THE DEBATE ON AMERICAN 'HEGEMONY' IN THE 1980s

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CERTIFICATE

This is to certify that the Dissertation entitled **"The Debate on American 'Hegemony' in the 1980s"** by **Mr. Milind Thakar** for the Degree of Master of Philosophy is an original work and has not been previously submitted for any other Degree of this or any other university.

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INTRODUCTION

The end of World War II saw the emergence of the United States as the effective if not the undisputed hegemon in the community of nations. Hegemony is generally understood in terms of the relationship between nations, more accurately the relative power amongst them. The hegemon in a world system is the major power that may be the effective decision maker. It generally creates an internations, economic political and military order to suit its needs to which lesser power accede.

There exist some variations on the basis of hegemonic power. While Paul Kennedy and Robert Keohane view hegemony as result of the best application of superior economic resources, Immanuel Wallerstein feels that hegemony extends into the cultural arena. For example, America's espousal of democratic ideals and market economy vis-a vis the socialist ideals and command economy favoured by the Soviet Union. Yet others like Joseph Nye. Jr. view political strength and military superiority as essential additions to economic strength.

The United States possessed all these diverse resources in 1945. It had a large army, the largest navy and airforce, nuclear weapons, and economic supremacy bolstered by a continental economy and ideologically offered a thriving example of a liberal democratic system based on a market economy. To allow this economic preponderance to continue it needed outlets for its surplus production. This was achieved by helping to revamp the war torn economies of its allies in West Europe and Japan. For this it allowed them unrestricted access to the large American market without reciprocation, permitted them a low defence budget in sharing the collective defence burden and through economic assistance via the Marshall Plan.

In addition, the U.S. created an international order in which ideologically a liberal democratic society was the ideal. Economically it aimed at free trade to which purpose the GATT was created and the Bretton Woods system which the U.S. dominated. In the political setting the U.N. was created as a sort of legitimizer of the U.S. order.

This state of unquestioned dominance lasted till 1967. The year is significant since it saw two parallel developments emerging. On the one hand the American economy appeared to be weakening as witnessed by America's increasing unwillingness to pay for its NATO allies defence and resulting in Offset Agreements with West Germany. Secondly, the war in Vietnam was going badly against the Americans, both militarily and politically, in that America - the champion of freedom - was waging a war to establish a authoritarian regime against the wished of the Vietnamese people.

More important, by 1967, the American strategy of building up allies and markets at one go was having negative effects. From 1967 onwards the state assisted firms of a rebuilt and dynamic Europe and Japan began gradually edging out American competitors, albeit in products like textiles, toys, sports goods and a few manufactures.

The U.S. was able to stabilize its hegemony by acting as banker to the world, through the Bretton Woods system and by borrowing from its allies, notably Germany, to finance its budget deficit. The breakup of this system occurred around 1967 when Europeans began felling that it was not their responsibility to finance American hegemony.

The two oil crises of 1973 and 1978-79 also demonstrated that America was not all that self-sufficient - notably in oil. From then on till the mid 1980s a U.S. policy combining high defence expenditures, an over valued dollar and policy of unrestricted access to the American market, in direct contrast to a low growth, discriminatory tariff policy an undervalued currencies by Japan and West European countries led to trade deficits of the United States with them.

From 1967 to the mid 80s the U.S. was considered as a predatory hegemon i.e. one that was less willing to subordinate its own interests to those of its allies.. It is a fact that the policies of the Reagan Administration which included a pro-consumption policy (low taxes) without a cut in federal spending, and a strong, dollar, created imports and recurring budget deficits of around $ 200 billion which significantly reduced savings.

By 1988 America had turned from the world's largest creditor into net debtor, it had for the first time since 1893 suffered grievous trade deficits. Also its share of world GNP had fallen from 33-23 per cent, share of world exports from 17-10 per cent, and share of world monetary reserves from 50 to 9 per cent between 1950 and 1988.

The U.S. responded to these measures by insisting on more burden sharing by its allies, the use of Super and Special 301 Acts and increasing bilateralism to ensure reciprocity, made observers feel that these were the last ditch efforts of waning super power. Inevitably comparisons with the Britain of the early 1990s were cited as proof of this decline. Also comparisons are made with Japan which has progressed at a phenomenal rate of growth. Between 1950 and 1980 Japan's economy grew ten times in size an by 1988 her per capita GNP surpassed that of the U.S. It is felt that Japan or a resurgent Europe led by Germany could possibility displace or at least equate with the U.S. in terms of power, influence and wealth.

The objective of this study is two-fold. On the one hand an attempt has been made to examine whether the changing U.S. position in the 1980s is that of a hegemon in decline, due to structural and policy related weakness or whether the decline is a temporary aberration created by wrong policy and the systemic changes occurring in the international political and economic arenas at the same time. The second aim is n analysing what mix of policies would help retain hegemonic position as advocated by certain political and economic theorists. The entire exercise has been confined to examining theories of hegemony and decline in the American context and finding out their relevance.

Chapter I is an introduction to theories of hegemony, from the liberal, neo Marxist and long cycle viewpoints. It also discusses the application of these theories and models to the hegemonic position of the U.S. Chapter II has a discussion of the factors that created American power in 1945, the creation of the institutions that were the base of the pax Americana and the growing problems facing America till 1967. An attempt has been made to analyse the challenges to American hegemony between 1967 and 1984- the year when the current round of declinist debates began. The final chapter describes the events that raised the spectre of diminishing American hegemony and the debates on the extent of the decline. A few concluding observations follow the final chapter.

CHAPTER I

THEORETICAL APPROACHES TO HEGEMONY

It has been an axiom of history that equal distribution of power among major states has been a rare phenomenon. The processes of uneven growth see to it that while some states are rising others are declining. Very often one state emerges as more powerful than all others or at least as primus inter pares,. Such states are sometimes called hegemons. The word hegemony has its origins in the Greek word for political leadership.[1] Hegemony has come to acquire the meaning of active political leadership and foreign policy. That is to say, a powerful state that does not exercise its power can not be called a hegemon. For example, the United states prior to the second world war and Japan today possessed wide economic resources supplemented by excellent human skills and resources. However the lack of initiative on their part, and the lack of the application of this potential power to some form of domination, does not qualify then as hegemons. Conversely, Spain in the latter half of the 16th century and Britain in the early 20th century, were hegemons inspite of a fast eroding power base, which was smaller than other powers at that time. But their position as leading states, the policies of which other

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1. See Robert Gilpin, Political Economy of International Relations (Princeton University Press, Princeton, 1987) p. 66 fn.

states reacted to, allowed them to wear the mantle of hegemony.

There are various definitions of hegemony and various theories that seek to explain why some states become preponderant and why later they lose that preponderance. On the subject of the definition of hegemony there is unanimity amongst scholars that power and dominance resulting from it, are characteristics of hegemony. Confusion arises over what constitutes power and how much inequality of power distribution constitutes hegemony.

Paul Kennedy, historian from Yale University, describes the rise and fall of a Great Power as a consequence of not only military conflict but also economic change. The economic change could be either the securing by the power of resources or the more efficient utilization (relatively) of similar resources available to other powers. In his study of hegemony Kennedy cites the role of technological and organizational break through as crucial in bringing about uneven growth which is what leads to unequal distribution of power.

For example, the long range gunned ship after 1500 was not uniformly beneficial to all states. It expecially helped maritime powers. Similarly in the 18th century, the development of coal and Steam power increased the power of nations that had these resources and the metal resources to go with them. Secondly, Kennedy points out that when too much of the state's resources are allocated to military purposes, then a weakening of the national power is likely over the long term.

While Kennedy is no theorist and makes it clear[2] in the introduction of his major work on hegemons The Rise and Fall of the Great Powers, his criteria for the term Great Power, the reasons for the decline or rise of one and the changing definition of power resources do make certain formulations about hegemony Kennedy states that in the long run there is a clear connection between an individual Great Power's economic rise and fall and its growth and decline as an important military power. Secondly, both wealth and power are always relative and should be seen as such. A third point made by him is that a nations relative economic and military power does not rise and fall in parallel, but a time lag occurs between the "trajectory of a state's relative economic strength and the trajectory of its military territorial influence"[3] The reason given for this is that an economically expanding power may choose to become rich than spend on armaments. Later the economic expansion brings about overseas obligations in the form of dependence on foreign markets, alliances, bases and colonies. To deal

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2. Paul Kennedy, The Rise and Fall of the Great Powers. Economic Change and Military Conflict from 1500-2000 (Fontana, London, 1988), p. XXIII

3. Ibid p. XXV.

with competition from rivals it becomes necessary to use political force to check a relative decline in economic strength.

Another conclusion of Kennedy's is that there exists a strong correlation between the eventual outcome of the major coalition wars and the productive resources mobilized by each side. The reason is that a lengthy war turns eventually into a test of relative capacity rather than military ingenuity alone. Finally, Kennedy states that economics need not be the sole determinant citing geography, military organization and the alliance system as important factors in the preservation or decline of a Great Power.

Among the theories of hegemony an important one is the theory of hegemonic stability. Proponents of this theory argue that an open and liberal world economcy requires the existence of a hegemonic or dominant power. This theory finds many adherents though each has his own version or modification. Robert Keohane, Robert Gilpin, Charles Kindleberger, John Ruggie, Peter Katzenstein and Stephen Krasner are some of its better known proponents. All of these are scholars of international political economy.

In Robert Keohane's words the theory holds that "hegemonic structures of power, dominated by a single country are most conductive to the development of strong international regimes whose rules are precisely obeyed.. the decline of hegemonic structures of power can be expected to presage a decline in the strength of corresponding international economic regimes.[4] Incidentally, the expression hegemonic stability was coined by Keohane. The theory relates to an international economy based on the principles of free market such as openness and non discrimination. It does not argue about the international economy not being able to exist without hegemony; merely that a particular type of international economic order, a liberal one, can not flourish and develop fully other than in the presence of a hegemonic power.

However, the presence of a hegemon is not a sufficient condition to ensure the development of a liberal international economy. Additionally, the hegemon must itself have a social purpose and domestic distribution of power, favourably disposed towards a liberal international order.[5] Without this commitment, the system is likely to be an imperial one. Moreover, Ruggie also says that support for the liberal system, must exist among the major economic powers as the hegemon cannot compel other states to follow the rules of an open economy. Robert Gilpin lists three

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4. Robert Keohane, "The theory of Hegemonic Stability and Changes in International Economic Regimes 1976-77" in Ole Holsti, R.M. Siverson and A.L. George eds Change in the International system p 132.

5. John Ruggie "International Regimes, Transactions and Change: Embedded Liberalism in the Post War Economic Order" International organization vol. 36, 1982 p . 382.

prerequisites for the liberal market system -hegemony, liberal ideology and some degree of common interest amongst major powers.[6]

Two forces seemingly contradictory must work if hegemony is to be successful. One, the other states must accept the hegemony and not regard the hegemon as being self serving alone. Secondly the hegemonic system can deteriorate if the citizenry of the hegemonic power find the costs of leadership exceeding the visible benefits. In such a situation interest groups do not allow the subordination of their interest to perpetuate hegenionic power.[7]

According to the proponents of this theory circumstances favoring hegemonic leadership and the emergence of a liberal world economy have occured only twice. In the aftermath of the Industrial Revolution, a sizable, middle class had emerged in Britian which gained political power in the 1820s. This class was strongly committed to the ideology of liberalism. With victory secured at the end of the Napoleonic wars, Great Britain used its influence to bring in the era of free trade. Spurred by the example of Britain's economic success and complemented by a general acceptance of liberal ideas in

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6. See Robert Gilpin, War and Change in World Politics (Cambridge University Press, New York, 1981) ch. 3

7. Protectionist pressures in US today are an example of this.

Europe as well as the benefits accruing from trade, major economic powers reduced tariffs and opened their markets.[8] Similarly the U.S. promoted a liberal international economic order following the second World War.

The theory of hegemonic stability argues that an open market economy constitutes a collective or public good. Kindleberger, an authority on this concept, defines a public good as one the consumption of which would not reduce the amount available for other potential consumers.[9] General examples are roads and parks. In international relations, an open economy is considered such a good. A stable international currency is another such example because it facilitates commerce from which all can benefit. The hegemon has the responsiblity of guaranteeing provision of the collective goods of the open trading system and stable currency. The theory assures that a liberal economic system cannot be self sustained but must be maintained over the long term through the actions of the dominant economy. The hegemon is necessary to oversee that 'free riders', or those who do not pay their share of cost of maintaining the good, do not get away.

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8. For details see Charles Kindleberger, Economic Response: Comparative Studies in Trade, Finance and Growth Harvard University Press, (Cambridge, US.A. 1978) chapter 3.

9. Charles Kindleberger "Dominance and Leadership in the International Economy: Exploitation,Public Goods and Free Rides", International Studies Quarterly No. 25, 1981 p. 243.

To this end the hegemon generally creates international regimes to regulate the functioning of the international order. An international regime, as defined by Stephen Krasner consists of "principles norms, rules and decision making procedures around which actor expectations converge in a given issue area".[10] The gold standard in the 19th century and the postwar Bretton Woods system were examples of regimes enforced by hegemons to establish a liberal market. Charles Kindleberger, the original formulator of the hegemonic stability theory had postulated, that for a world economy to be stable a stabilizer was required; some country that would undertake to provide a market for distress goods, a steady flow of capital and a mechanism to provide liquidity when the international monetary system is not functioning well and is frozen.[11] Apart from this the hegemon would be required to prevent powerful economic states from exploiting others, and encouraging states which were reluctant to open up to free trade. It would also be expected to manage the structure of foreign exchange rates and provide some coordination of domestic monetary policies. Without a hegemon, the theory's contenders claim that the international economy would become

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10. Stephen D. Krasner, "Structural Causes and Regime Consequences: Regimes as Intervening Variables" International Organization Vol. 36 1982 p. 185.

11. Kindleberger n. 9, p. 247.

unstable since liberalism and free trade would give way to the process of economic nationalism.[12]

Additionally, the hegemonic power functions as an example of the benefits of a liberal market oriented system and also performs as an engine of growth for the system. Its imports stimulate the growth of other economics and its investments provide developing countries with the financing needed for growth. In its role as economic leader, it also provides technology transfer and knowledge diffusion that helps underdeveloped countries in their industrialization and economic development.

Hegemony arises when a state (according to this theory) has "control over raw materials control over sources of capital over markets and competitive advantages in the production of highly valued goods".[13] This enables the hegemon to exercise its power in the form of threatened cutoff of trade, finance or technology. It also can be through the hegenion's large market size, the denial of acess to which is a means of influence over other states. The latter form is notably invisible in the late 1980s therough the attempt of the US to pry open protected and

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12. These theorists drawtheir conclusion mainly from the experience of the Great Depression (1929-34) when economic nationalism prevailed over the logic of trade.

13. Robert Keohane, After Hegemony: Cooperation and Discord in the World Political Economy (Princeton University Press, Princeton, 1984) p 32.

closed third country markets. Kindleberger cites the assurance of money to the dominant role of the hegemon's currency as the strongest basis of its power.[14]

The hegemon's strength lasts as long as its economy is flexible and mobile. That means the economy should be able to transform itself and respond to changes in the global economic environment such as price changes or shifts in comparative advantage as the adaption of new technology. The international economy operates on its own logic.. In time the market mechanism produces shifts in the location of economic activities which affects the international redistribution of economic and industrial power. This in turn changes the political framework and undermines the hegemonic power, if the hegemon cannot successfully adapt to the changes. If unsuccessful the hegemon gradually loses control over the system on which it is based and starts to decline.

The theory implicitly acknowledges that the hegemonic system is unstable in the long run. The hegemon through increased domestic consumption, the cost of defending the system militarily and the fact that free riders and its economic partners progressively gain more from liberalized trade than it does, becomes weak in financial power. The undercutting of the hegemon's surplus

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14. See Kindleberger n. 9 p. 248 Gilpin, n. I for details.

decreases its willingness to protect a system which increasingly, offers it less benefits than to others. This happened both in the case of Britain in the late 19th century and the US in the post 1967 period.

Renewed economic stability requires either a new hegemon, an agreed set of rules binding all, or continuous policy coordination among the major economic powers.[15] The hegemon in decline may try to reassert its position by relying on force as the US appears to be doing in the 1980s. However the system continues to be maintained because it is easier to do so than to create a new system with new regimes. This helped the 19th century trading and monetary regimes to survive long after the decline of British hegemon. But in the absence of a hegemon the system becomes increasingly unstable and valuable to divergence of interest of major powers. This can precipitate a crisis that causes it to collapse dramatically, as witnessed by the Great Depression of 1929. Therefore Kindleberger adds a major function to those of the hegemon, that of crisis management. He cites the case of Britain which moderated the financial crises of 1825, 1836, 1847, 1866 and 1907 through its capacity as lender of the last resort. The inability of Britain to do so in 1929 and American unwillingness to take over this task was a major factor in the collapse of the

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15. Kindleberger, n. 9 p 251-252

international financial system[16]. The theorists of hegemonic stability are in varying degrees agreed upon the fact that the international system could approach a crisis in the future due to the decline of American hegemony, which is taken as an event beyond doubt based on the historical factors illustrating the hegemon's fall.

Joseph Nye Jr. criticises the theory of hegemonic stability as not being able to spell out the causal connections between military and economic power and hegemony. In support of this he points out that 19th century Britain was not militarily dominant nor the world's largest economy and yet is called a hegemon, according to this theory. Therefore he does not accept this theory's premise that the US is a nation on the decline.[17]

Another important theory dealing with hegemony and the changing international political economy is the theory of the modern world system. This theory strongly influenced by Marxism is attributed mainly to three theorists - Paul Baran, Immanuel Wallerstein and Andre Gunder Frank. Of these, for a student of hegemony it is Wallerstein's concepts which are most important.

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16. Charles Kindleberger. "International Public Goods without an International Government' American Economic Review Vol. 76, 1986, p. 8-9

17. Joseph Nye Jr. Bound to Lead: The Changing Nature of American Power (Basic Books New York, 1991) p 42-43.

The basic thesis of the world systems theory is that the history and operation of the international political economy can be understood only in terms of the modern world system defined by Wallestein as "a unit with a single division of labour and multiple cultural systems.[18] The modern world (as opposed to the premodern) is suposed to be a structural whole and is the unit of anlaysis. All parts within this structure function as a system operating in accordances with economic laws. The influence of Marxism is present in three forms. First, the theory accepts the primacy of the economic sphere and the class struggle over political and group conflicts as a determinant of human behaviour. The difference with Marxism is that instead of focusing on domestic class structures, this theory focuses on international hiearchy of states. Secondly, the theory centres on capitalism as a global phenomenon. Finally, the world economy is believed to be characterized by inherent contradictions and functions according to deterministic laws that govern its historical development, inevitable crises and demise.

According to Wallerstein there exist two types of world systems: world economies, which are multicultural, multistate economic networks in which basic goods are

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18. Immanuel Wallerstein "The Rise and Future Demise of the World Capitalist System: Concepts for Comparative Analysis", Comparative Studies in Society and History Vol. 16, 1974 p. 390.

exchanged over a wide territory; and world empires : multicultural territorial divisions of labour incorporated in a single state apparatus. The systems of the latter kind are the chinese and Roman empire. The constant structural featmes of the capitalist world system are : the interstate system - which is a system of unequally po~~y~~werful nation states which compete for resources by supporting profitable commodity production and engaging in geopolitical military concepetition; a core phiphery division of labourr in which the countries that occupy a core position specialization core production capital extensive utilizing skilled hedgehog labour. Perphenal areas have perpheral producation - labour intensive, low wage and unskilled labour. Production relations involve differences between core and peripheral labour conditions, in that the focus are protected by state legalized various while the latter could be subject to extra economic coercion. Conduit production for the world market is the central form of competition and source of surplus value.[19]

The theory puts toward the position, that the same mechanisms that produce capital accumulation in the core produce underdevelopment in the periphery. The international economy functions to distore the economies of the Third

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19. For details see Immanuel Wallerstein, The Capitalist World Economy (Cambridge University Press, New York 1979).

World. The international division of labour imposes class and state structures on the periphery and dependent economies that prevent their economic development.

According to Wallerstein the pluralistic balance of power system in Western Europe was the necessary prerequisite for the birth of the modern world system. The substitution of the nation-state system for the premodern imperial economic and political systems permitted market forces to escape from political control. International trade and investment are the fundamental mechanism for the perpetuation of the system's structural features. The structure is defined by the international division of labour which in Wallerstein's view combines a core, a periphery and a semiperiphery, the features of the last being akin to both the other two which were explained earlier.

The placement of a state at the birth of the modern world system determines whether it is hard or soft, meaning whether it can resist external market forces and channel them to its advantage or cannot control its own economic affairs. Which implies that the modern world system has not changed over the centuries.

Essentially, then, this theory puts forward the view that any change in leadership of the system is confined to within the core. The drive for capital accumulation results in cyclical patterns of economic expansion and contraction. Expansion leads to overproduction, saturation of markets and excess competition and so leads to contraction. Perids of economic expansion also involve political hegemony, which occurs when a single state has relative advantage over all others in all three major economic arenas - agro-industrial production, commerce, finance and military strength[20]. Hegemony is based on the appearance of technological advantage that eventually wears down due to diffusion of the original advantage and the appearance of further innovations. Wallerstein identifies three periods of hegemony, that of Holland between 1620-50 that of Britain between 1815-73 and that of USA between 1945 and 1967.[21]

An important point made is that production supremacy is the first to occur in the transition from competition to hegemony and is the first to disappear in the transition from hegemony to competition. The theory also explains the decline of a hegemonic power. Having concentrated investments in the leading sectors, the advantages of the hegemonic power become lost when the market for these leading products, becomes saturated. Also, other core states are able to catch up through adopting and

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20. Immanuel Wallerstein, The Politics of the World Economy: The States, Movements and the Civilization: Essays (Cambridge University Press New York, 1984) p. 38, 41

21. Wallerstein's reasons for the decline of US hegemony after 1967 are discussed in a later chapter

extending the innovations that originally led to the rise of the hegemonic power. This is similar to Kennedy's argument on the catching up by other powers of the intial lead of the hegemenon, and the loss of the latter over time due to new plant and machinery that competitors have relative to the hegemon. Hegemony according to this theory is a rare phenomenon and at such a time all other major power become de facto client states.

One of the similiar schools of thought that competes with the world system school is that of the long cycle. Its leading proponent is George Modelski. The theory focuses on the evolution of the global political system and the simultaneous rise of the world economy since 1500. The term long cycle is the principal structural process of the system and refers to the tendency of a new and preponderant world power to emerge from a period of global war approximately every one hundred years. The world power's initial position of capability preponderance is based on seapower and command of the sea. The high capability of the concentration at the outset of the long cycle facilitates the world power's role as the world system's provider of the public goods of security, world organization and the framework of international economic relations. But the initially high capability concentration gradually erodes over the course of the long cycle, transforming the unipolar power structure into one of multipolarity. As challengers emerge, the stage is set for another global success struggle over world leadership and the future shape of the global order.

This analysis delineates the principal leading states since 1500 as Portugal (1516-40), Netherlands (1609-1640), Britain (1714-1740 and 1815-1850) and the United States (1945-73)[22] According to Modelski, the new leader that emerges after the global war may not be the challenger to the previous hegemon but a more vigorous member of the leading state's alliance. This theory is based on the premise of the occurrence of long waves[23] in the global economy. These associate a period of rising prices and resource scarcities with loss of power and concentration of power with falling prices, resource abundance and economic innovation.

Yet another model for studying the transformation of the global political economy and the rise and fall of states is Organski's Transition model. Organski divides the world system into levels of factors with three levels of power -- dominant, great and small. Also two attitudinal categories exist, satisfied and dissatisfied. The dominant power is the strongest in the system and is responsible for the establishment of the prevailing international order.

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22. See George Modelski, Long Cycles in World Politics (University of Washington Press, 1987) p. 40

23. Ibid pp. 44, 102-147.

Less influential than the dominant power (hegemon) are the great powers - satisfied,that is, they are relatively content with the opportunities available in the prevailing order; and dissatisfied, those that seek a change in the status quo. The latter are more likely to be relatively new to great power rank and hence are not able to get much of a share in a previously established order.[24] Dissatisfaction therefore arises from the frustration stemming from the reluctance of the status quo powers to surrender voluntarily some portion of their own benefits in recognition of the changing distribution of power.

The remaining powers are weak and small. If satisfied they are so because they have little choice. Peace characterizes periods when the powerful and satisfied are much stronger than the powerful and dissatisfied. War is likely when the capabilities of the dissatisfied great powers begin to approximate the strength of the satisfied in general, and specifically when a challenger's power approximates the hegemon's

The transition model is more specific when four or five factors are also considered. One, the potential power of the challengers. If the challenger's potential for growth is limited when it begins to rise to power it may be too

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24. For details of this model consult A.F.K Organski, World Politics (Alfred Knopf, New York 1968).

ineffective to bring about a major war. Conflict may also be reduced if the challenger's potential is so great that its dominance seems invitable.[25] Secondly, the faster the rate of growth of the challenger the greater the risk of war as there is very little time for the rising power to adjust to the greater responsibilities of higher rank. It way also bring about over confidence that can lead to a war.[26]

The more flexible the hegemon is in adjusting to power distribution changes, the more likely it is that war can be avoided. Also if there is a history of animosity or amicability between dominant power and challenger it affects their future course of action. Challenger's in general tend to attack prematurely according to Organski which allows one of the satisifed great powers to emerge as the next dominant power.[27]

The models and theories discussed in this chapter are the basis on which the discussion about hegemony will be carried out at a later stage. Though there are other numerous theories they are all linked to either the hegemonic stability theory, the neo Marxist world systems approach and the cyclical theories school. Some of them may

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25. One reason why Britain and America never went to war. Britain allied with the US and accepted its own decline rather than fight.

26. The behaviour of both Germany and Japan in World War II indicates this.

27. See Organski n. 22 p. 371.

not use the term hegemony but may use dominance or leadership instead. However, all are relevant to this thesis on the leadership capabilities of a great power and what are the factors that lead to its decline.

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CHAPTER II

AMERICAN POWER 1945-67

INTRODUCTION

There exists no exact date of the accession of American power, as signs of the country's potential existed as for back as 1890. However it is generally agreed that this potential was confirmed in the First World War and preponderance achieved in the period after the second World War. Hence many scholars and analysis have referred to the post world War II period as one of pax Americana or the American era.

The inevitability of this era had been foreseen by many, due to the sheer abundance of resources that America had. The U.S. was a large country, continental in area, economy and population, yet linked well by a network of railroads. High agricultural yields was attained as result of the application of superior technology American firms enjoyed a vast market as well as enormous technological expertise. In 1914 the US was producing 455 million tons of coal, ahead of Britain's 252 million.[1] Its steel production roughly equalled the combined production of the next four countries those being Britain, Russia and France.

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1. Paul Kennedy, Rise and Fall of the Great Powers (FONTANA London 1988) p. 314.

During the second World War the superior economic potential of the US began to be seen in real terms. In 1943 the American armaments production, at 37.5 billion dollars was double that of Germany and Japan combined (the two largest enemy powers)[2].

The end of the second World War changed the existing world order which had prevailed since the late 19th century. The European dominance of the international area was replaced by two non European powers forming blocs. In terms of the balance of power the USSR led bloc was weaker as it lay shattered from its efforts in the war, while the US had materialized into an even more powerful position than its pre war one with superority in economic, military and political power. This increase in power seemed all the more, due to the fact that the economies of all major great powers had been destroyed by the war. Germany, Japan, France, the UK and the USSR had been directly affected by the war which destroyed plant, machinery, transport, communication facilities, millions of acres of farmland and livestock.

In the late 1940s the US produced more than 60 percent of the world's output of manufactures. As a result it became a net expoter of manufactured goods compared to the pre war position of America as a net importer of the same. It should be understood therefore that the immediate

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2. Kennedy n. 1 p. 458

post war position of the American economy in the world was an artificial one as at no time in history had the entire world economy been so badly hit, also simultaneously, never had one country managed to do so well economically.

The reasons for this state of affairs were as follows. The US joined the war more than two years after its inception and so the the time period affecting it was less. Secondly, the scale of the war generated such demands that most countries economies functioned as "war economies" This was not the case with the US which had a self sustaining continental economy untouched directly by the war since foreign trade was not a crucial requirement for economic growth, and the country's economy was for removed from the war theatre, it avoided the adverse and destructive effects of the war. Thirdly, the US economy was suffering from a demand crisis generated by the long depression and the recession of 1937-8. The purchase orders by the US government and Allied belligerents, gave the required demand boost and facilitated rapid economic expansion.

Illustrative of the above point is the fact that the real gross national product (GNP) had not grown between 1929-39. However it rose by 75 percent between 1939-44, and the employment rate during the same period fell from 25 percent to less than 2 percent.[3]

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3. Figures from Martin Feldstein ed. <u>The American Economy in Transition</u> (University of Chicago Press, Chicago, 1980).

Inspite of the relative American position being antficially high there was no doubt of the fact that the country was indeed a superpower. The very term superpower gained currency in this period, probably to describe the might of the two countries that now reigned paramount. Both were immense in area and population, industrial capacity and military power.

In particular the American economy benefited from the war in that underfilized resources and manpower could be fully utilized and the simultaneous rise of non war goods production provided a cushioning after the end of the war.

In 1945 the American military forces totalled 12.5 million personnel of whom 7.5 million were overseas[4]. The US Navy totalled approximately 1200 warships including modern aircraft carriers. American command over the air was reflected in its 3000 plus heavy bomber fleet including in its weaponry the monopoly of atom bombs.

These figures assume more importance when considered that these forces spanned rearly two thirds of the globe. US forces in 1945 were based in continental Europe till the "Iron Curtain", in the Mediterranean region, China, South East Asia, Australia, Japan, The Pacific and of course controlled vital points like the Panama canal.

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4. From Paul Kennedy as cited in n.1 p 461

Comparatively the Soviet Union;s extension of its power lay but a few hundred miles beyond its 1939 borders and assumed significance due to the removal of any threats on eastern and the western flanks. Therefore by end 1945 the US had emerged as the most likely contender as the most likely contender for the post of world hegemon and thus put its stamp on history through its attempts at Pax Americana.

1945-57 PAX AMERICANA AND RECONSTRUCTION

American policy regarding its role in would affairs underwent a sea change in the late 1940s. Till then America had maintained an isolationist policy by and large leaving Europe and the world alone. However the post war scenario necessciated a change from this line, due to two factors. In the first place, the US had relied very heavily on British paramountcy to protect its global interests. This arose from close cultures, values and a respect for each other's spheres of influence. Therefore Britain could be relied upon to protect the balance of power in Europe. This calculation had gone awry as early as the First World War. However, an ostrich like refusal to see cirmstances had led to a non American League of Nations and faith in a British Empire which was too weakened to play its traditional role,. In 1945 this fact became glaringly obvious and the end of colonialism loomed in sight.

Secondly, the rise of the Soviet Union backed by a revolutionary ideology, which required an overthrow of the existing international system made American involvement a fait accompli. There existed no power capable of stopping the immense Red Army and the idea of communism was likely to be appreciated by the disillusioned populaces of war torn Europe and the emerging anti western ex-colonial countries.

Also American policy makers realized that with the demise of the old international order and the clear position of America's hegemony a reordering of the world system would be required. This reordering was would be in three fields: economics, politics & military, the bases of power. On the economic front the US created a new order based on liberal principles and free trade (which would benefit cheaper and more competitive American products). This took the shape of the Bretton Woods system, GATT, IMF, the World Bank and the assumption of the dollar as the lynchpin of the world economy.

Politically the US stood for a liberal democratic system and through economic aid and other forms of influence tried to ensure that this concept would prevail over the communist idea. Militarily, the US found itself for the first time in its history, stationing armies and large forces abroad in peacetime. To defend the pax Americana various military pacts were created-the NATO, SEATO and ANZUS being examples.

THE POST WAR INTERNATIONAL ECONOMIC ORDER

Why these measures had to be taken requires a more detailed examination of circumstances. American economic paramountcy, as explained earlier was based largely on the fact that the war had allowed the economy to work at its full potential. It was obvious therefore that the end of the war would somewhat stem the demand forces. Moreover the state of economic devastation in most other countries meant that international trade may not be possible. Ultimately, the US had suffered very heavily during the Great Depression and America wished to avoid a protectionist world divided into preferential trading blocs. Thereofre, it was felt that the new international economic order should have none of the features which had caused the 1930s depression, namely, protective tarrifs, unfair economic competition, restricted access to raw materials and autarkic government policies.

In 1944 a conference was held in Bretton Woods in USA, dealing with problems likely to be encountered in monetary and banking circles in the post war world. What emerged from this was the Bretton Woods system. Its main features were the aggreement to move toward full convertibility of all currencies, secondly, that exchange rates would be fixed as fare as possible and finally the creation of a means of international payment by use of the dollar-the most stable currency then. Countries with serious balance of payments problems would have access to credit from an. International Monetary Fund which would also regulate policies of countries towards the ultimate aim of creating a stable and open economic system. To deal with the immediate post war reconstruction an International Bank for Reconstruction and Development was set up to supply developmental loans for reconstruction.

Given their preference for an open economic system American officials tried to set up an organisation to establish a free trading system. However, disagreement with other countries on scope and role of such an organisation led to the establishment of a General Agreement of Trade and tariffs (GATT), The function of the GATT would be to provide the basis for trade negotiations leading to the dropping of all tariffs barriers, GATT became the code of rules and a forum for trade and tariff negitiations between countries.

These then, were the main structures of the post war international order. The logic of the new system was clear. It was designed to benefit the US, both economically through sales of competitive US products in an open trading environment and politically, in that to preserve its hegemony the US needed stable allies who were economically in tune with its perceptions.

There existed another pressing problem regarding American interests in 1947. The European economies were in a crisis, brought about by the war's destruction. It became apparent that without external aid recovery would take much longer. Stocks of raw materials ran out and successive droughts had caused food shortages. This economic dislocation threatened to undermine both American prosperity and the economic foundations of peace. In 1947, exports made up 6.5 percent of US GNP and in one way or another accounted for an estimated 2.4 million jobs in America.[5] Moreover the administration was alarmed by the spectre of powerful communist parties in key European countries such as France and Italy. George F. Kennan in the US State Department then had also prescribed an effort to contain Soviet expansionism in Europe through a coordinated policy of economic aid and political support to friendly and strategically important countries like Birtain, France, Germany and Italy.[6]

To bring this about President Truman asked Congress to sanction the Marshall plan of economic aid to Europe.[7] But the USA insisted on certain measures which in the short run at least allowed the economic collapse that threatened Europe to pass and with it the danger of Communist takeovers. Firstly, German reconstruction had to be agreed to by all Europeans. Secondly, the US insisted on

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5. Robert A Pollard and Samuel F.Wells Jr. "Era of American Eonomic Hegemony", in William H. Becker and Samuel F. Wells Jr. eds Economics and World Power (Columbia University Press, N.Y. 1984) p. 345

6. Ibid. pp 341

7. Named after then Secretary of State Gen. George Marshall.

the emphasis of the Marshall plan being on productivity and industrial growth rather than redistribution of income. Thirdly, the US used this aid, to ask for some kind of moves to bring economic and political integration of Western Europe. Finally, the Marshall Plan become a tool to seal off the Soviet bloc from Western trade, credits, investment and technology.

The political objective of the programme was to create a Europe sufficiently cohesive to resist Soviet pressure. The economic objective was to stabilize Europen markets so that Europeans had sufficient purchasing power to buy American exports which accounted for the favourable trade balance surplus that funded US power. The total Marshall Plan aid - $13 billion from 1948 to 1952[8] - was not enough to revive European economies but it provided the margin of capital equipment, machine tools, raw materials, and foodstuffs necessary to buoy confidence on both sides of the Atlantic.

THE POLITICO MILITARY SPHERE

In the twelve years between 1945 and 1957 the US managed to spread its influence globally barring Soviet dominated lands. This started in 1947 with the Communist insurrection in Greece. The British, traditional protectors

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8. Pollard and Wells n. 5 pp. 347

of Greece found themselves unable to meet the Greek request for military and economic assistance. Following a British notification to Washington on 21st February 1947 that they could no longer subsidize the pro Western faction in the Greek civil war,[9] President Truman announced the Truman Doctrine. This was a policy of American intervention abroad, to contain the expanse of Soviet power or any communist subversion threatening a free government. The immediate result of this was that the US established a permanent naval presence in the Eastern Mediterranean to check an apparent Soviet bid for expansion there. A little less than $200 million was also sanctioned as aid to Greece and Turkey.[10]

More importantly the Truman Doctrine provided the justification for American foreign policy initiatives abroad. It because the instrument through which the policy of containment was to be carried out. It also marked the end of all efforts to cooperate with the Soviets in the economic field. Thereafter, the US government harnessed economic aid in the service of political and strategic ends. The US now viewed the Lubeck-Trieste line from Germany to Italy, as its own first line of defence.

Following the failure to negotiate a unified policy with the USSR over the question of Green unification

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9. C.J. Bartlett, <u>The RIse and Fall of the Pax Americana : United states Foreign Policy in the Twentieth century</u> (Elok London, 194) p. 107

10. Pollard and Wells n. 5 p 342.

- of the allied adiminstered wartime zones - and the subsequent Berlin airlift in 1948-9, the US moved to create a military security organisation to protect its West European Allies from the Soviet threat. Pressure form Europeans to do this also increased. As the French foreign minister told John Foster Dulles (US Secretary of State 1953-8) in 1948, "it is not enough for us to know that if we are invaded the United States will go to war and win the war. If we are invaded again - and this time by the Russians - that will be the end of western civilization as far as we are concerned. A United States victory,will for us be meaningless.[11]

This resulted in the first ever peacetime American military commitment to an alliance - the formation of the North Atlantic Treaty Organisation (NATO) in April 1949[12] But the increase in the American military presence abroad was to grow significantly after 1953. That was the year Dulles became Secretary of State. Critical of the Democrat policy of containment he argued for a policy to roll back the Soviets and succeded in arranging alliances with major powers in strategic regions. The aim was to have a string of American influenced lands around the USSR preventing any

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11. John Foster Dulles, War or Peace (Harrap, London, 1950) p. 116

12. Bartlett n. 9 p. 111.

further expansion. The first such treaty to emerge was the ANZUS pact with Australia and New Zealand in 1951.[13]

This pactomania of Dulles resulted in the following years in the formation of the South East Asian Treaty Organisation (SEATO), fortifying the Middle East by the Baghdad Pact, both in 1954. By 1955 the US had its forces stationed over most of the globe. This chain of events would by 1970 entangle the US with "more than 1,000,000 soldiers, a member of four regional defence alliances and an active participation in a fifth, mutual defence treaties with 42 nations, a member of 53 international organisations and was furnishing military and economic aid to nearly 100 nations."[14]

This expression of military largesse and responsibility first demonstrated itself in the Korean war. During this conflict the US acted as the world hegemon keeping peace amongst lesser nations and abrogated to itself the right to act as a global policeman.

The Suez Crisis of 1956 was the final confirmation of American supremacy. It was the last time any European power (here France and Britain) would attempt on independent initiative without US consent.

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13. Ibid p. 124

14. R.Steele cited in Paul Kennedy n 2 p. 502

The period from 1945-57 reflected the strongest period of US hegemony as it was artifically high given the state of the rest of the world's economy. The world enjoyed an economic boom in the early 1950s. During that time the US had a 60% share of advanced capitalist countries' product, had thrice the manufacturing productivity over Britain, then in second position, and had 52 percent of the advanced capitalist countries capital stock.[15]

1957-67 WORLD RECOVERY AND DIMINISHING OF US SUPERIORITY

In 1957 the US position seemed secured. Its closest allies in Western Europe and Japan were effecting an economic recovery. American products like Maxwell House coffee, General Motors cars, Bell telecommunications equipment and Hollywood films were well known the world over and had established a twin economic and cultural hegemony. However, the European recovery formalised in the creation of the European Economic Community in 1957 had in it the seeds of US decline from its overwhelming position. For one, it meant that European products would gradually begin to be competitive with American ones. Secondly the US found its trade position less favourable, so its military burden in Europe began to appear heavier. Finally with prosperity would come a more independent outlook (helped by security)

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15. Figures taken from Armstrong et al: Capitalism Since World War II, (Fontana, London, 1988) pp. 212-213.

which would find expression in differing positions on international events such as Vietnam, Ostpolitik and economic policies.

DECREASING ECONOMIC COMPETITIVENESS

From the mid 1950s European and Japanese business firms began giving problems to their American rivals. Their rate of accumulation of capital was such faster based as it was on lower wage costs. Between 1955-70 capital stock in US manufacturing rose by 57 percent as compared to 116 percent in major European countries and 500 percent in Japan.[16]

Another factor was that most productive resources were diverted in these countries to a non military use as the US was their military guarantor. By comparison US expenditure on defence was extraordinarily high.

The boom of the 1950s also helped to undermine the US position. As the dollar was the lynchpin of the Bretton woods systems other countries preferred dollar holdings to gold so they could earn interest on dollars. This was possible only if the US provided dollars by spending more than it received. The US did exactly that by spending through loans given, military aid and other such grants. This resulted in about $30 billion gold or dollars flowing

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16. Ibid p. 214

out from the US into foreign central banks.[17] Also US foreign direct investment abroad helped this outflow. Falling gold stocks within the US meant that by 1968 there was not enough gold to repay more than 40 percent of the dollars held abroad.

The economic recovery in the rest of the world had meant new plants and machinery and over the late 1950s and 60s this worked as a disadvantage for the older US plants. Also during this period US costs relative to its competitors did not decline. Hampering the US, was the fact that the dollar was held at a stable level and not allowed to depreciate until 1970; which meant that US products got increasingly less competitive and rival countries products more so.

The strongest bone of contention between the US and its allies was the question of burden sharing in Europe. As the US found it increasingly difficult to maintain its force levels in Europe it tried to get its allies to share the burden. This was met with resistance by Europeans who felt that higher contribution by them should reflect in more autonomous control over the security structure. Though West Germany did agree to some burden sharing through "Offset Agreements" from 1962-68 this was felt to be not enough by the US.

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17. Ibid p. 225

During this period however, the American economy remained internationally competitive. What made it increasingly less so was that its costs of production were higher, the dollar was significantly higher than rival currencies and most important it faced tariff barriers with most of its rivals while its own market remained open. As long as rival economies could not compete on equal terms with the US, non reciprocity could be tolerated, however with other economics achieving comparative prewar levels, then this because damaging.

Moreover as long as the US could prevail upon its partners to hold dollars without exercising their right to convert it into gold, American economic strength remained unassailable But continuing balance of payments deficits led to some kind of belief that the US should try and maintain its equilibrium.

DISSENT IN THE POLITICO-MILITARY REALM

While there had been a congruence of American interest and those of its major political and economicc allies there was little criticism of American policies. This was possible was possible between 1945-57 as fears of a Soviet attack, reconstruction and economic vulnerability led the allies to toe the US line. However during the 1960s three issues began to threaten the cohesion of the Western alliance: the move towards a bigger say in strategic policy by France, peaceful cooperation with the Soviet Union, and the Vietnam war.

From the late 1950s President De Gaulle of France began a severe attack on American predominance over Western strategic policy. Later he criticised the US monopoly over the nuclear weaponry of NATO. He correctly linked American capacity to pursue an active international position with its top currency status. As the US did not require to make adjustments for its balance of payments deficits, it could literally finance its foreign activities by printing money. De Gaulle's inability to obtain French control over nuclear warheads in France, led him to pull France out of the NATO military structure in 1966.

The other issue, that of a more independent foreign policy by its allies threatened US power by the divergence of views rapidly emerging. Throughout the 1960s the French and West Germans tried to achieve some kind of an opening with the USSR. This was resented by the US, as being a sign of questioning its leadership. Moreover, the Berlin crisis of 1961 and the knowledge that the USSR possessed sufficient nuclear strength to damage the US put in doubt AMERICAN readiness to run great risks in defènce of Western Europe. President De Gaulle entertained such doubts, and he followed a twin track policy - on one hand be built up France's relations with the USSR, in his dream of a 'Europe from the Atlantic to Urals' policy; secondly he continued with the creation of a French nuclear force[18].

American involvement in Third World comflicts was growing just when the European were withdrawing from colonialism. By the mid 1960s the Us was involved in the Dominican Republic, Cuba, Cambodia and Vietnam. The US did not take kindly to European eviticisom over this activist foreign policy.

Between 1945 and 1967 the US had been very successful. It had successfully transformed its economy to peactime. It had arranged to contain the Soviet Union without a war. Thirdly, it had managed to assist the economic recovery of its allies among the developed, capitalist nations. Lastly it had aranged to integrate most of the old colonies into independent states in the world economy and prevented their takeover by the USSR.

But from 1967 the "heroic phase of American policy was over."[19] America faced three sets of challenges. First, was the growing restivness of the its European allies. Second was the restiveness against the US in the Third World as witnessed in Viatnam. And finally, was the growing disaffection within the US over the economic and moral costs of trying to manage the world. 1967 marked the zenith of US power. After that began the decline of US hegemony.

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18. Bartlett n. 9 p. 149

19. David Calleo "American Power in a New World Economy" in Becker and Wells n. 5 p. 395

CHAPTER III

CHALLENGES TO AMERICAN HEGEMONY 1967-84

Among the many writers on the subject of American hegemony, there appears to be very little agreement over the exact time period when there was a series of challenges that seriously eroded the base of American power; relatively and in a long term sense. However, more than one scholar, among them Samuel Huntington[1] and Robert Gilpin,[2] give the decade after 1967 as a period of visible loss of America's control over world affairs.

The year 1967 is considered as a landmark of sorts, since it represents a time of protest and dissatisfaction with the existing state of affairs. The protests were both at a domestic and international level, and embraced policies as well as culture. The cities of New York, London, Paris amongst others witnessed large scale riots by disaffected youth against the establishment. At the international level the allies of the U.S. showed increasing intolerance at the extent of its control over the

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1. Samuel Huntington, "The U.S. Decline or Renewal?" Foreign Affairs, Vol. 67, No. 2, Winmer 88/89 p-78-9

2. Robert Gilpin, The Political Economy of International Relations, (Princeton University Press, Princeton, U.S.A.) 1987, PP. 343-45

world economy, inspite of the fact that its position, was in competitive terms less powerful than a decade back. As explained before this intolerance manifested in more than one way; notably President De Gaulle's initiative of a U.S. free Europe in his Atlantic to Urals dream. At a third level, the war in Vietnam produced an international outcry against American unilateralism including among the dissenters America's West European Allies.

At a more tangible plane, the American economy from 1967 found that the burden of the Vietnam war was creating more and more problems on the economic front. It was from this time onwards that the new rejunevated economies of West European countries and Japan began to offer substantial competition to the U.S. It would therefore be of relevance to study the nature of the challenges that America faced, both economic and political, between 1967 and 1984 - the latter date[3] chosen as it marks the start of the declinist debate in the present concern over American power. A survey of the economic scenario that the U.S. faced in 1967 would be in order.

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3. The U.S. posted an unprecedented trade deficit of $108.3 billion and became the world's largest deftor. See Robert Gilpin n. 2. pp.330

BACKGROUND TO THE ECONOMIC SITUATION IN 1967

The international economy of the late 1960s worked in the order created by the Bretton Woods system. This system was built to protect the world economy from a repetition of the Great Depression of 1929 and achieve some stability in the post world war II era. Unfortunately it contained two sets of contradictory objectives : i) to avoid subordination of domestic economic activities to the stability of the exchange rate embodied in the classical gold standard and 2) to avoid the sacrifice of international stability to the domestic policy autonomy characteristic of the inter war period[4]. In effect the Bretton Woods system was trying to achieve both domestic and international stability.

For a couple of decades these contradictions could be managed. During the 1950s and 60s the American economy became the engine of world economic growth, and U.S monetary policy became world monetary policy, while the outflow of dollars provided the liquidity that fuelled this growth. The U.S. had accumulated a very high surplus of $ 61.5 billion in its balance of payments at the end of world war II. This encouraged devaluation by major industrial nations

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4. For a more lucid explanation see John Ruggie. "International Regimes, Transactions, and Change: Embedded Liberalisam in the Post War Economic Order." International Organization. Vol. 36, 1982 pp.390-3.

- Britain by 30.5 per cent, West Germany by 20.7 percent, France by 66 per cent and Japan by 98.4 per cent by 1949[5]. Throughout the 1950s and early 1960s the U.S. could afford balance of payments deficits. This was actually perceived as being beneficial since it allowed dollars to go abroad, curbing the dollar shortage then existing. It should be explained here that under the Bretton Woods system, the dollar functioned as the key world currency which the U.S. had set at an official price of $ 35 to an ounce of gold - which meant that the U.S. central bank was bound to supply that much gold at that price in dollars. Recurring balance of payments deficits for the U.S. due to a mix of aid, grants, closed or protected markets abroad versus an open domestic market, led to a very large outflow of dollars; more perhaps than could be redeemed in gold. By late 1958, when convertibility of currencies was restored among European countries, a large number felt that they had excess dollars and encashed them for gold, depleting U.S. gold reserves by $ 5.1 billion.[6]

The creation of a Common Market in Europe encouraged American corporations to invest abroad, again leading to an outflow of capital from the U.S. However, by now, the excessive outflow of dollars was no longer as

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5. Figures cited from Thibaut de Saint Phalle, Trade, Inflation and the Dollar, (Praeger, 1984) PP 104-5.

6. Ibid pp 105

welcome as it had been before. For one thing sufficient liquidity had been generated for the post war expansion of the developed world. Also by 1958 the overvalued dollar had more than served its function of making European exports more competitive in the U.S.

The early 1960s were marked by much monetary mismanagements by U.S. policy makers which led to a series of budgetary deficits. To finance these, the U.S. printed more dollars, which caused inflation not only at home but abroad too as the dollar was the world's foremost currency. The power of America was based on what the French called the "hegemony of the dollar"[7]. In essence what this meant was that the U.S. in its role as international banker and liquidity creator could finance its foreign policy by printing dollars. Japan and West Europe were willing to hold inflated dollars in the form of U.S. government securities and thereby help finance the American balance of payments deficit. In return, America accepted its allies use of the overvalued dollar and their protected markets to promote their economic well being.

By 1967 howeverr, this bargain was running into trouble. The West Europeans and Japanese could not accept the increasing export of inflation through U.S. dollars and

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7. See Gilpin n. 2. pg 134

America began to find its economic and political power increasingly challenged by them. The U.S. now found that being the supplier of the world's money meant that it could not devalue its own currency relative to any other to improve its declining trade positon. This then was the situation in 1967. These problems were instrumental in bringing about the collapse of the Bretton Woods system.

BREAK UP OF THE BRETTON WOODS SYSTEM 1967-76

By March 1968 pressures against the dollar caused frantic purchases of gold in Europe. The result was that a two tier level of gold pricing came about - a free market price and the official $ 35 an ounce price as the dollar was grossly overvalued in relation to U.S. gold reserves. It became apparent that the Bretton Woods system was in trouble on three counts. First, there was no longer any need for more liquidity, but for an asset other than the dollar. Secondly, the bargain between Europe and the U.S. of the former holding inflated dollars was breaking down, as inflation was being exported abroad; and in view of the inability of the U.S. to finance the Vietnam war, troops in Europe and balance of payments deficits. Europeans demanded better fiscal discipline from the U.S. Thirdly, there was the resurgence of an independent spirit in Europe, best expressed by President De Gaulle of France.

In 1968, he determined to stop the U.S. from exporting inflation to Europe and therefore demanded that the dollars held be redeemed in U.S. gold.[8] Though a compromise was reached, with European central banks agreeing not to demand gold except in special circumstances, the implication of this move was very significant.

Like De Gaulle's earlier decision to withdraw French armed forces from NATO control, this move spelled the end of a period of acquiescience by Europeans of U.S. hegemony. It is important to note that the U.S. itself was finding the Bretton Woods system difficult to maintain and yet retain its primacy. It could not devalue and thereby suffered economically. In the 1960s the U.S. was faced with a plethora of economic problems. Persistent inflation existed since the 1950s, there was a balance of payments deficit and yet Europe remained unwilling to bear a larger share of the defence burden. In addition, the Vietnam war and President Johnson's domestic reform measures - the Great Society programme required increasingly more funds, which were available by printing dollars and thereby reducing the relevance of this currency as a world reserve.

The system secured a temporary respite through the stringent fiscal policies of President Nixon who was elected in 1968. This produced in turn a recession in the U.S., to

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8. Thibaut de Saint Phalle n. 5 Pg 110

get out of which Nixon reflated the economy. By August 1971, the dollar was seriously out of line with most currencies and Nixon could not defend its parity any longer.[9] An impending dollar crisis loomed over the international money market with the first American trade deficit since 1893.[10] Nixon took a series of unilateral steps which in effect became the new foreign economic policy of America and was the first nail in the coffin of the Bretton Woods system. Firstly, he suspended the convertibility of the dollar into gold and placed the world monetary system on a pure dollar standard. Secondly, he imposed a surcharge on US imports to force Europeans and Japanese to revalue their currencies against the dollar. And finally, he achieved a substantial devaluation of the dollar by the Smithsonian Agreement of December 1971. By this move the U.S. in the words of Joanne Gowa "smashed the Bretton Woods system in order to increase its own freedom of economic and political action".[11] This step revealed how perilous was the threat to American hegemony by the vast holdings of dollars abroad. Rather than conform to the dictates of the Europeans and Japanese, the Americans smashed the system. In March, 1973 a decision was taken to

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9. David Calleo, "American Power in an New world Economy" in <u>Economics and World Power</u> (New York pp. 411)

10. Robert Gilpin n. 2, pp 140

11. Ibid pp 140

let exchange rates float rather than be fixed as they had been so far. The quadrupling of oil prices by the OPEC revolution necessiated a realigning of major currencies. This time West Germany refused to support the dollar. For America and the world this was another reminder that her leadership was now questioned and criticised.[12] The final end of the Bretton Woods system came about at the Jamaica Conference in 1976 by which leading IMF members decided to legalise floating exchange rates, reduce the role of gold as reserve, reallocate IMF quotas ad let each country determinate its currency's par value itself.[13] In this way, domestic autonomy won over international rules and the world entered a phase of increasing monetary instability.

This long treatise on the demise and role of the Bretton Woods system was to elucidate the main plant in the international economic order that the U.S. had set up after 1945 and how its collapse was regarded as failure of one of the safeguards of U.S. hegemony. The system conferred upon the U.S, monetary leadership and the ability to finance its deficits by merely printing dollars which would be accepted the world over. The very fact that this system could not work as planned pointed to a relative weakening of U.S.

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12. See Thibaut de Saint Phalle n. 5 pp. 113

13. For a more detailed explanation are John Wiliams, <u>The Open Economy and the World Economy</u> (Basic Books, New York, 1983) pp. 392.

power. By the early 1970s it was apparent that the U.S. could not afford Vietnam, the burden of troops in Europe, the 'free rider'[14] problem of its allies and in summation, command them to accept its policies.

VIETNAM, DETENTE AND THE OIL CRISIS OF 1974

Each of the three events cited in the above subheading were both cause and effect of the threat to American supremacy. All three symbolised the pasing away of the established post war international system and brought in new challenges to American power. Between 1945-67, American hegemony rested strongly on the logic of the Cold War which bound liberal Westerrn European democracies and Middle Eastern autocratric kingdoms to the U.S. security umbrella. By 1967, the situation had changed. Immanuel Wallerstein cites three factors which were contributory to the changes.[15] First by the reconstruction of West Europe and

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14. Free riders refers to the privileges that West Europe and Japanese enjoyed vis-a-vis the US. in keeping their domestic waitels protected but having access to open American markets.

15. Immanuel Wallerstein. "The United States and the World Crisis" in Terry Boswell and Albert Bergesen (eds) America's Changing Role in the World System. (Praeger, New York 1987), pp. 19-20

Japan bred productive competitors who began to surpass U.S. productivity in the late 1960s through lower costs* and newer plants. Secondly, the U.S. was beginning to feel the high economic costs of iumperiar - defence expenditure, wars and security blankets far its allies. Thirdly, with the stabilizing of the bipolar system in 1964 and the Sino-Soviet split the same year; the threat perception binding the liberal, Western alliance passed. This also broke down domestic consensus within the U.S. on foreign policy which weakened U.S. strength.

Of these factors the war in Vietnam, is possibly the most visible one affecting U.S. prestige. The war began in July, 1965 with President Johnson sending U.S. combat troops there. The U.S. economy then was approaching full employment with little idle capacity of men and resources. The defence Department under Robert S. Mc Namara grossly underestimated the cost of the war and so the 1967 budget included $ 10 billion for the war while costs were actually $20 billion.[16] Johnson was loathe to ask for increased taxes for the war and besides his Great Society programme

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* As wage rates were lower than in the US, these countries had lower labour costs. Production costs were also low due of less costs in maintanance in new plants.

16. Edwin L. Dale Jr. "What Vietnam did to the American Economy" in Arthur M. Johnson (Ed) The American Economy. (Free Press, New York) 1974 pp.98

might have been scuttled by Congress for want of funds. With the economy at full steam, the resulting budget deficit soared upwards and inflation accrued; the same inflation that later would wreck the Bretton Woods system. Later the escalating costs of the war placed an increasingly high burden on the U.S. economy.

A higher burden was placed on the U.S. politially too. The Vietnam war brought forth sharp criticism of American foreign policy, both domestically and internationally. The costs in men and resources werre deplored by people at home leading to student protests and draft dodging.[17] Abroad, the U.S. invited moral flak from not only communist and third world countries, but also its Westerm European allies and Japan. As said before, the U.S. tactic of borrowing from Europe to fight this war was also very strongly criticized. The ultimate loss of American face by the pull out from Vietnam in 1973 damaged the concept of America as world leader more than the actual economic costs of the war. For the first time the U.S. had actually lost a war after putting in very substantial resources for over a decade.

In fact prior to the end of the war the U.S. was withdrawing from its activist foreign policy of over a

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17. Draft was the compulsory military service for all able bodied American men which met with widespread resistance

quarter century. The fear of another Vietnam kept American military effort abroad at a minimum till the Gulf conflict in 1990. This withdrawal was facilitated by the Soviet-American detente. Detente was a realization by both superpowers that the world was bipolar and aggression was not proving very successful. On the U.S. side detente was a move to bring the Soviet Union and China back into the international economy as it would then (in Kissinger's view) give them a stake in international equilibrium.[18] Detente involved U.S. recognition of the People's Republic of China and moves towards a arms reduction treaty with the Soviets. Both, though designed ultimately to shore up American power, were seen as weaknesses on the U.S. side and a response to the loosening Western coalition. It was no doubt the burden of increasing costs from the nuclear arms race and proxy wars like Vietnam which brought about detente. So it could be seen as a move to gain 'breathing space' till the next round of the Cold War.

In the meantime a third event took place that changed international relations in the 1970s. That was the OPEC crisis. Throughout the 1950s and 60s oil prices fell absolutely and in relation to industrial goods. During this

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18. Robert S. Litwak, Detente and the Nixon Doctrine : American Foreign Policy and the pursuit of Stability 1969-76 (Cambridge, U.S.A. 1986) pp. 5.

period domestic American suppliers effectively limited world petroleum prices by obtaining low excise taxes.[19] This encouraged higher domestic American consumption which in turn led to demand outstripping supply in the U.S. and therefore higher oil imports. The U.S. therefore had less power to block oil price rises. Following the Yom Kippur war in 1973, the Organisation of Petroleum Exporting Countries (OPEC) announced a four fold increase in oil prices.[20] Rising food and petroleum prices, by sucking purchasing power from other products created a collapse of demand and led to a recession in 1974. This brought into light two facts: one, that the U.S. was living beyond its means and two, therefore, its control over world events was slipping. The OPEC action was nothing short of a rebellion against the giant U.S. oil corporations which kept oil prices down. Henceforth, there would be a new power bloc to confront the OPEC bloc. It is a different matter that the U.S. managed to come out of this crisis better off than its competitors Western Europe and Japan. For one thing, the U.S. actually colluded in the price rise hoping to discipline its wayward allies who were more dependent on oil than the U.S. itself.[21] Besides, the huge surpluses

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19. David Calleo n. 9 pp. 427

20. See Gilpin n. 2 pp 133.

21. Wallerstein n. 15 pp 21.

gathered by OPEC were required to be kept safe, accessible and in some profitable medium. The result was that these 'petrodollars' were recycled back into American banks and therefore the U.S. had access to funds.[22] The U.S. faced with the choices of reversing the oil price increase, structurally adjusting its real economy and making monetary adjustments - chose the third course. By allowing inflation and the resultant depreciation of the dollar the U.S. managed to offset the oil price hike.[23] However, the important thing to note was that the oil imports were not cut down which led to continuing balance of payments problems.

THE DECLINE OF U.S. COMPETITIVENESS

The period 1967-84 is one of the breakdown of the earlier international system. Under that the U.S. was the most efficient producer and the largest exporter of most goods and services. It secured external markets by building up West Europe and Japan. And its uninterrupted production at home was guaranteed by a 'defacto social contract' with corporations and trade unions by which they received increased profits and wages respectively in return for social peace and high productivity.[24] With the coming back

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22. David Calleo The Imperious Economy (Harvard University Press, Cambridge Ma. 1982)

23. Ibid pp. 134

24. Wallerstein, n. 15, pp. 19

to normalcy of the West European and Japanese economies, the scenario changed. These economies now had newer plants than the U.S., lower wages but were otherwise comparable in human resources. They however, did not have to bear the high costs of being a hegemon that the U.S. did - through its military bases, forces and nuclear arsenals. Moreover, the 'normalisation' of the West European and Japanese economies, brought into sharp focus the fact that the American economy was not as competitive as it had been for the past two decades.

The defacto social contract between American government on one hand, and American corporations and unions on the other, referred to before, was producing higher wages and higher profits leading to a higher standard of living and thereby more consumption, than in Western European countries and Japan. This incidence of higher wages and therefore, costs was an important factor in the preference of many U.S. corporations, especially those requiring cheap skilled labour, to shift production facilities abroad. This resulted in growing internationalization of production on one hand and subsequently the loss of U.S. primacy in those products. A case in example is that of the U.S. textile industry. By the late 1960s the U.S. was finding itself threatened with cheap textile imports from Japan and other newly industrializing Asian countries like South Korea and

Taiwan.[25] Two years of negotiations, made the Japanese accept voluntary export restraints on textiles in October 1371.[26] Ironically the Japanese joined the U.S. and Western Europe in negotiating the Multifiber Arrangement (MFA) in 1973, since by then even they were feeling the competition in textiles from cheaper labour based less developed country markets.

The case of diminishing primacy in a particular range of products was seen to form a pattern explained by the 'product life cycle' theory. Its proponents Raymond Vernon and Louis T. Wells Jr. amongst others, argued that the product had a different life cycle from country to country.[27] According to this theory at first the country where the product is innovated, tends to be the major producer as it is strongly competitive in the early stages. Later the product is exported to foreign markets. A stage later its production becomes competitive in foreign markets. In the final stage, with worldwide standardization of the product the country of innovation becomes on importer of the same product, from lesser developed countries with cheaper

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25. Stephen D. Cohen, Uneasy Partnership : Competition and Conflict in U.S. Japanese Trade Relations. (Ballinger, Cambridge U.S.A) 1985, pp.17.

26. Ibid pp.21

27. Sec Harold J. Hoy and John J. Shaw, "The U.S. Competitive Advantage and its Relationship to the Product Life Cycle Theory and the world Gross National Product Market Share." Columbia Journal of World Business. (vol XVI, No. 1, Spring 1981, pp 41)

labour costs and who have successfully appropriated the technology required. By this stage however, the original country, is supposed to move on to a new product requiring higher technology inputs, which help the country to remain competitive in terms of exports and maintain its balance of payments.

Taking this theory, which can operate only given a globalized network of production and trade, the U.S. became uncompetitive in products like textiles by the early 1970s. However, it remained ahead in more high technological products such as electronics, computers, aircraft automobiles and machines tools. But this does not seem to be borne out by statistics, which show that while world Gross National Product (GNP) incrased between 1960 and 1975 from $1.5 trillion to $ 6 trillion, the U.S. share fell from 33 per cent to 25 per cent. Compared with the change in EEC share of world GNP for the same period from 12.8 per cent to 17.6 per cent and that of Japan from 2.6 per cent to 8.3 per cent the U.S. seems to have lost out on its cutting edge.[28] Even if one takes the line that the U.S. was endowed with disproportionate power due to the rundown state of the world economy after the war, the increase in Europe and Japan's share of world GNP was less than the decrease of America's share. Clearly the U.S. was not operating as efficiently as it should have.

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28. Ibid

One reason for the lack of U.S. competitiveness was that the U.S. level of technological innovations being turned out was poorer than the rate at which its rivals were doing so. For example, between 1975-80, foreign licensing of technology to the U.S. grew more quickly than the reverse case. In 1976 alone Japan issued three times as many patents as did the U.S. patent office.[29] Moreover, there appeared a significant decline in U.S. productivity relative to its rivals. While Japanese productivity increased from a based of 100 to 200 between 1967-78 the figures for the U.S. in the same period show an increase from 100 to 135.[30] This was probably another major reason for the decline in U.S. exports since a fall in productivity leads to that. That in turn creates inflation through rise in the cost of imports. Productivity also affects the rate of domestic inflation since the cost of products increases as productivity decreases.

Another factor responsible for a low U.S. competitiveness was the low savings rate which fell from just under 8 per cent to 4 per cent between 1970 and 1979 compared to the Japanese growth from 18 per cent to 22 per cent in the same period and a European average of around 12.5 per cent to 15 per cent.[31] The figures for expenditure

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29. Ibid pp. 42

30. Figures from de Saint phalle n. 5. pp. 294

31. Ibid PP. 298

on research and development (R & D) tell a similar story. As percentage of GNP, while the U.S. expenditures fell from 2.7 per cent to 2 per cent between 1961 and 1977 that of West Germany rose from 1.1 per cent to 2.3 per cent and Japan's rose from 1.2 per cent to 1.8 per cent.[32] It would seem that Americans had lost the interest in inventing newer products which allowed them to maintain the 'technological gap' over their rivals in the product life cycle. One reason for lowering R&D expenditures was that firms in the U.S. concentratd on short term profits due to the recession and later inflation in the mid 1970s. Europeans and Japanese, meanwhile developed new technology rather than fight for a share of old technology product markets, which were dominated by the U.S. The consumer culture in the U.S. that allowed for high consumption was not beneficial to the development of an energy saving policy; which in Japan helped turn out fuel economic engines for automobiles.

This last factor became evident only in the aftermath of the second oil crisis in 1979, following the overthrow of the Shah of Iran. While most nations had responded to the 1974 oil price hike with attempts to cut down on energy, the U.S. had used monetary adjustments. The dollar was allowed to depreciate and through government stimulation of the economy rejuvenated inflation brought in

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32. Ibid pp 302

more oil imports. In this sense while the U.S. was the country least affected by the oil price hikes, its history between 1967-84 shows a series of monetary policy adjustments rather than measures related to the real economy i.e. increasing educational standards, spending more on R&D and maintaining an energy saving policy.

A part of America's problem of keeping its partners in line had been served by detente. Detente also opened up markets for U.S. products in the Soviet bloc thereby allowing the U.S. to maintain some favourable trade. More important it scaled down the Cold War tensions of the 1960s. However, the Soviet invasion of Afghanistan in 1979 brought detente and its benefits to an end. The end of detente brought renewed problems between the U.S. and her allies. For West Europe detente had come to mean, in David Calleo's words "long range economic, political and human interest in the peaceful penetration of Eastern Europe".[33] Not surprisingly, U.S. economic sanctions against the Eastern bloc were seen as commercial jealousy by West Europeans on the former's part. The end of detente also meant a restarting of the nuclear arms race and the heavy defense expenditure involved. A new era of heavy armament spending started under the Reagan administration of 1981 building up further ground for tension with European allies over sharing the 'burden'. Reagan's policy of supply-side

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33. David Calleo n. 9 pp 439

tax cuts, alongwith the high defense budgets and a tight money policy (meaning curtailing money supply) meant very high U.S. interest rates and a strong appreciation in the dollar. The latter worsened the already poor U.S. trade deficit and was not corrected till 1986. High interest rates had a significant fallout, they began to draw dollars back to U.S.A. Thus the trend of the late 1950s of outflow of dollars began to be reversed as more and more dollars came back into the U.S. for reinvestment, notably, petrodollars from the OPEC countries. Additionally, dollars from Third World countries also flowed in due to rise in political instability there. This permitted the U.S. one luxury it could not afford: the neglect of its exports. The result of these measures of the U.S. administration produced a doubling of imports as a share of U.S. GNP from 4.3 to 10.6 and in 1984 it had a trade deficit of $150 billion of which $ 50 billion was with Japan alone.[34] The European and Japanese commitment to an energy policy began to pay off as the cars of the 1980s became less of 'gas guzzlers' and more fuel efficient - a field where U.S. automakers lost out.

By 1984, the effects of making more monetary policy adjustments instead of real economy measures were beginning to show the American economy in a poor light. Over the period 1972-82 the U.S. had become a net importer

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34. Gilpin n.2 pp. 194

of automobiles, machinery, steel, textiles and electronics.[35] By the 1970s the U.S. through its multinational corporations had become more of a foreign investor than an exporter of domestically manufactured goods. In fact, according to Robert Gilpin, a substantial proportion of U.S. exports of manufactured goods were really transfers from an American branch to an overseas branch of a multinational.[36] The earnings from these may have helped in the overall balance of payments but they did not detract from the fact that the U.S. appeared to be deindustrializing. This was countered by the fact that the U.S. was leading in the service sector - finance, communications and information processing, but power today still depends heavily on material resources and trade surpluses.

Therefore, by 1984 with a high trade deficit, weak technological lead, high overall balance of payments deficits, American hegemony seemed to be resting on the dollar's position as world reserve and the tremendous volume of funds available to the U.S. from foreign investments.

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35. de Saint Phalle n.5 pp. 39

36. Gilpin n. 2 pp. 239.

America's precarious position seemed to hold mainly because of its stature as largest economy, largest market, its immense political and military might and the control over world economy that it derived from its multinational corporations. Still, the situation appeared serious enought to warrant a wave of 'declinist literature' which sparked off the current debate over the decline of American hegemony.

CHAPTER IV

THE DEBATE ON DECLINE

Until the mid 1980s declinist writings about the U.S. had not found too many takers. One reason was that they generally concentrated on the politico-military angle such as the catching up of the USSR in the space race via Sputnik, strategic parity achieved by the Soviets in the early 1970s or the loss in the Vietnam war. The main plank of American power, its economic might, predominance in high technology products and its leading position as the centre of international finance - remained unchallenged. By the mid 1980s this situation had changed for the worse. As explained in the earlier chapter, America's economy had become vulnerable on all fronts. The only visible indicators of America's pre-eminence were the sheer size of its economy (a GNP of $ 2590 billion in 1980)[1] and the fact that the U.S. constituted the world's largest consumer market - around 250 million in the mid 1980s. On the debit side the U.S. faced record trade deficits, losses in competitiveness in major industries like steel, automobiles, electronics, the U.S. Federal debt in 1985 was an unprecedented $ 1823.1 billion and most serious, the U.S.

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1. Paul Kennedy, The Rise and Fall of the Great Powers : Economic Change and Military Conflict from 1500-2000 (Fontana, London, 1988) p. 563.

appeared to be succumbing to the power of Japan in their economic rivalry. The continuation of those trends in the 1980s would push the U.S. national debt to around $ 13 trillion by the year 2000, according to alarmists and the only such comparison, of such a debt, was that of France in the 1780s[2]. In addition a large part of America's prosperity, including its power was being financed by overseas funding, notably Japanese funds, which in the long term only raised U.S. indebtedness.

This situation showed a change from the earlier self assuredness of the Americans that existed till the mid 1980s. Three events, among others brought America's vulnerability to the fore - the changing international political economy in the 1980s, the economic policies of the Reagan administration and the rapid pace of Japan's economic advance.

THE U.S. IN THE WORLD ECONOMY IN THE 1980s

The U.S. declined in the 1980s in a very visible way. What happened to it and what were the changes in the international economy in the 1980s are important to understand the extent of U.S. vulnerability. To do so implies a look at the international monetary system the international trade environment and international finance in the 1980s.

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2. Ibid p. 681

Following the break up of the Bretton Woods system in 1976, the system of flexible exchange rates was introduced, where their determination would be upto market forces. However, due to the nature of the interdependent world economy, states became tempted to manipulate their exchange rates to raise their currency to fight inflation, or depress it to maintain trade competitiveness. However, this system of flexible exchange rates did not achieve its objective of monetary stability. By the mid 1980s, total foreign exchange trading was much greater than the volume of world trade - in fact in 1984 while world exports were $ 1.5 trillion, foreign exchange trading was $ 35 trillion.[3] Another result of the new system was that it rendered the world monetary system very unstable, due to the fluctuations in flow of international capital. This was so due to the fact that macro economic policies of a state determine the international flow of capital which affects exchange rates. In the open world economic system (one where international transactions occur) policies of one country affect another, thereby allowing for transmission of economic disturbances. In this way in 1981, a restrictive American monetary policy drove up the value of the dollar and interest rate and compounded the world debt crisis. By the middle of the decade, the expansionist U.S. economic policy had caused the dollar to be greatly overvalued with negative results for the rest of the world too.

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3. The New York Times, May, 4, 1984 p. F10

The 1980s witnessed erratic American macroeconomic policies, as also a lack of policy coordination among industrialized nations leading to a cycle of world wide inflation and recession. A major cause of the lack of coordination was the different stance of the developed countries and the U.S. to world economic problems. While its allies pressed for extensive policy coordination and a reduction of its budget deficit, the U.S. under the Reagan administration believed in the idea of convergence of domestic policies. This implied the alignment of national economic policies to reduce inflation, the use of the IMF to monitor this task and most important, the adoption of expansionary economic policies by other countries in order to reduce the American trade deficit.[4] The Reagan Administration's advice to other countries to control inflation was simple. It urged them to eliminate government regulation, privatize the public sector, reduce economic interventionism, and move toward dismantling the welfare state-in order to reduce unemployment.

By the second term of the Reagan Administration it became obvious that policy coordination at the international level was necessary; because of the increasing interdependence among economies through the integration of

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4. The U.S. believed (rightly) that deliberate retardation of growth by other countries was allowing them to build up capital, as savings would not be spent on consumption.

financial and product markets, the intensified linkages between prices and interest rates, and the increased information flows. This realization for the need of policy coordination from the G-5 agreement of September 1985 [5], was an attempt to regain the spirit of cooperation and the stable environment that had characterised the Bretton Woods system between 1945-1971. Policy coordination among the three major economies of the U.S., Japan and West Germany also implied another fact - that the U.S. by itself could not any longer govern the international monetary and financial system, as it had during the 1950s and 60s. This meant that should the U.S. wish to fight another war like Vietnam[6], it would need the explicit support of at least two other major developed countries, since its economic independence, guaranteed before by its hegemonic position was now slipping to one of interdependence with the second most powerful economies.

The United States suffered from an overvalued dollar, a massive deficit (around 5 per cent in 1981[7]) and did not wish to bring in inflation by printing money. The policies of the Reagan Administration in conjunction with

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5. Robert Gilpin, <u>The Political Economy of International Relations</u> (Princeton University Press, Princeton, U.S, 1987) p. 151

6. It is interesting to note that in the Gulf war the US did not take unilateral action, but had to being its allies around prior to even committing troops abroad.

7. Gilpin n. 5, p. 154

the system of floating exchange rates had a detrimental effect on the American and world economies. As the economist Robert Mundell had predicted in 1966: "when international capital flows are sensitive to interest rate differences and exchange rates are floating, a country that has a large budget deficit and does not finance it by printing money will incur not only a large current account deficit but will have a strong currency too. The budget deficit will push up interest rates and pull in foreign capital. When exchange rates float, however, a country with a net capital inflow has to have a matching current account deficit, and its currency must appreciate sufficiently to generate that current account deficit. In other words, the country must become less competitive in its own and world markets."[8]

This financing of the U.S. budget deficit by inflow of foreign capital due to high interest rates raised the value of the dollar even further. It also resulted in rising global interest rates and thereby reduced investment all over the world. Other economies responded by restraining domestic demand to keep inflation in check. The overvalued dollar made American exports even less competitive and led to demands for protectionism from

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8. Peter B. Kenen, "Beyond Recovery : Challenges to US Economic Policy in the 1980s". in SA Hewlett, H. Kaufman and Peter B. Kenen (eds) The Global Repercussions of US Monetary and Fiscal Policy (Ballinger, New York, 1984) pp. 18-19

several U.S. industries. Moreover the U.S. government was not interested in heeding complaints of other countries that the U.S. deficit and high dollar were distorting the international monetary and financial system.

However, this attitude changed during Reagan's second term, with attempts to secure support from major economies to help reduce the value of the dollar. This was achieved successfully by a one third devaluation of the dollar against the mark and yen in March 1986[9]. The U.S. government also wanted to ensure international cooperation on the system to intervene in exchange markets and establish a set of objective criteria to govern national economic policies, and to achieve mutual compatibility of economic policies. However, though other Western leaders supported increased coordination, they were against relinking their economies with that of the U.S. as also against a system of managed currencies. Their reasons were to avoid the inflationary dollar inflows of the 1970s and in the words of an European official : "We would all be dependent on the U.S. dollar, and the U.S. does not take sufficient notice of other nations in international monetary affairs."[10] The move was seen as an attempt to reimpose American hegemony on the global economic system. Policy coordination, was not possible to achieve, given the

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9. Gilpin n. 5 pp 156

10. The Wall Street Journal, March 14, 1986, p. 30

divergent view points of the U.S., West Germany and Japan. The former felt that problem was the 'growth gap' between itself and the others, which could be overcome by expansion and stimulation of their economics, thereby increasing their imports. The latter, however, felt the problem to be fundamentally one of lack of American fiscal discipline and the budget deficit.

TRADE

During the 1980s trade patterns underwent a profound change from what they had been since the 1940s. The late 1970s had witnessed the rapid technological advance of Japan and the newly industrializing countries like South Korea, Taiwan and Brazil, which broke the monopoly of the West in modern industry. For the West, a serious problem was that this advance coincided with the same time that the volume of world trade was declining, leading to global overcapacity. Japan and the NICs seemed to be combining high technological productive techniques with the added advantage of low wage labour. At the same time, the U.S. economy declined relatively in size and competitiveness leading to protectionism in the face of pressure for ever shrinking world markets. In fact, the 1980s would probably be remembered as the decade of trade wars. By 1986 the U.S. had managed to achieve a deficit with all its major trading partners, a situation unparallelled since 1864.[11]

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11. See Gilpin n. 5 p 193-4

Another boost to protectionism came from the enlargement and closing of the European Community. Till the mid 1970s, the Common Market had contributed to the overall expansion of world trade. Since then, European attempts to protect industries and employment against imports from Japan and the NICs led to a tendency to turn inward. This was facilitated by the incorporation of the peripheral Mediterranean countries and association with less developed countries through the Lome Conventions of preferential trading agreements. During the 1980s important problems surfaced with regard to the areas of agriculture, services and high technology industries. None of these had been focused on during the last GATT round - the Tokyo Round between 1973-79. In 1986, services alone amounted to one quarter of the $ 2 trillion annual value of world trade.[12] The Uruguay Round of the GATT, launched in September, 1986, became the venue for international debate on these issues. The U.S. supported by Japan and some countries of the Pacific Basin asked for opening of world markets to American service industries, removal of agricultural export subsidies and protection of patents and trade marks against piracy. They were opposed by the EEC and several of the larger LDCs.

Part of the problem in agriculture stemmed from global over capacity in production and the fact that this

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12. The New York Times, September 21, 1986, P.1

sector enjoys disproportionately high political influence in Western Europe and the U.S. While the EEC has agricultural protection in the form of the Common Agricultural Policy through a system of subsidies, Japan has relied on high import barriers. The US was one of the major losers from this wave of protectionism.

In the area of high technology and services more difficult problems arose. On the one hand they are the primary growth sectors for advanced economies, especially the United States. But at the same time a large number of NICs targeted these very sectors for development and protected them from foreign competition, especially as they have come to be regarded as the commanding heights of the contemporary world economy. Moreover, these sectors were the ones where the US had an export advantage in terms of competitiveness; and therefore, Americans considered the removal of barriers to U.S. exports as crucial to their trade balance. Thirdly, these sectors (finance, communications and information processing) permeate domestic social relations and institutions leading to pressures against opening of domestic markets. In the late 1980s this led to the American demand for 'reciprocity' in trade particularly in these sectors, the rejection of which would invite punitive action in the form of closed access to the American market. This was formally codified under the Trade Omnibus Act of 1988 which had the retaliatory provisions of

Super and Special 301.[13] Finally, the operation of these sectors is generally through multinational corporations and the centrality of these sectors in controlling of the economy led to disquiet among governments and their being in the hands of external based firms.

Yet another debate in the 1980s was the insistence of the US on harmonization of domestic practices and institutions against Japanese and LDC opinion to the contrary. Also the US was critical of what it perceived as the illiberal structure of the Japanese economy with the administrative guidance of the bureaucracy and the inefficient (in Western eyes) distribution system which consist of small stores did not permit market penetration.

The 1980s witnessed in the arena of international trade three global level transformations. These were the New Protectionism, the growing effects of domestic economic concerns on trading relations, and the increasing significance of strategic trade policy/. To explain briefly the term New Protectionism is given to differentiate it from the old protectionsm of the 1930s which involved high tariffs. The New Protectionism consists of nontarriffs barriers and other restrictive measures, some of them being the voluntary export restraints or VERs. It is

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13. For details see Kenneth Dam "US Policy Options in International Trade" The American Enterprise July 1990, p 32.

administrated though governmental procurement policies, export subsidies, exchange controls and tax incentives. As such it is difficult to identifiy it due to the lack of openness or transparency. This comes about from two factors: one, how to define a transaction of a service since unlike material goods it is not known when it crosses a border and two, the rise of multinational firms spread over more than one country makes it difficult to regulate such activity. These problems in the 1980s were met by increasing levels of bilateralism and unilateralism which threatened the forum of the GATT as the venue for trade related problems.

As international economic independence has increased national policies have grown in their significance for trading relations. An example is the massive contraction of the American economy in 1980-82 and then equally massive expansionany policies beginning in late 1982.[14] Another example is the subsidization of research on technologies with commercial significance as constituted by the expenditures by President Reagan on the Strategic Defence Initiative. Alternate use of economic policies has been as a compensatory measure to cushion the fall of losers in economic activities or people whose economic activity is obsolete.[15]

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14. Gilpin n. 5 pp 210

15. For a clearer explanation see Charles Kindleberger <u>Government and International Trade</u> (Princeton University 1978) p.5

There has also been an increase in the 1980s of strategic trade plicy. This involvles the use of the state power to change the international strategic environment to the benefit of the home country firms. To elucidate forms of state power used most clearly were the US use of its status as largest market to threaten countries to accept voluntary export restraints.[16] Another method has been to protect the home market from outside competition enabling growth of demand that enables a domestic firm to achieve economies of scale to compete worldwide - this practice has been done by the Japanese successfully.

The World Debt Problem

The decade of the 1980s saw the most serious world debt problem in current history. The total world debt soared from around $ 100 billion in the early 1970s to $ 900 billion in the mid 1980s.[17] The heavy debtors were several of the world's larger LDCs including Mexico, Brazil and Argentina. The world economy remained gripped by the fear that the defaults of a single major debtor could bring about a financial panic that would break up the structure of international finance. The origins of this problem lay with the second oil crisis of 1979. With a shift by most

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16. In should be clarified that while VERS are a protectionist measure, they were achieved through Strategic trade policy.

17 Gilpin n. 5 p. 317

advanced economies to a policy of energy conservation and a more restrictive monetary policy by the US - major oil exporters like Algeria, Nigeria and Mexico faced a substantial fall in revenues.

The creditor stragegy to deal with this crisis had three key elements: (i) a combination of banks, governments and international organizations, acting as lender of last resort and providing liquidity to debtors (ii) an imposition of severe adjustment programmmes on the debtor and (iii) the responsibility given to the IMF to enforce the above adjustment.

The debtors asked for lower interest rates, a continuous flow of capital into their economies and the tying of the interest to export earnings and the ability to pay. In a respoonse to the worsening situation wherein debtors were scheduled to pay around 40 percent of their export earnings as interest,[18] the US proposed the Baker plan. By this plan the debtors would take steps to open their economies to foreign and direct investment, reduce the role of the state in the economy and adopt market oriented policies. In exchange the creditors would stimulate their economies to open them to debotr exports, enlarge the role of the World Bank in assisting debtors and increase debtor financing. The debt problem of the 1980s meant that

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18. Ibid p. 321

international capital flows would not return to the levels of the 1970s. Borrowing would be feasible only for credit worthy nations. The growing reluctance to loan hard currency to debtors had an overall depressing effect on the world economy.

Japanese American Interdependence

A notable feature of the 1980s was the growing interdependence of the American and Japanese economies. It was nothing short of a reversal of the historical financial position of the countries in the post war world. In 1981 Japan became the world's most improtant capital exporter. Its trade surplus rose from $ 35 billion in 1983 to around $ 53 billion in 1985. In 1985 the net capital outflow was an astonishing $ 64.5 billion; more than all the OPEC countries at their height and by 1986, Japan's net assets abroad were $ 129.8 billion[19] making it the largest creditor nation in the world. In the same period the US net asset position was approaching zero. While OPEC foreign investment was recycled into the market and therefore out of their control Japan's foreign investment was heavily in bonds and in its direct control. In the mid 1980s the Japanese chose to invest heavily in US treasury bonds.

This transformation in Japan's financial position came about through drastic cuts in oil consumption,

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19. Figures from Gilpin n. 5 p 328

expansion of exports and an accelerated climb up the technology ladder. Additionally, a high Japanese savings rate and reduced domestic investment coupled with the high Japanese productivity boosted Japan's earnings. Also beneficial was the price collapse of primary commodities in the 1980s of which Japan was a major importer.

At the same time the US was becoming a debtor nation. In fact by end 1985, the US had become the world's largest debtor with one year's borrowing at $ 100 billion.[20] This was primarily due to the tax and fiscal policies of President Reagan where a tax cut without a complementary cut in government expenditure had resulted in a huge budget deficit. Inadequate savings meant that the deficit would have to be financed through borrowings in the world captial market where the overvalued dollar and high interest rates led to the trade deficit. The three principal sources of US borrowing were the Arab OPEC producers, West Germany and Japan. This alone allowed the US to stimulate domestic consumption and embark on the largest military expansion in peace time history. In effect Americans were borrowing and comsuming by mortgaging their future.[21]

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20. Ibid p. 330

21. In 1985 the national debt was 2 trillion and by 1990 was 40 percent of GNP. See Gilpin n 5 p 346-7 for statistics on US debt.

What this borrwing did was to mask the relative economic decline of the US. The Japanese interest in investing in the US was partly explained by the difference in interest rates between the two countries and partly by Japan's dire need of foreign markets and outlets for its surplus capital. The 1980s, therefore witnessed the world monetary system being bsed on a tripartite currency -the dollar, the mark and the yen. This special relationship became increasingly important to both countries. The US was borrowing its own currency from the Japanese who were maintaining their most valuable export market the US. But during the late 1980s the position soured with Americans increasing restless over the purchasing power of Japan - specifically over Japan's purchase of propoerty and companies within the US. American mismanagement of its own internal affairs and of the international financial system caused the responsibility of being financial hegemon to fall up the Japanese. Historically, the world's leading financial power has assumed hegenomic status over its rivals. That is the question being investigated here.

The debate about decline

Given the Plethora of information about the US economic position from 1967 onwards, it seems obvious to say that it has declined in its position. But is the US a nation in decline ? Is the period of its hegemony over ? And is there any suitable contender for the post of leader of the world system ? These questions are the ones that spring up when one talks about the declinist debate which is the subject of this thesis. Though there exist many prior writings on the topic of decline of America, the study of its hegemonic position gained currency with the work of Paul Kennedy.

In 1987 Paul Kennedy brought out a magnum opus entitled "The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000." The book was an exercise in the survey of hegemons, unsuccessful contenders and the changing means of becoming a hegemon. Kennedy examined great powers like the Habsburg Roman Empire, the mid 17th century Netherlands, 18th and 19th century Britain and in the 20th century the USA and USSR. To a student of hegemony the book was a chronological manuscript linking past to the present. Of relevance to this topic are Kennedy's statements and projections about the current perceived US decline. The thrust of Kennedy's argument was that the US in the 1980s was a state in decline, that this decline was steady and inevitable and that it was caused primarily by the logic of imperial overstretch.[21a] Imperial overstretch was defined by him as the fact that the US could not, given its power resources defend simultaneously its global interests and obligations.

21a Kennedy n. 1 pp 666

Kennedy mentions power as arising from a variety of resources. He cites population, national income, military forces, share of world product, share of world manufactures, production, and level of defence spending as criteria that make a great power. In his discussion of this decline of US power, he focuses leavily on the example of Britain. Indeed Britain is perhaps the only great power that can be compared to the US today. The UK like the US in this century derived its power from superior economic performance notably in foreign trade, both countries became recognised hegemons after a long hegemonic war and both faced the problem of being gradually caught up with in economic performance by rivals.

In 1860 at the zenith of its power Britain produced around 20 percent of the world's iron and 50 percent of its coal. Additionally one third of the world's merchant marine was British.[22] Britain was essentially a trading state exporting manufactured goods and textiles while it imported raw materials and food stuffs. The period of British hegemony according to Kennedy, lasted over the length of the 19th century and was accompanied by a liberal economic intenrational order based on laissez faire or free trade.

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22. Ibid p. 194

The reasons for Britian's decline as a hegemon were as follows. The outflow of British capital invested abroad contributed to the long term expansion of other nations with the establishment of their industries, railways, ports and ships. The coming of the second industrial revolution based on electricity, chemicals and oil based energy, was better exploited by Europe and the US than Britain, as the former had newer plants and could afford to invest in new industries unlike the latter which had already existing, older plants.

Moreover, Britain became progessively more dependent on international trade and finance. By the mid 19th century exports comprised 20 percent of national income.[23] This dependence on export markets could be very critical in a period of conflict (as it proved in both world wars). Also British dependence on imports of foodstuffs and raw materials could create problems in a war if they were cut off.

According to Kennedy the shifting balance of world forces was eroding British hegemony by 1870. This was due to two major reasons. One, that the spread of industrialization and the resulting increase of military and naval strength of other powers was weakening the relative postiion of the British empire, since as the established

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23. Ibid p. 202

great power, it stood to lose more than gain from changes in the status quo. Britain could not by the 1890s afford its luxury of maintaining a fleet equal in size to the next two fleets. It could as Kennedy points out meet an American challenge in the Western hemisphere or increase strength in the Far East, but not do both simultaneously.[24]

Secondly, established British industries like coal, iron and textiles increased their output in absolute terms but their relative share of world production steadily diminished, and in the newer and more important industries such as machine tools, steel, chemicals and electrical goods Britain lost its early lead to the opening powers like Germany, the US and France.[25]

Moreover the British exports began to lose their competitive thrust in industrialised European and American markets which were protected by high tarriff barriers and Britain began to increasingly import more manufacturers into its unprotected home market. The high burden of imperiun made it necessary to avoid conflict where possible to save resources for a more dangerous confrontation. This was reflected in the British foreign poolicy between 1890-1914 when Britian made concessions to the US on the Venezuelan boundary dispute and agreed to negotiate with France over

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24. Ibid p. 293

25. For a more detailed explanation see Chapter V of Kennedy's book.

colonial disputes in West Africa and South East Asia. The most important point to note is that Britain gave up its position of isolationism and entered into the Triple Entente with France and Russia in 1904-5.

The first World War did more than any other factor to hasten the demise of British power. The colossal losses suffered by Britain and its indebtedness to the US weakened its position immeasurably. In 1918, British defence expenditures were up from from $ 91 million in 1914 to $ 1.956 billion - being 52 percent of GNP.[26] For some time during the inter war years British power was not visibly replaced by a superior one due to the preoccupation of the newborn USSR with its problem and the retreat into isolationism of the US. With the advent of world War II British power as a hegemon reached its visible end. For one Britain could not afford to fight the war on its own and had to rely on American Lend Lease aid from 1941 onwards. With the end of the World War II America replaced Britain effectively as wrorld hegemon even though the actual transition could have taken place after the end of world war I.

The necessity of discussing British hegemony is that Kennedy bases the demise of American hegemony as being analogous to British decline. He compares the US in the

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26. Ibid p. 344

1980s to Britain in 1900[27] as the inheritor of a vast array of stragegical commitments which had been made decades earlier when the nations power resources permitted them. The American imperial overstretch is due to its role in stabilising a world order set up by it and keeping the peace in the Far Fast, the MIddle East, Latin America and Western Europe. Kennedy lays a lot of emphasis on the bipolar conflict of the 1980s between the US and the USSR and the resulting military deployments and expenditures.

Similar to Britain the US faced a number of challenges in the 1980s requiring differrent levels of armed force eg. nuclear forces, conventional forces small arms equipped light commando forces. But to spend on all three levels is very high even for a superpower like the US - at 7 percent of GNP Kennedy considers the expenditure detrimental when compared to much lower Japanese and European strengths. In Kennedy's view like Imperial Spain and Britain, the US is declining on account of its imperial over stretch.

This view of US decline is vigorously countered by Harvard professor, Joseph Nye Jr. Nye argues against the premise that Americaan hegemony is in a state of decline. Nye's views on America's decline are expressed in his book <u>Bound to Lead: The Changing Nature of American Power</u> (1991) which he himself describes as a sort of riposte to Kennedy's

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27. Ibid p. 665

arguments. One of his major points is that the analogy of Victorian Britian and the US in the 1980s is misleading.

This stems from his critique of the hegemonic stability and transition theory espoused by Robert Gilpin.[28] This states in brief that the hegemon provides an international system of relative peace and stability. Gilpin and others subscribing to this thesis view Britain and US as stablisers in their respective eras. Nye points out that according to this theory the British era of free trade, laissez faire began decades after the Congress of Vienna in 1815. Also the return to protectionism by Britain began in the latter decades of 19th century when it was still a hegmon. Moreover Nye questions the very concept of British hegemony since it was never powerful enough to impose free trade on the US or Europepan countries as America did after 1945.

Importantly, Britain as Nye points out never had the highest GNP ranking third in 1830 and 1913. Britain's military personnel, also never came first in numbers among the great powers. Nor was its share of world manufacturing production prolonged - only between 1860 and 1890 did Brtain lead the world. The only clear lead over its rivals that Britain maintained consistently was its share of world trade

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28. For details see Robert Gilpin, n.5 pp 72-80

which may indicate a high degree of vulnerability to external factors.[29]

Nye points out some significant differences between the US today and victorian Britain that render the analogy as misleading. He argues that Britain's rise was purely because it was the first to benefit from the industrial revolution. He cites four major differences in late 19th century Britain and modern America. First the degree of predominance of Britain during its hegemony was nowhere as much as that of the US in its time. Britain never achieved the first position in GNP military spending or manufacturing in 1830, 1870 and 1913 in the world (except for briefly leading in manufacturing in 1870) while the US has between 1950 and 1983 led in all three spheres barring once in 1950 being second to the USSR in military spending.[30]

Secondly, the US has been a continental economy immune to nationalist disintegration since 1865, as opposed to these pressures affecting the British empire from the early 1900s. America in 1991 imported only 12 percent of US GNP compared with the British figure of 25 percent in

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29. For details see Joseph Nye Jr, Bound to Lead : The Changing Nature of American Power (Basic Books, New York, 1991) pp. 53-56.

30. For figures see Bruce Russet, "The Mysterious Case of Vanishing Hegemony", International Organisation vol. 39, Spring 1985, p 212.

1914.[31] This makes it much less vulnerable to external threats than Britain.

Thirdly, the American empire is not an empire, but a series of alliances with states possessing freedom and their own governments. The British empire was one in its literal meaning, thereby inviting more resistance from within. American trade is also less with unsophisticated markets and more with developed economies in direct contrast to the British position.

Finally, Britain in 1900 faced challenges from the US and Germany both of which had surpassed it in economic strength and were emerging militarily powerful. Today America is confronted by the USSR (which has itself became a victim of imperial overstretch) and Japan, which to date does not posses similar economic strength. Nye does concede that comparisons are valid when falling productivity, savings, investment and research and development are taken into account. However, it should be noted that while Britain fell behind in upcoming sectors of chemicals and electricity, the US still leads critical sectors such as information processing and biotechnology. While Britain exported capital the US can attract it and use it (albeit not for very long). And whereas emigration drained talented Britons out of their homeland, the US is increasing

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31. Nye, n. 29 p 65.

attracting immigrants which helps it retain energy and creativity.

Almost all theorists agree on one fact of American hegemony, that its sudden visibility in the post 1945 world was extraordinarily high and that this was an artificial and temporary effect created by the damaging effect of the world war on the rest of the world economy. The US, share of world economic activity in 1945 around 40 percent,[32] was unparallelled in history. Samuel Huntington says that, "if hegemony means having 40 percent or more of world economic activity ....American hegemony disappeared long ago".[33]

This fact is also noted by Kennedy who says that the US is returning to a more natural share in keeping with its resources. However, Nye points out that the steepest decline of American power was between 1950-73 (when the world economy returned to normal), which is often identified as the period of American hegemony. Since 1973 in terms of share of world product at least, the US position has been constant.[34] Furthermore, Nye holds the view that it is difficult to compare the American lead in software with the Japanese lead in manufacturing electronic microchips-which is more important?

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32. Samuel Huntington, "The US-Decline or Renewal?" <u>Foreign Affairs</u> (volume 67, No. 2 Winter 1988/89) p. 78

33. Ibid p. 82

34. See Nye n. 29 p 74

The focus of Nye's argument is on the fact that if the decline of American power from its artificial high following world war II is accepted, then the present stage where a stabilisation has been reached in certain sectors, should be treated as a period of America coming to terms with a normalised world situation. Though this normality had supposedly come about by 1967, the ongoing Cold War hid some of the schisms within the American alliance system which would otherwise have been visible. Similarly till the thaw in the cold war in the late 1980s, the vulnerability of the Soviet position did not become apparent.

Nye finds the same "vanishing world war II effect" when he examines American leadership in export shares of high technology products and military power-namely the decline in the artificially high preponderance of American hegemony. A significant point that he brings out is that many observers assume a degree of American influence in the postwar years that simply did not exist. Therefore, the present American crisis is treated as a comedown from that mythical position. He also puts forward the view that the US was never a military hegemon in the proper sense of the term, more an economic one, which goes a long way in explaining why it became open handed in economic aid after 1945, even if one accepts the political objectives of this aid. Even within its sphere the US was not supreme, witnessed from the increasing independence of Western Europe in the 1950s.

On the issue of the world monetary system, Nye feels that it was created in an abnormal period (right after world war II). As the world economy returned to normalcy, the US began to feel the pinch of its diminishing position. Therefore the imperative of helping its allies economically was no longer an American policy objective. In 1971, refusing to exchange gold for dollars, Nixon ended the Bretton Woods system taking the world off the gold exchange standard. Nye is of the view that those who view this year as marking the end of American hegemony are wrong. 1971 marked the end of the postwar preponderance in economic resources that the US enjoyed. But the world did not return to economic multipolarity.[35]. The USA's large economic resources allowed it to lead the international economic system till the end of the 1970s. Therefore, Nye argues, that if hegemonic economic behaviour is the ability to change the rules of the international game, then 1971 did not mark of US economic hegemony. If hegemonic economic behaviour means forcing openness on other states, then the US did not have great hegemony before 1971.[36]

Robert Gilpin disagrees with this view point. In his view American hegemony declined from 1973 onwards and by

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35. Ibid p. 94

36. Ibid p. 94. Moreover the use of pressure tactics to achieve its objectives was not resorted to by the US before 1971.

the 1980s multipolarity had set in. Gilpin bases his thesis on the grounds that American hegemony rested on the role of the dollar in the international monetary system and the extension of the US nuclear deterrent to its allies. As the dollar was functioning as a world reserve asset and currency, America could afford to finance its foreign policy by printing more and more. The US position as international banker also required it to create liquidity. But being the country whose currency was the standard (in effect the dollar functioned as such to which other currencies were pegged) meant that the US could not devalue the dollar. So though the Bretton Woods system was a source of power and independence for the US, it did not allow corrective measures like depreciation to check economic problems. The result was that the US destroyed the Bretton Woods system and became a debtor nation in the 1980s.

Gilpin is forthright in his view that 'in contrast to the century long Pax Britannica, the era of American hegemony lasted but few decades.'[37] He cites the cause of this decline as being due to excessive Keynesian policies and the escalation of the Vietnam war in the 1960s. Loss of control over the world monetary system (due to inability to handle it) and the growing vulnerability of the American economy to the actions of foreign governments,[38] underlined

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37. Gilpin n.5, p. 344

38. For a clearer exposition see Gilpin, n. 5 p.345, pp 140-41

the decline of American hegemony. Gilpin terms the US as a predatory hegemon during the years after the Vietnam war,[39] by which he means, it was less willing to subordinate its own interests to those of its allies; rather it tended to exploit its hegemonic status for its own purpose. Gilpin bases his arguments taking economic criteria as more important than politico-military influence in determining hegemonic power.

He also believes like many others, that the policies of the Reagan administration acelerated the deteriorating economic position of the US. Both the rate of national savings and domestic investment declined, while the ratio of debt to GNP reached a disturbingly high level.[40] The policies of Reagan in the 1980s simply meant paying less taxes but having to borrow abroad for Americans. This borrowing raised the total outstanding debt to $ 7.1 billion by the end of 1984.[41] For Gilpin, in the latter decades of the 20th century the US has been in the classic position of a declining hegemon caught between its many commitments and decreased power. The increased costs of maintaining the hegemonic military and political position did not allow the US the capacity to finance its hegemony-a view similar to Kennedy's concept of imperial overstretch.

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39. Ibid p. 345

40. See Gilpin n.5, for figures p. 346

41. The New York Times April 30, 1986

For a while during the Johnson and Nixon administrations the US masked this decline by printing dollars, but this ultimately wrecked the Bretton Woods system, later in the Reagan era, the US used foreign borrowing to finance its hegemony, notably Japanese finance. This infusion of Japanese funds, out of a desire to keep their largest export market stable, has resulted according to Gilpin in the creation of an integrated US -Japanese economy, what he calls the Nichibei economy. Gilpin views this American decline as continuous, long term and irreversible. He is supported in this view by economist Martin Feldstein who estimated in 1986 that the US would require a balance of trade surplus of about $ 100 billion a year for a number of years to retire the accumulated foreign debt.[42] Gilpin, in the final analysis, gives three reasons as to why he believes that the decline of US hegemony is irreversible. First, he feels that the competitive position of the US has been permanently damaged in important sectors. Second, repayment of the massive American external debt will absorb a large share of America's productive resources for many years. And third, the American preference for foreign goods and the expansion of productive capacity abroad have decimated many industries in which America once had a strong comparative advantage.

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42. Martin Feldstein in Gilpin n. 5

While Gilpin and Nye study the perceived decline in American hegemony over the short term, that is over the past quarter century, a school of theorists prefer to study the problem as part of a set of world capitalist processes over which national states have little sway. This school, which for a lack of a better name, can be dubbed the long term school, adds factors such as world wide overproduction, the age and mobility of transnational capital, the comparative costs of labour and military spending and the resurgence of competitors to the US, who had been devastated by World War II. This school consists of neo Marxists such as Immanuel Wallerstein, Andre Gunder Frank and includes Chistopher Chase Dunn, Terry Boswell, Albert Bergesen and George Modelski.

Immanuel Wallerstein was one of the major contributors to world systems theory. Briefly, this theory treats the capitalist world economy as a totality in world system theory. The term world system refers to the grid of independent exchange of necessities for product by the international division of labour. This division of labour has come about since the Industrial Revolution and comprises a core of industrial nations, which includes the US, Western Europe and Japan; a periphery of largely agricultural nations with labour intensive economics and a semi periphery, which combines elements of both core and periphery and stabilizes the system by preventing polarization.[43]

The world systems theorists see the decline of US power as analogous to the British decline in the 19th century. Wallerstein feels that no US government policy can reverse the relative decline of the US standard of living and of US power that is presently occurring. This decline is viewed as another link in the chain of leading states that have declined over history. Wallerstein cites Venice in 1500, Holland since 1600 and Britain since 1873 as other hegemons in decline.[44]. Like Kennedy, he views the decline as inevitable and irreversible.

He views the decline of leading states as part of a pattern of revolving doors of the capitalist world economy as it has historically operated.[45] Wallerstein's definition of hegemony is that rare phenomenon when one state has relative advantages in agro-industrial production, commerce and finance. Also, he includes the fact that the state can impose its rules in the economic, political, military and

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43. For details refer to Immanuel Wallerstein, The Modern World System (Academic Press, New York 1974)

44. Immanuel Wallerstein in "The United States and the World Crisis" in Terry Boswell and Albert Berglsen eds. America's Changing Role in the World System. (Praeger, New York, 1987) p. 17

45. Ibid p. 18

even cultural areas. Wallerstein claims that there have been only three modern instances of hegemony - in the Netherlands, 1620-50, in Britain 1815-73 and in the US, 1945-67.

Eachtime the hegemony was secured by a thirty year long world war, after which a new order followed-the peace of Westphalia in 1648, the Concert of Europe after 1815 and the Bretton Woods based order after 1945. In the case of the US, Wallerstein argues that it created the post war order to have market outlets and uninterrupted production. The latter was secured through a de facto social contract with its corporations and trade unions, where for increased profits and wages, they provided social peace and increased productivity. Culturally, America dominated the world through "Americanization" which introduced individualism, freedom and the consumer culture. The hostile Soviet Union was taken care off by isolating it through a policy of containment.

Wallerstein gives four factors that were responsible for the weakening of American hegemony. Firstly, the reconstruction of Western Europe and Japan, bred productive rivals, who had newer plants and lower costs. Secondly, the US spent steadily more on defence; a fact which became clear during the Vietnam war. Thirdly, the thaw in the Cold War in the 1960s weakened the US centric alliance system by liberating its allies from the wartime discipline. Lastly, this same thaw and the removal of immediate confrontation with the USSR ended the consensus

between left and right in America, that had so far given stability.

Wallerstein believes the decline to be structural. The US based transnationals are shifting out of the US, moving investment and personnel abroad. At the same time Japanese corporations have moved in, seeking a foothold to grab a larger share of the American market. Wallerstein makes one important point. He feels that only one thing can prevent the decline in the US standard of living over the next 10 to 50 years and that is a massive dose of social redistribution both internally in the US and globally. His explanation is that to the extent that the real wages of textile workers in Malaysia or automechanics in Venezuela are increased, the less maneouverability transnationals have in relation to US textile workers and auto mechanics. In this Wallerstein views the US population and the transnational corporations as being at odds with each other and therefore global redistribution would curb the bargaining power of the latter. Furthermore, Wallerstein is at odds with the hegemonic stability schools when he argues that a redistribution of more equitable military power, would not allow any one power to risk waging war.

Unlike Wallerstein, Terry Boswell, also of the long term school, feels that despite the relative decline in hegemony, the US remains the dominant power and its hegemony will continue albeit in a weakened form. [46] This would be so because there exists no other contender for this post currently. This incidentally is also Nye's view which will be discussed later.

Nye has criticized Wallerstein's view of hegemony as being superficial and having loose ends. He says that the Dutch inspite of their trade derived wealth, could not militarily defend themselves, against the British at sea or the French on land, much less impose their will on other states. So there existed no hegemony of the Dutch.[47]

Another major theorist of long term study of hegemons is George Modelski. He proposed a hundred year cyclical view of changes in world leadership. In this view, a longe cycle begins with a major global war, which throws up a new hegemon. Over time the leader loses legitimacy and the deconcentration of power leads to another global war. According to Modelski, the US began its decline in 1973. An interesting point that he makes is that often the new leader may not be the challenger of the old leader but one of the more innovative allies (as, not Germany, but the US replaced

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46. Terry Boswell n. 43 p. 95

47. Nye n. 29. p 44

Britain). Following this logic it would be Japan and not the USSR which would challenge the US in the future.[48]

Samuel Huntington, is of the view that US hegemony is not over. He treats the current wave of declinist writings about America as the fifth in a wave of such literature. The first was in 1957 after the USSR launched Sputnik, the second, after Nixon's announcement of multipolarity in the 1960s, the third after the oil embargo of 1973 and the fourth after Soviet expansion in the late 1970s.[49]

Morecver, Huntington points out that firstly, trade and budgetary deficits were not a problem prior to 1982. Had they been a direct result of weaknesses in productivity, savings and investment, they would have arrived before then. He cites their resulting from Reaganomics polices of tax cuts, accompanied by high defence expenditures and a strong dollar. Secondly a reversal of these trends had begun in 1988. Changes in the policies of the Reagan Administration, in that of after governments and the working of the international economy had reduced the

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48. For details see George Modelski, Long Cycles in World Politics (University of Washington Press, 1987) pp 40-56

49. Huntington, n. 31, p. 95

deficit in 1988 to half the level of 1983 as percentage of GNP.[50]

Huntington also puts forward the finding that when the drop in US GNP share is compared between 1945-85 from 40-45% of world GNP to 20-25 percent, it should be noted that the steeper fall was between 1945-67. From 1967 onwards, the GNP level has remained stable around 23 percent. He also states that the US performance was better in the 1980s. Between 1983-87 he cites the US and Japanese economies as growing at the same rate. Huntington says the GNP pattern emerging in the 1960s is the historically normal pattern approximating the distribution prior to world war II.

He also refutes the fact that the American defence expenditures are high since at 6 - 7 percent of GNP, they are affordable. Further the US is not likely to decline because of its commitment to competition, mobility and immigration rather than monopoly and protectionism. He also states that American strength is still multidimensional-economic, political and military. It has no colonising past and so can assume a leadership role. Finally, neither Japan nor Europe can be hegemons currently. Japan has no idea for appeal beyond its borders. It is xenophobic, insulated by

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50. Ibid p. 77

its language and has made no attempt to spawn a world popular culture-a must for any hegemon.

British political economist, Susan Strange supports the importance of cultural hegemony and cooptive and soft power resources. As she puts it,"the American language has become the lingua franca of the global economy

language will never rival English ...By comparison with this predominance in the knowledge structure, any loss of American capability in industrial manufacturing is trivial and unimportant."[51] Strange also asks whether it is more desirable that Americans should wear blue collars and mind the machines or wear white collars, and design, direct and finance the whole operation-pointing to America's lead in the services sector which is an increasingly important one, especially in the field of information processing. She also feels that US power is augmented by the network of US based transnational corporations since as she puts it, "...their managers still carry US passports, can be subpoenaed in US courts, and in war or national emergency would obey Washington first. Meanwhile, the US government has gained new authority over a great many foreign corporations operating inside the United States. All of these are acutely

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51. Susan Strange States and Markets (Basil Blackwell, New York, 1988) p. 133

aware that the US market is the biggest prize".[52]

Joseph Nye Jr. also stresses on international norms and institutions as providing power in the sense that they structure other countries preferences in a manner that accords with that of the dominant power. For example, the United States still retains a very high level of influence in GATT, the IMF, the World Bank and the UN Security Council. Illustrative of Nye's point is the fact that during the Gulf War of 1990-91 the US was able to influence its allies into creating the multinational force and defeating Iraq, inspite of the problems of pan Anabism and pan Islamism that it faced. Nye and Kennedy have gone into great lengths to point out that militarily the US is still more powerful than the Soviet Union. However, at this time the Soviet Union does not exist, except as a group of federated states, bickering over the remains of that vast empire.

A point that many scholars of hegemony have noted is that American hegemony may be in relative decline, but its successor is nowhere apparent. By Paul Kennedy's own showing, Britain which started declining around 1890, was not replaced effectively by another power until 1942-43. Who then could be termed a possible successor to the US? Nye dismisses the chances of a unified Europe doing so, pointing out that after 1973, Europe has shown a decline in its rate

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52. Ibid p. 237

of growth. It specialized not in the new wave technologies, but in medium technology products which are prone to competition from Asian producers. Moreover, the EC seems to be developing more into a large protected area than as a new venue for free trade and economic expansion.

The success of Japan in the past two decades has led many to believe that it is the logical successor to the US. However, most Japanese do not seen very sure about a 'Pax Nipponica' replacing the 'Pax Americana' . More frequent are descriptions of a 'US centred Pax Consortis with Japan in a supporting role[53] Joel Kotkin and Yoriko Kishimoto authors of a book entitled **'The Third Century: America's resurgence in the Asian Era,** refers to America having sokojikara or 'reserve powers.'[54] This reserve power comes from the sheer size of the American economy, its low dependence on foreign trade (even today and relative to other economies) its massive resource base and its universities. But Japan has no culture that is relevant for the rest of the world. It has a history of a hesitant foreign policy. A hegemon must have a sense of leadership and responsibility and Japan does not have that. Also it is in danger of stimulating protectionist reactions as it is

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53. See Nye n. 29 p 155.

54. Joel Kotkin and Yoriko Kishimoto, The Third Century; America's Resurgence in the Asian Era (Crown, New York, 1988)

too large a player to have a free ride in the in the international trading system only longer.

The end of this debate will probably take over a decade or so before patterns of the international economy resolve into a more identifiable way. In 1992, the US appears triumphant. Militarily, economically or politically it has no equal. Panama, the Gulf and the cessation of the Cold War are major victories for US foreign policy. The fact that, now the concept of the market economy is prevalent throughout the world, and there exists no political challenger can help the US to drop its benevolent attitude towards allies who are economic rivals. The threat of access to the large American market remains a very powerful tool to keep recalcitrant economic partners in line. All these advantages will be of no use if the US does not check its decline in terms of its macroeconomic policies, cuts its defense expenditure and reassesses its role in today's world to safeguard its position. Further decay could perhaps be halted if a concerted attempt is made in the field of education, research and development and a lower consumption by the American population. This is the view of Nye, Strange and Huntington while Wallerstein, Gilpin and Kennedy believe the decline to the irreversible. As yet no indication has come about in the ainternational stage to change the status quo and tilt the debate towards one of these views.

CONCLUSION

The theories and assertions of various scholars that were examined over the past few chapters do not enable a definite, positive finding ; however, a few general observations can be made on the subject of American hegemony and its decline.

In the first place it is quite clear that the US became a hegemon in 1945 with the exercise of the power that it had accumulated over the past half century. It is still the hegemonic power, albeit a diminished one, financed by Japanese capital, and increasingly dependent on its politico-military power to offset its growing economic weakness. Hegemony is concerned with leadership and as the recent events have shown, notably the Gulf War, the United States is today the unquestioned leader of states in the world. Its ideology of freedom and democracy stands vindicated with the fall of the Soviet Union. And as explained before, cooptive power arising from language, culture, and other nonconventional sources, is very important since it can cover the economic decline for a number of years. Also, unless any other state shows inclinations for leadership the american hegemony stands unquestioned.

It would seem that the proponents of the hegemonic stability theory are right when they argue about a hegemon's stabilizing role. Over the past quarter century as American hegemony appears weaker, the international economic system has become increasingly unstable and has been characterised in the 1980s by uncertain markets for primary products, the new protectionism of voluntary export restraints and bilateralism and the use of measures like super 301.

There does not seem enough evidence to corroborate the long term school's view point that a global war is necessary to decide the new power. This was probably correct historically, but today the probabilities of war between hegemon and challenger have been reduced significantly, to trade wars or economic sanctions. But Wallerstein's definition of hegemony means that the US is not a hegemon, since it does not have an advantage in either agro-industrial production or finance. But as Susan Strange pointed out, in a increasingly global economy, power can come from control over multinational corporations, and not necessarily from ownership of resources alone. In information and knowledge based industries, the US still commands a visible lead. Today the US has an edge in the computer, robotics, aerospace, aircraft and biotechnology industries over its major rivals. Also, the nature of the global economy has changed over the years. The American subsidiary of a Japanese firm is more American than Japanese in nature. It is based in the US, has production sites there, employs American labour and adheres to American tastes. Japan recognizes this fact and seems to have accepted its economy being entwined with the American economy.

Regarding the decline of American hegemony - one fact should be clearly understood. The decline from 1945-67 should be accepted as stemming from the normalization of the global economy to the pre war level, where the American share of world economic activity would necessarily drop. Politically, this would mean that as other countries depended less on the US for their prosperity and security they tended to stop being acquiescent allies and their demand for a voice in world affairs grew. As shown, the American share of GNP has remained relatively constant since 1967, meaning that the American economy has not retarded as much as believed. America's comparison suffers most with Japan, but Japan is a special case. Its inherent advantages of homogenity, work ethic, low consumption and a protected market has helped it rise along a mercantilistic export led growth path. But as a matured economy, which it is now it will find these very factors detrimental. A mature economic power has to help the world economy to grow by consuming and not just by building surpluses. Also, Japan's insularity, lack of a cultural ethos to offer to the world and an unwillingness to involve itself in world affairs stand in the way of its becoming a hegemon. Moreover, Japan's dependence on the American market and the control over its other export outlet - the South East Asian market by the US, increase its vulnerability to American action.

It should be noted that the American decline is largely due to a mix of wrong economic policies of the US, increased defence expenditures and unwillingness of Americans to cut down on their consumption. Economic policies can be altered, defence expenditures are likely to go down following the end of the Cold War and the current recession has forced Americans to cut down consumption to more realistic levels. American resistance to a cut in consumption, had led the Reagan administration to embark on its antitax policies which led to the large national debt.

Importantly, the US unlike previous declining hegemons is not falling back on its colonial empire like Britain did with its policy of Imperial preference. Instead it is pressing more for free trade. It is obvious that given a free liberalized world economy, the Japanese surplus will drastically shrink due to the inflow of cheaper agricultural imports.

The quality of leadership appears to be lacking in America's principal rivals - the EEC and Japan. Given the present state of affairs and based on this research the current American hegemony (visible in the Gulf War) looks good for at least a quarter century. At the moment, the only factors that can bring about an accelerated American decline are controlled by Americans - their consumption pattern, their educational standards and their trade and fiscal policy. If corrective measures are not taken here, the pax Americana could well pass into history.

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