maintain American freedom of action in the international arena, dramatic steps need to be taken to address our current fiscal imbalance.

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