

Influence and Hegemony: Shifting Patterns of Material and Social Power in World Politics

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Abstract

Throughout the postwar era, many realists and liberals have maintained the fiction of American hegemony. They have described it as the keystone to global political and economic stability.¹ They have also worried that US hegemony was in decline. In the 1970s, these fears were triggered by the resurgence of Germany and Japan, and in the last decade, by the remarkable rise of China. We contend that US hegemony, to the extent it ever existed, was a short-lived postwar phenomenon; that the US frequently behaved in ways that has threatened the order it is allegedly committed to upholding; that hegemony is unnecessary – perhaps inimical – to global stability; and that the functions associated with hegemony have in practice become increasingly diffused among the great powers. Conceptually, the commitment to hegemony stands in the way of our understanding of contemporary international relations. Substantively, it offers an inappropriate and unrealistic role model for American policymakers.

Keywords: Power, influence, hegemony, realism, liberalism, sponsorship, collaboration

The starting point of our argument is Charles Kindleberger's 1973 formulation of international leadership. It has provided the intellectual foundation for so many liberal and realist arguments about hegemony and its utility. Although he never uses the word hegemony, and indeed railed against the term,² Kindleberger identified a series of economic functions that a dominant state must perform in order to bring about and sustain international order. Liberals and realists then layered other integral leadership and security functions on the top of these original economic ones to complete a more comprehensive list. In this article we ask the extent to which these functions are performed today and by whom? We show how a significant number of states contribute to the performance of these functions, and that their contributions are not necessarily related to conventional understandings of their power. Contra the assertions of many realists and liberals, we argue that, especially in recent years,

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¹ For an unabashed celebration of the benefits of American hegemony see Robert D. Kaplan, "Anarchy and Hegemony," *Stratfor Global Intelligence*, April 17, 2013, accessed April 25, 2013, http://www.stratfor.com/weekly/anarchy-and-hegemony?utm_source=freelist-f&utm_medium=email&utm_campaign=20130425&utm_term=Kweekly&utm_content=readmore&elq=255bf7b24fd44d4fa1070e089da25b2c. For a rebuttal of this kind of argument see Simon Reich and Richard Ned Lebow, *Good-bye Hegemony! Power and Influence in the Global System* (Princeton: Princeton University Press, 2014).

² Charles P. Kindleberger, "Hierarchy versus Inertial Cooperation." *International Organization* 40, no. 4 (1986): 841-47.

the US has consistently violated its self-proclaimed hegemonic role. It has acted in ways that at times undermine global economic and political order. Europe and China, by contrast, have played differing but critical roles, and China – in contrast to many American critics - has become a major supporter of the existing economic order.

What accounts for the remarkable divergence between theory and reality? Scholars never approach problems from privileged vantage points but as members of societies, where their thinking often reflects the assumptions of the elites to which they belong or seek to influence. Realist and liberal thinking alike mirrors the relatively mechanical, culturally uninformed American approach to problems of all kinds. It also reflects and helps to sustain the American “leadership” project. This is most evident in their emphasis on material capabilities as the source of power and their equation of power with influence. We disaggregate these categories and show how capabilities are only one source of power and power only one source of influence. Influence is situation-specific and rests as much on social as material power. This is a first step toward developing a more sophisticated approach to the post-Cold War world in the 21st century and America’s role within it.

1. The Shared Liberal and Realist Research Program

It has been several decades since the term hegemony was first brought into common usage in American IR theory. Empirically, liberals and realists assert that American hegemony began in 1945 and - despite a series of cycles that seen American power wax and wane since the 1980s - it has largely retained its unipolar power and its hegemonic status.³ Certainly, the seminal work of realists such as Robert Gilpin and historians such as Paul Kennedy called the issue into question in the 1980s.⁴ So did a series of popularized books about the threat to US preeminence posed by the rise of Japan.⁵ The end of the Cold War, however, replaced this fatalism with a sense of triumphalism reflected in a variety of academic and populist work in which there seemed to be no limit to America’s capacity for political, social and economic engineering on a global scale.⁶ The latest stage in this cycle has been in the aftermath of the 2008 recession, in which the People’s Republic of China has replaced Japan as the prospective threat to American hegemony.⁷ Yet both academics and policymakers alike retain the view that the US has defined the contours of the global system; is a model of emulation and the source of its dominant values; is still structurally the dominant actor in the global capitalist system; and can address the threat posed by a rising challenger to retain its hegemonic status if it acts preemptively.⁸ In his most recent book, for example, John Ikenberry suggested that

³ Stephen G. Brooks and William C. Wohlforth, *World Out of Balance: International Relations and the Challenge of American Primacy* (Princeton: Princeton University Press, 2008); G. John Ikenberry, et al., eds., *Unipolarity and International Relations Theory* (New York: Cambridge University Press, 2011).

⁴ Robert Gilpin, *War and Change in World Politics* (New York: Cambridge University Press, 1987); William C. Wohlforth, “The Stability of a Unipolar World,” *International Security* 24, no. 1 (1999): 5-41, and “U.S. Strategy in a Unipolar World,” in *America Unrivaled: The Future of the Balance of Power*, ed. G. John Ikenberry (Ithaca: Cornell University Press, 2002), 98-120; G. John Ikenberry, *Liberal Leviathan: The Origins, Crisis, and Transformation of the American World Order* (Princeton: Princeton University Press, 2011), 4.

⁵ George Friedman, *The Coming War with Japan* (New York: St-Martin Press, 1991); Shintarō Ishihara, *The Japan That Can Say No* (NY: Simon & Schuster, 1991).

⁶ Francis Fukuyama, *The End of History and the Last Man* (NY: Free Press, 1992); Charles Krauthammer, “The Unipolar Moment,” *Foreign Affairs* 70, no. 1 (1991): 23-33; Mortimer Zuckerman, “A Second American Century,” *Foreign Affairs* 77, no. 3 (1998): 18-31; Richard Haass, “What to do with American Primacy?” *Foreign Affairs* 78, no. 5 (1999): 37-50; Niall Ferguson, “Welcome to the New Imperialism,” *The Guardian*, October 31, 2001, accessed August 8, 2011, <http://www.guardian.co.uk/world/2001/oct/31/afghanistan.terrorism7>; and Niall Ferguson, *Civilization: The West and the Rest* (London: Allen Lane, 2011).

⁷ Aaron L. Freidberg, *A Contest for Supremacy: China, America and the Struggle for Mastery in Asia* (NY: Norton, 2011).

⁸ See, respectively, Ikenberry, *Liberal Leviathan*; Joseph S. Nye, Jr., “The Future of American Power,” *Foreign Affairs* 89,

for decades the American led liberal, rule-based hegemonic order “has been remarkably successful.”⁹ Thus, although the sirens warnings of American fatalists are evident and often well publicized, they are best characterized as prognostications about what may happen, not what has happened.¹⁰

2. The Three Elements of American Hegemony

American hegemony, according to its proponents, has three organically related components: The first is leadership, which operationally means agenda setting, value prioritization and the construction of rules and institutions. The second is economic management. The foundation for this claim is, of course, the work of economic historian Charles Kindleberger.¹¹ The leader in this system is ‘the lender of last resort’ who provides stability and liquidity to the economic system. Liberals in particular have made this assumption foundational to their analysis, although – with one recent exception -- there is little evidence of any empirical assessment as to whether the US performs these functions.¹² The third component is guarantor or of the security architecture, often described in terms of the US being the “world’s policeman” or an “indispensable nation,” in enforcing rules regarding free trade, democracy and peace.¹³

American hegemony is largely characterized as benign, and mutually beneficial as a system that produces public goods. Thus, as Ikenberry suggests, the US has championed multilateralism, built global institutions, and provided services, security and open markets as “the “owner and operator” of the liberal capitalist political system.”¹⁴ In the absence of a hegemon, suggest realists like Michael Mandelbaum, the alternative is instability at best, chaos at worst.¹⁵

Liberals and realists define power as the determinant of behavior, and power itself is defined in material terms -- whether military capability or economic resources. New Liberal institutionalists such as Robert Keohane do mention the importance of “sets of implicit and explicit principles, norms, rules, and decision-making procedures.” Similarly, Ikenberry discusses the importance of democracy as one of the “moving parts” in the construction of a liberal order.¹⁶ Yet, operationally, the emphasis firmly remains on material resources and

no. 6 (2010): 2-14; Carla Norrlof, *America’s Global Advantage: US Hegemony and International Cooperation* (Cambridge, UK: Cambridge University Press, 2010); Christopher Layne, “The Waning of U.S. Hegemony—Myth or Reality? A Review Essay,” *International Security* 34, no. 1 (2009): 147-72, especially 148; Aaron L. Freidberg, “The Future of U.S.-China Relations: Is Conflict Inevitable?” *International Security* 30, no. 2 (2005): 7-45; Freidberg, *A Contest for Supremacy*; John J. Mearsheimer, *The Tragedy of Great Power Politics* (New York: W.W. Norton, 2001), 400.

⁹ Ikenberry, *Liberal Leviathan*, 2.

¹⁰ Layne, “The Waning of U.S. Hegemony”; Freidberg, “The Future of U.S.-China Relations”; Mearsheimer, *The Tragedy of Great Power Politics*.

¹¹ Charles P. Kindleberger, *The World in Depression, 1929-1939* (Berkeley: University of California Press, 1973), 305.

¹² Robert O. Keohane, *After Hegemony: Cooperation and Discord in the Modern World* (Princeton, NJ: Princeton University Press, 1984). For one such assessment as it relates to the 2008 economic crisis see Carla Norrlof and Simon Reich, “American and Chinese Leadership during the Global Financial Crisis: Testing Kindleberger’s Stabilization Functions,” *International Area Studies Review* *International Area Studies Review* (2015): 1-23, doi: 10.1177/2233865915573638.

¹³ Michael Dobbs and John M. Goshko, “Albright’s Personal Odyssey Shaped Foreign Policy Beliefs,” *The Washington Post*, December 6, 1996, A25; Madeleine K. Albright, “The Today Show,” interview by Matt Lauer, *NBC-TV*, Columbus, Ohio, February 19, 1998; Daniel Deudney and G. John Ikenberry, *Democratic Internationalism: An American Grand Strategy for a Post-Exceptionalist Era* (New York: Council on Foreign Relations, 2012), 1; Roger C. Altman and Richard N. Haass, “American Profligacy and American Power,” *Foreign Affairs* 89, no. 6 (2010): 25-34.

¹⁴ Ikenberry, *Liberal Leviathan*, 2.

¹⁵ Michael Mandelbaum, *The Frugal Superpower: America’s Global Leadership in a Cash-Strapped Era* (Philadelphia: Public Affairs, 2010), 3-8; Robert D. Kaplan, “Anarchy and Hegemony.”

¹⁶ Robert Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton, NJ: Princeton University Press, 1984), 57; Stephen D. Krasner, “Structural Causes and Regime Consequences: Regimes as Intervening Variables,” in *International Regimes*, ed. Stephen D. Krasner (Ithaca, NY: Cornell University Press, 1983), 355-68; G. John Ikenberry, “Grand Strategy as Liberal Order Building” (unpublished paper prepared for conference on “After the Bush Doctrine: National Security

their capacity to orient the behavior of those subject to American hegemony.¹⁷ Thus while terms like “legitimacy” in relation to authority do lurk in the background, they are given insignificant explanatory weight.¹⁸

Beyond simply describing or explaining the dynamics of this global system, many American IR theorists and foreign policy and national security analysts have a normative commitment to American world leadership. Although the US as a hegemon acts out of self-interest, this scholarship claims that the US is justified in doing so because it generates public goods such as stability, prosperity and democracy. Others have willingly acceded to these arrangements. G. John Ikenberry, in *The Liberal Leviathan* for example, suggests that Europeans were happy to hand over the reins to their American counterparts, in the hope that the global system would evolve largely along the lines designed and implemented by Americans.¹⁹ Others offer a one-sided reading of the early Cold War in their claim that US hegemony was “largely an empire by invitation.”²⁰

Realists and liberals have historically debated about how much cost the hegemon should bear (a free ridership problem) and whether it should adopt a short or long term perspective. But they coalesce around the claim that hegemons create the institutions or regimes that routinize interaction for mutual benefit, not for domination.²¹ American politicians and policy makers share this view, and routinely make reference to America’s unquestioned and wholly legitimate economic and military dominance.²²

Liberals and Realists largely concur that the US currently retains its central position, despite the disruptive effects of the 2008 recession. Daniel Deudney and G. John Ikenberry, in a Council on Foreign Relations report, for example, emphasize this point, even as they contemplate a post-hegemonic world. Similarly, Stephen G. Brooks, G. John Ikenberry and William C. Wohlforth, in a notable *International Security* article offered a resolute defense of continued American engagement. These include the “reduction of transaction costs, establishment of credible commitments, facilitation of collective action, creation of focal points [and] monitoring.” Thus the US, in the famous words of Madeline Albright, remains “exceptional and indispensable” to the stability of the global system.²³

This work collectively highlights that American liberals and realists have a lot more in common than might be evident from the copious number of articles that dominate the

Strategy for a New Administration,” University of Virginia, June 7-8, 2007); Ikenberry, *Liberal Leviathan*, 2.

¹⁷ Ikenberry, *Liberal Leviathan*, 2.

¹⁸ Ikenberry, *Liberal Leviathan*, 6.

¹⁹ Ikenberry, *Liberal Leviathan*, 2; For a criticism of this benign view of American postwar treatment of European powers see Benn Steil, *The Battle of Bretton Woods* (NY: Council on Foreign Relations, 2013); Tony Judt, *Postwar: A History of Europe Since 1945* (NY: Penguin Press, 2005); Alan Milward, *The Reconstruction of Western Europe, 1945-1951* (London: Methuen, 1984); William Appleman Williams, *The Tragedy of American Diplomacy* (New York: Norton, 1988).

²⁰ Geir Lundstadt, *The American “Empire”* (Oxford: Oxford University Press, 1990); Charles S. Maier, “Alliance and Autonomy: European Identity and U.S. Foreign Policy Objectives in the Truman years,” in *The Truman Presidency*, ed. Michael Lacey (Cambridge: Cambridge University Press, 1991), 273-98; John Lewis Gaddis, *We Now Know: Rethinking Cold War History* (New York: Oxford University Press, 1997); Thomas F. Madden, *Empires of Trust: How Rome Built—and America Is Building—a New World* (London: Plume, 2009).

²¹ Keohane, *After Hegemony*; Krasner, “Structural Causes and Regime Consequences,” 2. Undermining their position on this point see, for example, Charles P. Kindleberger, “Dominance and Leadership in the International Economy: Exploitation, Public Goods, and Free Rides,” *International Studies Quarterly* 25, no. 2 (1981): 242 and 248.

²² “Remarks by the President,” The White House, August 8, 2011, <https://www.whitehouse.gov/the-press-office/2011/08/08/remarks-president>.

²³ Dobbs and Goshko, “Albright’s Personal Odyssey,” A25; Albright, “The Today Show”; Mandelbaum, *The Frugal Superpower*, 3-8; Deudney and Ikenberry, *Democratic Internationalism*, 1. Stephen G. Brooks, et al., “Don’t Come Home, America: The Case against Retrenchment,” *International Security*, 37, no. 3 (Winter 2012/13), 7-51. See also Altman and Haass, “American Profligacy and American Power,” 25-34.

pages of America's most eminent international relations journals. Why do liberals and realists continue to mine the question of American hegemony as a research program despite a welter of evidence that the term has little relevance to the evolving global system? Hans Morgenthau provides one possible explanation. In the 1950s and 1960s he repeatedly criticized international relations theory for failing to speak truth to power. In his view, the close links among universities, foundations and government made it relatively easy to co-opt the discipline's principal spokesmen and to substantially reward those who said and wrote what those in power wanted to hear.²⁴ But there is a second, more benign explanation for this phenomenon: scholars are products of the same culture as policymakers and are likely to share their worldviews. For this latter reason, we believe, many American IR theorists and foreign policy and national security analysts have a normative commitment to American world leadership and a substantive investment in its perpetuation as a research program even as its relevance declines. The effect has been to create theoretical, empirical and normative blinders that ironically serve to obscure reality and, somewhat ironically, undermine America interests.²⁵

3. So How Long Did Hegemony Last?

US hegemony was a short-lived postwar phenomenon. Imre Lakatos famously asserted that waning theories built auxiliary hypotheses when presented with important evidence with which they are irreconcilable.²⁶ Liberals and realists appear to have been revising both history and theory through this means in an effort to substantiate their continued research program on American hegemony. Admittedly, they go through cycles where they assert, in the famous words of Samuel Huntington, either American "decline or renewal."²⁷ Although this scholarship recognizes the cycles and challenges to American hegemony, there is little dissent from the view among these scholars that unipolarity continues unabated. Certainly, the political science and historical literatures are replete with warnings about 'imperial overstretch,' ranging from Robert Gilpin's seminal *War and Change in World Politics* to Paul Kennedy's historical tome *The Rise and Fall of the Great Powers*.²⁸ Yet the debate appears to replay, dating from the 1980s, without a consensus being agreed about any terminative date. Robert Keohane for example, published his seminal book *After Hegemony* in 1984. Charles Kindleberger, who coined the term "stabilizer," and on whose analysis liberals and realists are so reliant, declared American hegemony dead even earlier - by the end of the 1970s.²⁹ Then the rise of Japan created the specter of a power transition. Yet the end of the Cold War and the implosion of Japan's economy provided both liberals and realists with the opportunity to resurrect the notion of continued American hegemony. A brazen arrogance led to military adventurism in Iraq – what Richard Haass famously referred to as a war of choice.³⁰

²⁴ Hans J. Morgenthau, *Scientific Man vs. Power Politics* (Chicago: University of Chicago Press, 1946) and *Truth and Power: Essays of a Decade, 1960-1970* (New York: Praeger, 1970), 14-5; Robert J. Myers, "Hans J. Morgenthau: On Speaking Truth to Powers," *Society* 29, no. 2 (1992): 65-71.

²⁵ For a broader discussion of this issue, see Reich and Lebow, *Good-bye Hegemony!*, particularly chapter 6.

²⁶ Imre Lakatos, "Falsification and the Methodology of Scientific Research Programmes," in *Criticism and the Growth of Knowledge: Volume 4: Proceedings of the International Colloquium in the Philosophy of Science*, ed. Imre Lakatos and Alan Musgrave (Cambridge: Cambridge University Press, 1970), 116-17.

²⁷ Samuel P. Huntington, "The U.S.: Decline or Renewal?" *Foreign Affairs* 67, no. 2 (1988): 76-96.

²⁸ Gilpin, *War and Change*; Paul Kennedy, *The Rise and Fall of the Great Powers: Economic Change and Military Conflict From 1500 to 2000* (New York: Vintage Books, 1987).

²⁹ Kindleberger, "Dominance and Leadership," 242-54, especially 248.

³⁰ Richard N. Haass, *War of Necessity, War of Choice: A Memoir of Two Iraq Wars* (NY: Simon & Schuster, 2009).

Most recently, the current debate over China clearly echoes that about Japan two decades ago, as less distinguished, anxiety-generating books with titles like *Hegemon: China's Plan to dominate Asia and the World* clearly attest. Even these sensationalist books find their counterparts in mainstream academia, with titles like those of Aaron L. Freidberg's, *A Contest for Supremacy: China, America and the Struggle for Mastery in Asia*.³¹ The content of the latter may be sober and reflective, but the answer is based on a similar set of assumptions: the US is hegemonic, it is in decline, and the key question is when the lines with China will cross, in the process of power transition.

Yet liberals and realists are still today resolved to maintain a view of the US as hegemonic. Even now, approximately three decades after Kindleberger's and Keohane's declarations that hegemony had ended, Ikenberry, describes the current crisis as one "of authority *within* the old hegemonic organization of liberal order, *not* a crisis in the deep principles of the order itself. It is a crisis of governance." As a result, "the character of rule in world politics has been thrown into question."³² Although American leadership is being challenged, the liberal international order remains resilient. "As an organizational logic of world politics," it is, however, a victim of its own success suggests Ikenberry. A new bargain needs to be struck between the US and emergent actors. It will still rest on a unipolar distribution of power, and with it, "constituencies that support a continued -- if renegotiated -- American hegemonic role" within a liberal hegemonic order.

Under such a new arrangement, the US would still qualify as a hegemon.³³ Comparably, as evidence of the continued pervasiveness of comparable assumptions in the policy world, the introduction to a 2012 Rand report on the US' global defense posture commissioned for the Air Force reflexively opened with declaration that the US is a global hegemon.³⁴ In influential scholarship and policy work, the myth thus lives on.

Part of the problem in evaluating this claim is that there appears to have been few systematic attempts to codify, operationalize and measure the six indicators of being a "stabilizer" that Kindleberger outlined in his original work, Simon Reich's 2015 study with Carla Norrlof being the exception.³⁵ This omission has left many Liberals and Realists to claim America was a hegemon during the Cold War, when they were the dominant economy for at least a large part of that period, even though military power was clearly bipolar. It then allowed them to make the same claim after 1991 when military power was (and is) unipolar but the US clearly no longer served as the lender of last resort or stabilizer.

A more dispassionate view suggests that American hegemony was very short lived and quickly eroded. By any serious economic measure, it stopped serving as the world's economic hegemon decades ago. In 1944, the US GDP peaked at 35 percent of the world total, a figure that had dropped to 25 by 1960 and 20 percent by 1980.³⁶ Today, by way of comparison, it has fluctuated in recent years at around 25%, never approximating its peak. The US ran significant deficits during the Viet Nam war and delinked the dollar from the gold

³¹ Friedman, *The Coming War with Japan*; Steven W. Mosher, *Hegemon: China's Plan to dominate Asia and the World* (San Francisco, CA: Encounter Books, 2000); Freidberg, *A Contest for Supremacy*.

³² Ikenberry, *Liberal Leviathan*, 8.

³³ Ikenberry, *Liberal Leviathan*, 2-10.

³⁴ Stacie L. Pettyjohn, *U.S. Global Defense Posture, 1783-2011* (Santa Monica, CA: Rand, 2012), 1.

³⁵ Kindleberger, *The World in Depression*, 305. For a test of his argument examining the role of China and the U.S. in the Great Recession see Norrlof and Reich, "American and Chinese Leadership".

³⁶ Angus Maddison, *Monitoring the World Economy, 1820-1992* (Paris: Organization for Economic Cooperation and Development, 1995). Even Robert Gilpin, renowned proponent of hegemonic stability theory, acknowledges the fact that the US' global dominance was fleeting. See Gilpin, *War and Change*, 173-75.

standard in 1971.³⁷ In the 1980s, the US ran up budget deficits and systematically reneged on its own liberal trading rules by introducing a variety of tariffs and quotas under the Reagan administration instead of bearing the costs of economic adjustments.³⁸ Contemporary policymakers have done the same to China.³⁹

More specific figures support this general picture. Until the end of the 1960s, the US current account balance ran at zero or a small surplus. That position dramatically eroded in the 1980s, and the US current account deficit peaked at 6% in 2006, just before the financial crisis.⁴⁰ This took place at a time when there was a consistent decline in net US public and private savings.⁴¹ American policies had the effect of making the US government and consumers increasingly reliant on foreign capital to finance their expenditures. Over-expenditure by individual Americans and their government -- reflected in low personal savings rates coupled with increased government deficits -- became important causes of global imbalances.⁴²

The growth in American personal debt has been unmistakable: from a peak of 14.6% in 1975, and an average of around 9% in the 1980s, the American net savings rate declined to around zero by the turn of the century. It reached a low of -0.5% in 2005, a statistic not seen since during the Great Depression in 1933.⁴³ As savings plummeted, debt increased. By 2005, total U.S. household debt, including mortgage loans and consumer debt, stood at \$11.4 trillion.⁴⁴ A decade later, despite the salutary lessons of the Great Recession, it had increased \$12.07 trillion.⁴⁵

The US federal budget deficit grew in a similar fashion. Since the end of second Clinton Administration, the debt of the US government has increased annually. It went from \$186.2bn inflation-adjusted dollars in 2002 to over \$16.8 trillion by April of 2013.⁴⁶ The *National Clock* then calculated a figure: an average of nearly \$53,500 owed per citizen.⁴⁷ It ballooned during the Obama administration.⁴⁸ Figures for the US trade deficit are just as illuminating. According to the US Census Bureau, the US has run a trade deficit in goods and services every year since 1969, with the exception of 1973 and 1975. Comparable to the budget deficit, these figures have worsened over time and have also ballooned since the turn of the century, peaking in 2006 on the eve of the financial crisis.⁴⁹

³⁷ Fred Block, *The Origins of International Economic Disorder: A Study of United States International Monetary Policy From World War II to the Present* (Berkeley: University of California Press, 1977), 182-98; Joanne Gowa, *Closing the Gold Window: Domestic Politics and the End of Bretton Woods* (Ithaca: Cornell University Press, 1983).

³⁸ On this point see, for example, Kindleberger, "Dominance and Leadership," 242 and 248; Simon Reich, *Restraining Trade to Invoke Investment: MITI and the Japanese Auto Producers: Case Studies in International Negotiation* (Washington, D.C.: Institute for the Study of Diplomacy, 2002).

³⁹ Ruby Lian and David Lawder, "China to support Steel Exports as U.S. imposes hefty tariffs," Reuters, May 19, 2016, <http://www.reuters.com/article/us-usa-china-steel-idUSKCN0Y82ER>.

⁴⁰ Joshua Aizenman, "On the Causes of Global Imbalances and Their Persistence: Myths, Facts and Conjectures," in *Rebalancing the Global Economy: A Primer for Policymaking*, ed. Stijn Claessens, Simon Evenett and Bernard Hoekman (London, Centre for Economic Policy Research 2010), 23-30.

⁴¹ Aizenman, "On the Causes of Global Imbalances," 24.

⁴² The personal savings rate is calculated by taking the difference between disposable personal income and personal consumption expenditures, then dividing this quantity by disposable personal income.

⁴³ Massimo Guidolin and Elizabeth A. La Jeunesse, "The Decline in the U.S. Personal Saving Rate: Is It Real and Is It a Puzzle?" *Federal Reserve Bank of St. Louis Review* 89, no. 6 (2007): 491-514.

⁴⁴ "Z.1-Flow of Funds Accounts of the United States," Federal Reserve Statistical Release, March 9, 2006, <http://www.federalreserve.gov/releases/Z1/20060309/data.htm>, 8 and 102.

⁴⁵ "Quarterly Report in Household Debt and Credit—November 2015," The Federal Reserve Bank of New York, https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/HHDC_2015Q3.pdf, 1.

⁴⁶ Treasurydirect, accessed April 10, 2013, <http://www.treasurydirect.gov/NP/BPDLogin?application=np>.

⁴⁷ "The US National Debt Clock," accessed April 17, 2013, http://www.brillig.com/debt_clock/.

⁴⁸ For figures through to 2015, see "The Daily History of the Debt Results," <http://www.treasurydirect.gov/NP/debt/search?startMonth=01&startDay=20&startYear=2009&endMonth=01&endDay=14&endYear=2015>.

⁴⁹ "U.S. Trade in Goods and Services - Balance of Payments (BOP) Basis," U.S. Census Bureau, June 9, 2011, <http://www>.

Liberals and realists thus consistently ignore a wealth of economic data in proclaiming American postwar hegemony. The same is true in terms of its military capacity to achieve its foreign policy objectives. Triumph over Germany and Italy in World War II, the invention and use of nuclear weapons to end the war with Japan, and America's nuclear arsenal all consolidated Americans' sense of themselves as hegemonic. The Cold War victory consolidated that view.

Yet military failures like MacArthur's push north in the Korean War, the Bay of Pigs Invasion, Vietnam, and more recently, failed interventions in Lebanon, Somalia, Afghanistan and Iraq, were reconceived of as "victories" (Korea), inconsequential (the Bay of Pigs) or part and parcel of strategies that were, or will be, successful in the longer-term. Bush "hawks," for example, in revisionist fashion, hailed the Iraq invasion as the necessary prelude to the now-aborted Arab Spring years later, despite its unprecedented cost, while Afghanistan – America's longest serving war – is reputed to have been a key component of a successful campaign to defeat al Qaeda.⁵⁰ For all of America's unprecedented military capacity, it is hard to reconcile this long list of questionable military interventions with the dominance that unipolarity and hegemony implies. Yet realists and liberals continue to apply these terms despite America's failures to achieved its prescribed policy goals stretching back over the last five decades.

More recently, liberals -- and to a lesser extent realists -- have convinced themselves that the role of this military is to ensure the global system's stability. Often this has been inaccurate if stability is equated with the absence of war. If we calculate 'war years' as a simple function of each war multiplied by its longevity, since 1945, the US has fought more war years than any other country in the world, with the possible exception of the UK and France.⁵¹ A proportion of these wars have been justified by American policymakers as preventative interventions (such as the invasions of Iraq or Afghanistan) or humanitarian ones (such as the invasion of Grenada) and thus validated by a "just war" doctrine. Critics, however, claim it is hard to reconcile starting wars with maintaining stability, suggesting that these are merely a pretext for imperialism.⁵² Even more mainstream pillars of the establishment – such as Richard Haass, who served in the Bush White House and is currently president of the Council on Foreign Relations – have written approvingly at times of the idea of an imperial US foreign policy.⁵³ Thus, by either the measure of starting wars or of winning them, American military capacity cannot be equated with hegemony. Its short preeminence has, nonetheless, been erringly rewritten as the *longue durée*.

census.gov/foreign-trade/statistics/historical/gands.txt.

⁵⁰ Ben Armbruster, "Condi Rice Credits Bush for Arab Spring: We Had a Role in That," Thinkprogress, November 1, 2011, <http://thinkprogress.org/security/2011/11/01/358037/condi-rice-bush-arab-spring/?mobile=nc>; Peter Bergen, "Time to Declare Victory: al Qaeda is Defeated," *Security Clearance* (blog), CNN, June 27, 2012, <http://security.blogs.cnn.com/2012/06/27/time-to-declare-victory-al-qaeda-is-defeated-opinion/>.

⁵¹ It is calculated on the basis of "Figure 1.3: The countries that have experienced the highest number of international armed conflicts, 1946–2003" and subsequent calculations by the authors. See Andrew Mack, "The Changing Face of Global Violence," in *The Human Security Report 2005* (New York: Oxford University Press, 2005), accessed April 25, 2015, <http://www.hsrgroup.org/docs/Publications/HSR2005/2005HumanSecurityReport-Part1-ChangingFaceOfViolence.pdf>, 26.

⁵² Walden Bellow, *Dilemmas of Domination: The Unmaking of the American Empire* (NY: Metropolitan Books, 2005); Chalmers Ashby Johnson, *Blowback: The Costs and Consequences of American Empire* (New York: Henry Holt and Company, LLC., 2001); Sandra Halperin, "The Political Economy of Anglo-American war: The Case of Iraq," *International Politics* 48, 2-3 (2011): 207-88.

⁵³ Haass, "What to do with American Primacy?"

4. Power versus Influence

So why has the US, if it is so powerful, failed to achieve its policy goals? Proponents of American hegemony still overwhelmingly rely on a materialist view of power. As noted earlier, many liberals do note, en passant, the importance of norms and rules. Joseph Nye Jr. have gone much further in focusing on the significance of soft power, although the concept itself is impossible to operationalize and only obtusely linked to foreign policy choices.⁵⁴ Yet material power is often neither fungible nor the basis for achieving desired foreign policy goals, claims substantiated by the failed American interventions spanning from Korea in the 1950s to Afghanistan and Iraq today. So many failures to explain outcomes or to achieve prescribed policy goals logically suggest that Liberals and Realists need to rethink their position on the significance of power. Conversely, constructivists have erred by focusing exclusively on what Barnett and Duval characterize as social forms of power: framing, argumentation and persuasion.⁵⁵

We argue that the concept of “influence,” rather than that of power, is key. Influence is composed of two aspects: one is material power, defines as economic and military resources. The other is social, derived from the legitimacy of the actor and the linkage between the actor’s claim and universalistic values and principles, promoted through processes of persuasion and argumentation.⁵⁶ Some Constructivists have recognized that social and material forms of power are related.⁵⁷ Peter Katzenstein, in recalling the perspective of Hedley Bull on the importance of norms, for example, states that “the international system is a ‘society’ in which states, as a condition of their participation in the system, adhere to shared norms and rules in a variety of issue areas. Material power matters, but within a framework of normative expectations embedded in public and customary international law.”⁵⁸ Yet, in practice, Constructivists largely remain agnostic on the dynamics of the relationship between social and material power. They prefer to focus on the significance of social power in isolation from material power.⁵⁹

We recognize different kinds of power and the diverse ways in which power might be translated into influence. In practice, material capabilities and power are related in indirect, complex and often problematic ways. Material capabilities are a principal source of power, but critical choices must be made about which capabilities to develop and how to use them. The Cold War demonstrated the irrelevance of certain raw forms of power. The USSR and US developed impressive nuclear arsenals and diverse delivery systems for them. These weapons were all but unusable. The principal purpose for which they were designed – all-out superpower war – would have constituted mutual, if not global, suicide. Intended to deter

⁵⁴ Reich and Lebow, *Good-bye Hegemony!*, 15-50.

⁵⁵ Michael Barnett and Raymond Duvall, “Power in International Politics,” *International Organization* 59, no. 1 (2005): 39-75.

⁵⁶ Thomas Risse, “Constructivism and International Institutions: Toward Conversations across Paradigms,” in *Political Science as Discipline? Reconsidering Power, Choice, and the State at Century’s End*, ed. Ira Katznelson and Helen Milner (NY: Norton, 2002), 597-623; Barnett and Duvall, “Power in International Politics”.

⁵⁷ See Jeffrey T. Checkel, “The Constructivist Turn in International Relations Theory (a review essay),” *World Politics* 50, no. 2 (1998): 324-48; James Fearon and Alexander Wendt, “Rationalism v. Constructivism: A Skeptical View,” in *Handbook of International Relations*, ed. Walter Carlsnaes, Thomas Risse-Kappen and Beth A. Simmons (London; Thousand Oaks, CA: SAGE Publications, 2002). For an application of these types of principles to current great power issues see Charles A. Kupchan et al., *Power in Transition: The Peaceful Change of International Order* (Tokyo: United Nations University Press, 2001).

⁵⁸ Peter J. Katzenstein, ed., *The Culture of National Security: Norms and Identity in World Politics* (NY: Columbia University Press, 1996), 45.

⁵⁹ Martha Finnemore and Katherine Sikkink, “International Norm Dynamics and Political Change,” *International Organization* 52, no. 4 (1998): 893.

the other side, nuclear weapons and forward deployments of their delivery systems became a principal cause of superpower conflict and greatly extended the Cold War.⁶⁰

In contrast to most IR theorists, we stress the dynamic interaction between material and social forms of power. Both state and non-state actors use combinations of material and social power in attempting to influence other actors in differing configurations and with differing degrees of success. In its most simple conception and formulation, countries can enjoy relatively high degrees of both forms of power and are thus relatively influential. The Federal Republic of Germany, for example, is a country that has established high degrees of material and social power in its post-Nazi process of rehabilitation. In global public opinion polls, it consistently scores among the most admired countries in the world and its economy is among the largest and most productive.⁶¹ While its military capacities are limited, they are consistent with the foreign policy objectives of German government. As a result, the Germans have become increasingly influential, within the European Union, beyond the Eastern borders of the EU, in a variety of multilateral forums, and even in the halls of power in Beijing, Moscow and Washington.⁶²

Alternatively, Iran is an example of a country whose leadership lacks much by way of material or social power, which may in part explain its sustained efforts to develop a nuclear capability for a decade, even as its economy was ravaged by the effects of sanctions. Despite the conclusion of a nuclear agreement, Teheran's comments and actions remain distrusted by all but a handful of allies (who themselves often lack credibility).⁶³ In comparable global opinion polls, for example, it has consistently been regarded among the ranks of the more dangerous countries in the world although that sentiment has been mitigated in many countries by the signing of the agreement.⁶⁴ The same is true of North Korea, an impoverished country that lacks even Iran's oil.⁶⁵

Other countries invariably link social and material power to different degrees and in different ways. Norway, for example, is a small country with significant social power because of its consistent, vocal and material support for civilian protection campaigns in multilateral forums. Yet it has a limited material capacity. Qatar is another country that clearly attempts to use its limited material and social resources in tandem to enhance its influence through judicious investment practices (such as buying major sports teams in France and Spain), providing aid and participating in multilateral alliances as it attempts to build legitimacy. The People's Republic of China is an example of a country with growing material power (both military and economic). It seeks to use its economic power to generate influence through its investment in US Treasuries, European government bonds and African aid. Yet despite its

⁶⁰ Richard Ned Lebow and Janice Gross Stein, *We All Lost the Cold War* (Princeton: Princeton University Press, 1994), 324-47.

⁶¹ Cf. "Global Views of United States Improve While Other Countries Decline," BBC, April 19, 2010, http://www.bbc.co.uk/pressoffice/pressreleases/stories/2010/04_april/19_poll.shtml.

⁶² For a more comprehensive discussion of this issue see Andrei S. Markovits and Simon Reich, *The German Predicament: Memory and Power in the New Europe* (Ithaca, New York: Cornell University Press, 1997).

⁶³ Hani Zainulbhai and Richard Wike, "Iran's Global Image Mostly Negative," Pew Research Center, June 18, 2015, <http://www.pewglobal.org/2015/06/18/irans-global-image-mostly-negative/>.

⁶⁴ Samantha Smith, "American, Israeli Publics See Iran's Nuclear Program as a Top Global Threat," Pew Research Center, July 14, 2015, <http://www.pewresearch.org/fact-tank/2015/07/14/american-israeli-publics-see-irans-nuclear-program-as-a-top-global-threat/>.

⁶⁵ "Israel and Iran Share Most Negative Ratings in Global Poll," BBC World Service Poll, March 6, 2007, http://news.bbc.co.uk/2/shared/bsp/hi/pdfs/06_03_07_perceptions.pdf.

efforts at Sinicization, its social power is relatively limited, given the distrust of many other countries in the region.⁶⁶

Endemic to the concept of influence is a recognition that legitimacy is foundational for social power. Scholars working within America's broadly defined hegemony research program either discount the importance of legitimacy (the most evident example being the work of structural realists such as Kenneth Waltz) or they assume American legitimacy and often declare it to be the case.⁶⁷ Ikenberry, for example, proclaims that "American global authority was built on a Hobbesian contract -- that is, other countries, particularly in Western Europe and later in East Asia, handed the reins of power to Washington, just as Hobbes' individuals in the state of nature voluntarily construct and hand over power to the Leviathan."⁶⁸

An alternative formulation, and to our way of thinking, a more sophisticated one, conceives of hegemony as the result of legitimacy as well as power.⁶⁹ Drawing on Gramsci, Roger Simon describes hegemony as a relation "not of domination by means of force, but of consent by means of political and ideological leadership."⁷⁰ Theorists differ about whether consent is a function of self-interest -- it is better to bandwagon than oppose the dominant power -- or legitimacy -- the hegemon protects and advances shared norms, values and policies.⁷¹ Realists John Mearsheimer and Christopher Layne emphasize material interests because they see power at the core of all international relations.⁷² Scholars who, in contrast, stress the normative aspects of hegemony note that great power and hegemonic status rest on the recognition of rights and duties and are therefore quasi-judicial categories. In practice, powerful states, like Russia, that have not met their responsibilities in the eyes of other actors and who transgressed international law through the annexation of Crimea, are often denied the standing and respect conferred by great power status.⁷³ Persuasion is founded on the bedrock of legitimacy. Legitimacy is a long run, low cost, means of social control as compliance becomes habitual when values are internalized. Where an actor accepts a rule because it is perceived as legitimate, that rule assumes an authoritative quality. The rule is then in some sense hierarchically superior to the actor, and partly determinate of its behavior. Over time, it contributes to the actor's definition of its own interests. An organization that is perceived as a legitimate rule maker has authority vis-à-vis its members. The character of power accordingly changes when it is exercised within a framework of legitimate relations and institutions. The concepts of power and legitimacy might be said to come together in the exercise of "authority."⁷⁴

⁶⁶ Peter J. Katzenstein, *Sinicization and the Rise of China: Civilizational Processes beyond East and West* (London and NY: Routledge, 2012).

⁶⁷ Kenneth Waltz, *Theory of International Politics* (Reading, Mass.: Addison-Wesley, 1979).

⁶⁸ Ikenberry, *Liberal Leviathan*, 10.

⁶⁹ Roger Simon, *Gramsci's Political Thought: An Introduction* (London: Lawrence and Wishart, 1982); Mark Haugard, "Power and Hegemony in Social Theory," in *Hegemony and Power: Consensus and Coercion in Contemporary Politics*, ed. Mark Haugard and Howard H. Lentner (Lanham, Md.: Lexington, 2006), 50; Richard Ned Lebow, *The Tragic Vision of Politics: Ethics, Interests and Orders* (Cambridge: Cambridge University Press, 2003), 283-84; Ian Clark, *Hegemony in International Society* (Oxford and New York, Oxford University Press, 2011), 18-23.

⁷⁰ Simon, *Gramsci's Political Thought*, 21.

⁷¹ Lebow, *Tragic Vision of Politics*, 283-84; Ian Hurd, "Making and Breaking Norms: American Revisionism and Crises of Legitimacy," *International Politics* 44, no. 2/3 (2007): 194-213; Clark, *Hegemony in International Society*, 23-8.

⁷² Mearsheimer, *The Tragedy of Great Power Politics*, 40; Christopher Layne, *The Peace of Illusions: American Grand Strategy from 1940 to the Present* (Ithaca: Cornell University Press, 2006), 11-2.

⁷³ Lebow, *Tragic Vision of Politics*, 283-84; Gerry Simpson, *Great Powers and Outlaw States: Unequal Sovereigns in the International Legal Order* (Cambridge: Cambridge University Press, 2004); Hurd, "Making and Breaking Norms"; Andrew Hurrell, *On Global Order: Power, Values, and the Constitution of International Society* (Oxford: Oxford University Press, 2007); Clark, *Hegemony in International Society*, 23-8.

⁷⁴ Ian Hurd, "Legitimacy and Authority in International Politics," *International Organization* 53, no. 2 (1999): 400-01.

Ancient Greeks understood this distinction well, describing what Realists (to a greater degree) and Liberals (to a lesser degree) think of as power as *archē*. In contrast, a combination of legitimacy and material capability was described as *hegēmonia*. *Hēgemonia* described an honorific status conferred on a leading power because of the services it has provided to the community. It confers a right to lead, based on the expectation that this leadership will continue to benefit the community as a whole. *Hēgemonia* represents a clientalist approach to politics: the powerful gain honor in return for providing practical benefits to the weak. The latter willingly accept their inferior status in return for economic and security benefits and the constraints such an arrangement imposes on the powerful.

Attempts to translate power directly into influence rest on carrots and sticks. Such exercises, even when successful, consume resources and work only so long as the requisite bribes and threats are available and effective. More effective influence rests on persuasion, which manages to convince others that it is their interest to do what you want them to do. Persuasion depends on shared values and accepted practices, and when it works, helps to build common identities that can make cooperation and persuasion more likely in the future. Influence of this kind also benefits from material capabilities but is limited to shared goals and requires considerable political skills. Power is also relevant to influence of this kind. But it is most effective when enacted by skilled leaders and diplomats, enabled by shared discourses, used to advance policies that build on precedent, and exploits existing penchants for cooperation and convinces others that they are active contributors to these policies and their implementation. America has sorely failed in several of these dimensions, raising the question of how power is reflected in the current global system.

5. Taxonomy of Influence in a Post-Hegemonic World

In an article published in 1985, Duncan Snidal argued that the hegemonic functions of agenda setting and institution-building, economic management and the enforcement of security provisions could, in principle, be performed by a group of great powers in concert.⁷⁵ Snidal's largely theoretical position gained little traction within the hegemony research program at the time. Proponents of American hegemony argue that they are organically related and thus inseparable.

Yet a growing welter of evidence challenges the claim that only a hegemon can effectively combine these functions. Indeed, they are becoming increasingly fragmented as different actors configure material and social power to exercise influence in markedly contrasting ways. The combination of social and material power that each adopts are based on a series of historical and cultural factors, rather than determined by the structural, material factors invoked by liberals and realists – with significant implications for both the theoretical utility of liberal and realist theory and for American foreign policy.⁷⁶

Europe, China and the US all seek to expand their influence by focusing on different configurations of material and social power. The result is that the functions associated with hegemony -- agenda-setting, economic management (what we elsewhere term “custodianship”) and enforcement of global security protocols (what we characterize as “sponsorship”) -- are becoming increasingly fragmented.⁷⁷

⁷⁵ Duncan Snidal, “The Limits of Hegemonic Stability Theory,” *International Organization* 39, no. 4 (1985): 579-614.

⁷⁶ For a detailed analysis of the point see Reich and Lebow, *Good-bye Hegemony!*

⁷⁷ Reich and Lebow, *Good-bye Hegemony!* For a further analysis of sponsorship see Peter Dombrowski and Simon Reich,

Agenda setting. European governments both individually, and through the EU collectively, have abandoned the basic precepts of Realism in favor of a preponderant focus on social power and only a limited stress on material power. Realists such as Robert Kagan characterize decisions made by Europeans as a result of material weakness or driven by a desire for free-ridership. European leaders and journalists respond that their level of spending is adequate to the level of threat they perceive. Their policies are therefore better understood as deliberate choices made as a product of the lessons drawn from two world wars and the threat of nuclear annihilation during the Cold War.⁷⁸ Different levels of defense spending reflect different visions of the world. While the US built up its defense budget in the aftermath of the Cold War and double it in the first decade of the 21st century, the Europeans took advantage of the new circumstance to reduce their defense budgets. By the end of the first decade of the 21st century it stood at less than half of that of the US when the defense budget is measured as a percentage of GDP and only a nominal figure when measured in absolute terms.⁷⁹ The result is that Europeans have chosen to focus on agenda-setting, using their legitimacy to define key issues and guide the process of policymaking in the context of international institutions.

The list of Europe's achievements is significant—and it challenges some of the fundamentals of realist and liberal theory. It is common to read that the Europeans only focus on relatively “unimportant” issues such as human rights, civilian protection and the environment. Yet their deep involvement in the global ban on landmines is a case where European governments and their allies (notably Canada) successfully lobbied for the eradication of a cheap defensive weapon. In many cases, states gave up their stockpiles unilaterally, even where they addressed a significant threat. This behavior confounds Realist expectations.⁸⁰

Just as significant a test case exists for Liberal proponents of American hegemony. G. John Ikenberry, for example, describes the US as orchestrating what he calls “an open and loosely rule-based system” in trade and finance.⁸¹ He offers a one-sided reading of the early Cold War in claiming that US hegemony was “largely an empire by invitation,” a benign and generous act, albeit one governed by self-interest.⁸² In this liberal version of the evolution of globalization, Ikenberry's formative principles were encapsulated in the Bretton Woods system. They were subsequently consolidated by the policies of the Reagan and Thatcher administrations, the collapse of the Soviet Union, the subsequent opening up of Russian and East European markets through “shock therapy” and the Asian economic crisis of 1997.

Rawi Abdelal and Sophie Meunier call this Liberal variant “ad-hoc globalization.” It was characterized by a tendency to ignore “the need to legitimate the processes of cross-border market integration.”⁸³ The American version “brought liberalization without organizing, or

⁷⁸ “The Strategy of Sponsorship,” *Survival* 57, no. 5 (2015): 121–48.

⁷⁹ Robert Kagan, “Power and Weakness,” *Policy Review* 113 (2002), accessed February 16, 2011, <http://www.newamericancentury.org/kagan-20020520.htm>.

⁸⁰ “Appendix 4A –Military expenditure data, 2001–10,” SIPRI Yearbook Online, accessed February 2, 2013, <http://www.sipriyearbook.org/view/9780199695522/sipri-9780199695522-div1-44.xml>; and “Military expenditure,” SIPRI, accessed February 2, 2013, <http://www.sipri.org/yearbook/2012/04>.

⁸¹ Reich and Lebow, *Good-bye Hegemony!*, 51–82.

⁸² G. John Ikenberry, “A World of Our Making,” *Democracy: A Journal of Ideas* 21 (2011), accessed July 9, 2012, <http://www.democracyjournal.org/21/a-world-of-our-making-1.php?page=all>.

⁸³ Lundstadt, *The American “Empire”*; Maier, “Alliance and Autonomy”; Gaddis, *We Now Know*; Madden, *Empires of Trust*.
⁸⁴ Rawi Abdelal and Sophie Meunier, “Managed Globalization: Doctrine, Practice and Promise,” *Journal of European Public Policy* 17, no. 3 (2010): 350.

even supervising, markets.”⁸⁴ It produces a kind of Thrasymachean justice, the will of the stronger without recourse to elements of legitimacy.⁸⁵

Yet the welter of evidence suggests that the “open and loosely rule-based system” to which Ikenberry subscribes, was actually initially thwarted and then hijacked by high-ranking European policymakers at organizations such as the International Monetary Fund who replaced it with what they label a process of “managed globalization.”⁸⁶ Managed globalization shares ad-hoc globalization’s goal of liberalization but has significantly different philosophical foundations, forms of authority, and social and economic implications. In this alternative version, globalization is steered by managers, politicians and bureaucrats creating codified rules and enforced by empowered institutions, not by deregulation and the elimination of institutional constraints.⁸⁷ Exemplified by the way the EU functions, the rule of law is paramount, constraining the behavior of even the most powerful actors, and decisions are negotiated, the product of deliberation that is more likely to yield socially acceptable outcomes.⁸⁸ Dating from the 1980s, a series of appointments of (largely) French bureaucrats -- most of who had served or were linked to the Mitterrand administration -- to senior positions in international organizations proved critical according to Abdelal and Meunier. Pascal Lamy became the head of the World Trade Organization (WTO), Michael Camdessus became the International Monetary Fund (IMF)’s managing director and Henri Chavranski chaired The Organisation for Economic Cooperation and Development (OECD)’s influential Committee on Capital Movements and Invisible Transactions (CMIT).

In practice, this meant creating strong organizations, built on the basic supposition that global markets needed to be authoritatively managed by global institutions that enforce multilateral agreements. The WTO, set in up 1995, provides a good example of how this process evolved in practice. There, the EU “strongly supported clear rules for settling trade-related disputes.” “This meant codifying rules for reporting violations, adjudicating disputes, and implementing resolutions to facilitate trade liberalization.”⁸⁹ These rules would be equitably applied to both the strong and the weak. The US, for example, was itself found in abrogation of WTO rules and fined \$2 billion for imposing steel quotas under the Bush Administration.⁹⁰

Yet in addition to this top-down dimension, “managed globalization,” has a second, *bottom up* component in the evolution of the concept of “corporate social responsibility” (CSR). Corporate codes of conduct operate in an area in which firms, states, shareholders, NGOs and international organizations intersect around a variety of issues. European corporations, bureaucrats and activists have driven this agenda, aided by initiatives fostered by the European Union. Beyond simple trade issues, European corporations have worked to extend these codes, and their CSR activities more generally, into issues relating to environment sustainability, cultural protection, work-place employment and trading conditions.⁹¹ They and the EU have been major agenda setters in promoting socially and

⁸⁴ Abdelal and Meunier, “Managed Globalization,” 351.

⁸⁵ See George F. Hourani, “Thrasymachus’ Definition of Justice in Plato’s ‘Republic,’” *Phronesis* 7, no. 2 (1962): 110-20.

⁸⁶ Abdelal and Meunier, “Managed Globalization,” 350-67.

⁸⁷ Abdelal and Meunier, “Managed Globalization,” 352.

⁸⁸ Abdelal and Meunier, “Managed Globalization,” 352-53.

⁸⁹ Abdelal and Meunier, “Managed Globalization,” 357.

⁹⁰ Elizabeth Becker, “U.S. Tariffs on Steel Are Illegal, World Trade Organization Says,” *New York Times*, November 11, 2003, <http://www.nytimes.com/2003/11/11/business/us-tariffs-on-steel-are-illegal-world-trade-organization-says.html?pagewanted=all>.

⁹¹ Abdelal and Meunier, “Managed Globalization”.

environmentally conscious corporate behavior. This is not purely altruistic: firms have come under significant pressure to demonstrate their credentials as ‘good citizens’ – a result of a variety of tactics employed largely by European NGOs and states, often discussed in venues provided by intergovernmental organizations. These practices have been exported, reflected in the evolving content of corporate codes of conduct. The European influence can be gauged in several ways. But perhaps the most revealing is the convergence in the content of American and Asian corporate codes towards those of their European counterparts in the last decade. In 2002, for example, there were distinct differences among American, European and Asian corporate views about the importance, structure, substance and application of corporate codes. Codes were then largely distinguished by region rather than, for example, by economic sector. European corporate codes were the most expansive and progressive. They referenced global norms and emphasized the importance of global protocols and conventions such as the Universal Declaration of Human Rights, the International Labor Organization (ILO) Convention, OECD Guidelines, and the United Nation’s Global Compact. European codes were most wide-ranging in their definition of the ‘stakeholder,’ recognizing the needs of shareholders, clients, employees, suppliers and the general community. Substantively, Europeans were most concerned with institutions that uphold the rule of law. Their firms also consistently ranked higher on a series of issues regarding environmental sustainability than American or Asian firms.⁹²

A decade later, these national or regional distinctions are far more blurred. Just one example of this convergence towards the values promoted by both European corporations and the EU is nationality of the signatures to the UN Global Compact, a document reflective of many European core values: about how firms can best manage the effects of globalization, with its focus on social justice, environmental sustainability, fair labor practices and corporate transparency. By 2012, it listed over 8,000 participants from 135 countries among its members.⁹³ Four-hundred-and-sixty-nine American organizations had formally ascribed, among them some of its foremost firms drawn from every sector of manufacturing production, not simply clean industries.⁹⁴ Asia also has significant representation: China had 270 participants, Japan 378, and South Korea 219. Among the remaining members of the ‘BRICs,’ Brazil had 465 participants, India 280 and Russia 57. In effect, the Global Compact – reflective of values first articulated comprehensively by Europeans - has become a universal statement, widely embraced around the globe.

Whether adjudged in terms of top down or bottom up initiatives, European actors – corporations, NGOs, states and the EU itself, have thus shifted the focus of globalization from an ad-hoc to a managed one through a process of agenda setting. Again, this challenges a fundamental preconception of liberalism – of American influence over the pattern of globalization – just as the landmines case does for realism.

Economic management. Liberals and realists continue to associate the US with the function of economic management or “lender of last resort.” This claim is predicated on

⁹² Simon Reich, “When Firms Behave ‘Responsibly,’ Are the Roots National or Global?” *International Social Science Journal* 57, no. 185 (2005): 289-308.

⁹³ “UN Global Compact Participants,” United Nations Global Compact, accessed July 10, 2012, <http://www.unglobalcompact.org/ParticipantsAndStakeholders/index.html>.

⁹⁴ “Participants Search,” United Nations Global Compact, accessed July 11, 2012, [http://www.unglobalcompact.org/participants/search?business_type=all&commit=Search&cop_status=all&country\[\]=209&joined_after=&joined_before=&keyword=&listing_status_id=all&organization_type_id=&page=1&per_page=250§or_id=all](http://www.unglobalcompact.org/participants/search?business_type=all&commit=Search&cop_status=all&country[]=209&joined_after=&joined_before=&keyword=&listing_status_id=all&organization_type_id=&page=1&per_page=250§or_id=all).

its historic position as the largest consumer market, center of finance capital and reserve currency.⁹⁵ Yet their position largely ignores the fact that the US has increasingly disregarded its managerial role by abandoning what we referred to as custodial economic functions. The US no longer acts as the lender of last resort. It now borrows an unprecedented amount of money rather than lending it. Its domestic economic policy sowed the seeds of the 2008 economic crisis and its growing public and private debt.

Yet Realists assume that China, not the US, is the irresponsible rising power whose policies are at odds with the precepts and practices of the international economic order. They characterize it as a revisionist power seeking to challenge the US as hegemon rather than a status quo power seeking to uphold the dominant geo-political and geo-economic system.⁹⁶ There has been plethora of governmental and popular articles and reports that accuse China of expanding its economic power at a cost of other states through its predatory trade, foreign direct investment (FDI), overseas development aid (ODA) practices, as well as its total disregard of macro-economic imbalances. Chinese FDI is often characterized as a means of enhancing outward trade and the inward procurement of much-needed raw materials.⁹⁷ The purchase of US Treasury bills and Euro bonds are depicted as investments intended to exert political leverage in a variety of domains, including the formal recognition of China as a ‘full market economy’ within the World Trade Organization (WTO), a status it craves.⁹⁸ Liberals offer a variant critique; they depict China as a growing but immature economy whose global engagement has not involved acceptance of global responsibilities even as it becomes increasingly interdependent.⁹⁹

Chinese behavior is undeniably interest-based. China is willing to provide some economic public goods such as overseas development aid, foreign direct investment and funds for the purchase of foreign bonds because the country’s leaders consider them beneficial to its national interest. It is a way for China to legitimize itself and use its economic resources to extend its influence far beyond its material power. Despite a palpable shift in its approach to international norms and institutions,¹⁰⁰ China remains unwilling to invest too heavily in multilateral organizations for fear that doing so will infringe on its sovereignty and involve the country in too many missions that are strategically unimportant or even counterproductive to their interests. There is a wide consensus among Chinese leaders – in sharp contrast to their

⁹⁵ Cf., Norrlof, *America’s Global Advantage*, 5-6.

⁹⁶ Cf., Freidberg, “The Future of U.S.-China Relations,” and Freidberg, *A Contest for Supremacy*; Mearsheimer, *The Tragedy of Great Power Politics*, 400; Ronald L. Tammen and Jacek Kugler, “Power Transition and China–US Conflicts,” *Chinese Journal of International Politics* 1, no. 1 (2006): 35-55; Ronald L. Tammen et al., *Power Transitions: Strategies for the 21st Century* (New York: Chatham House, 2000).

⁹⁷ Nargiza Salidjanova, “Going Out’: An Overview of China’s Outward Foreign Direct Investment,” U.S.-China Economic & Security Review Commission, March 30, 2011, <http://www.uscc.gov/sites/default/files/Research/GoingOut.pdf>, 6-9; Ben White, “Chinese Drops Bid to Buy US Oil Firm,” *Washington Post*, August 3, 2005, www.washingtonpost.com/wp-dyn/content/article/2005/08/02/AR2005080200404.html; Andrew Ross Sorkin and Jad Mouawad, “Bid by Chevron in Big Oil Deal Thwarts China,” *New York Times*, July 20, 2005, <http://www.nytimes.com/2005/07/20/international/asia/20unocal.html>.

⁹⁸ Smita Purushottam, “China Woos Europe: Next moves on the Eurasian Chessboard,” *Global Policy Journal*, February 14, 2011, <http://www.globalpolicyjournal.com/blog/14/02/2011/china-woos-europe-next-moves-eurasian-chessboard>.

⁹⁹ Robert B. Zoellick, “Whither China: From Membership to Responsibility?” *NBR Analysis* 16, no. 4 (2005): 5-14, <http://www.nbr.org/publications/nbranalysis/pdf/vol16no4.pdf>; Michael Santoro, “Global Capitalism and the Road to Chinese Democracy,” *Current History* 99, no. 638 (2000): 263-67; Joshua Cooper Ramo, *The Beijing Consensus: Notes on the New Physics of Chinese Power* (London: Foreign Policy Center, 2004), 36; Thomas Lum and Dick K. Nanto, *China’s Trade with the United States and the World* (CRS Report No: RL31403) (Washington, DC: Congressional Research Service, 2007), especially page 3; Geoffrey Garrett, “Chinese–US Economic Relations after the Global Financial Crisis,” in *Rising China: Global Challenges and Opportunities*, ed. Jane Golley and Ligang Song (Canberra: ANU Press, 2011), 149-72.

¹⁰⁰ Rosemary Foot and Andrew Walter, *China. The United States and the Global Order* (NY: Cambridge University Press, 2011). See also Bates Gill, *Rising Star: China’s New Security Diplomacy* (Washington D.C.: Brookings Institution Press, 2007).

American counterparts -- that influence is not achieved and maintained through multilateral leadership and the blunt use of power. They prefer subtler combination of bilateral and regional diplomatic negotiations often combined with market mechanisms. This is more consistent with a Chinese domestic culture – and resulting foreign policy that is built on “the Four No’s,” which read like a manifesto for multi-polarity: no hegemonism, no power politics, no alliances and no arms races.”¹⁰¹

What are China’s goals? China is the primary beneficiary of the existing international economic order. Taylor Fravel argues, in contrast to Realist expectations, that “China has pursued foreign policies consistent with status quo and not revisionist intentions.”¹⁰² In keeping with this orientation, we maintain that it is assuming a more expansive -- if still underdeveloped or embryonic --custodial role through the combined use of economic resources, markets and diplomacy in a way that expands its influence while avoiding conflict.

There are at least three ways in which we can illustrate China’s new custodial functions in buttressing the global economic system in ways that are currently unmatched by any other state. The first concerns Beijing’s purchase of Euro bonds held by Greek, Italian, Irish and Spanish governments, intended to help avert a default on their debt during Europe’s financial crisis.¹⁰³ China clearly benefitted from these purchases, maintaining the Euro’s value of China’s European portfolio.¹⁰⁴ The average value of the Euro actually rose against the dollar in the first half of 2011, from \$1.33 per Euro to \$1.44 and oscillated in that range into early 2013. Beijing used the opportunity to negotiate several important trade agreements and to consolidate major bilateral ties across a broad range of issues. On a trip to Germany in June of 2011, for example, Prime Minister Wen Jiabao signed an agreement with Chancellor Angela Merkel, “to establish special government consultations, which means representatives of the two countries will meet regularly and will discuss a wide range of topics, like trade, investment, education, environment, human rights, security and the rule of law.” Simultaneously, trade agreements were signed as the Chinese sought to consolidate their exports to and investments in Germany. Prime Minister Wen used his country’s new leverage to voice complaints about Germany’s decision to meet the Dalai Lama and to preempt German complaints about copying infringement and the theft of intellectual property. He called for “respect for China’s system and China’s territorial integrity.”¹⁰⁵ There is evidence that Chinese support of Portugal and Spain was also partly motivated by access to those economies could provide to markets and investments in Latin America.¹⁰⁶ As, Nicholas Zhu, a former World Bank economist commented, “It’s a clear pattern of China’s intention to help stabilize the euro area. . . The benefit to China is that it will help in the perception of host countries if China is viewed as a responsible stakeholder in the global community.”¹⁰⁷

¹⁰¹ Ramo, *The Beijing Consensus*, 41.

¹⁰² M. Taylor Fravel, “International Relations Theory and China’s Rise: Assessing China’s Potential for Territorial Expansion,” *International Studies Review* 12, no. 4 (2010): 505-32,-the quotation is from page 506-. Alastair Iain Johnston, “Is China a Status Quo Power?” *International Security* 27, no. 4 (2003): 5-56; and David C. Kang, *China Rising: Power and Order in East Asia* (New York: Columbia University Press, 2007).

¹⁰³ See comments by Wen Jiabao, on a visit to Berlin, in “China and Germany ink \$15bn trade deals as leaders meet,” BBC News, June 29, 2011, <http://www.bbc.co.uk/news/business-13954148>.

¹⁰⁴ Cf. “Asia buys 20% of EU bond,” *Irish Times*, January 6, 2011, <http://www.irishtimes.com/newspaper/breaking/2011/01/06/breaking50.html>.

¹⁰⁵ Judy Dempsey, “Chinese Leader’s Visit to Germany Ends with Large Trade Deals,” *New York Times*, June 28, 2011, http://www.nytimes.com/2011/06/29/business/global/29wen.html?_r=1&emc=eta1.

¹⁰⁶ Liz Alderman, “Beijing, Tendering Support to Europe, Helps Itself,” *New York Times*, January 6, 2011, <http://www.nytimes.com/2011/01/07/business/global/07euchina.html>.

¹⁰⁷ *Shamim Adam and Lorenzo Totaro*, “China Called On as Lender of Last Resort as Italy Faces Deepening Crisis,” Bloomberg,

China now regularly links its financial support to broader economic and political issues. In early 2011, for example, Wang Qishan, the Chinese vice-premier, met with EU officials in Beijing during the third annual China-EU High Level Economic and Trade Dialogue and pledged that China would, if necessary, purchase European sovereign bonds. Qishan asked the EU to grant China “market economy” status and lift a long-standing arms embargo. The former had been a long-term goal of China in its efforts to avoid anti-dumping claims by European producers and governments.¹⁰⁸ The EU had consistently refused to recognize China as a market economy, but Prime Minister Merkel, with strikingly interesting timing, announced that Germany would actively push for China’s recognition as a market economy within the EU.¹⁰⁹

The second example of China’s new custodial role concerns its efforts to institute domestic reforms intended to help redress global economic imbalances.¹¹⁰ Until the end of the 1960s, when the dollar was the world’s undisputed reserve currency, the US current account balance ran at zero or a small surplus. That position dramatically eroded in the 1980s, the US current account deficit peaking at 6% in 2006, just before the financial crisis.¹¹¹ This shift was symptomatic of a far larger problem. In aggregate, average global imbalances grew by 1% between 1970 and 1990. Between 1990 and 2007, they accelerated by a yearly average of 11%.¹¹² More troubling still, account imbalances became concentrated in specific regions, specifically the United States, East Asia and in what subsequently became the Eurozone. The average regional imbalance as a share of regional GDP increased about 2.6% in the United States and East Asia, and by 1.7% in the Eurozone, compared to 1.1% in the rest of the world. This growing distortion in balances between China, Europe and the US on the one hand, and those involving the rest of the world on the other, led to a greater policy focus on China and the United States in the aftermath of the Great Recession.¹¹³

Fundamental to this problem has been the US’ unprecedented levels of government, private and corporate debt, coupled with low savings rates and declining exports. This behavior stands in stark to their Chinese counterparts.¹¹⁴ High Asian savings rates have been the result of several reinforcing conditions that promote what is known as *precautionary* savings: the high cost of housing, the lack of a social safety to assist the ill and elderly, low fertility rates and the high cost of education. Galloping Chinese exports that made extra cash available and traditionally low rates of personal consumption in China, where the virtues of “deferred gratification” are deeply ingrained, accelerated the difference between the US and China.¹¹⁵ Chinese private consumption rates as a proportion of Gross Domestic Product (GDP) declined from 50.6% to 36.4% between 1990 and 2007. Furthermore, Chinese

September 13, 2011, <http://www.bloomberg.com/news/2011-09-13/china-called-on-as-lender-of-last-resort-with-italy-joining-morgan-stanley.html>.

¹⁰⁸ Jamil Anderlini and Peter Spiegel, “China Extends Help to Tackle Euro Crisis,” *Financial Times*, December 21, 2011, <http://www.ft.com/intl/cms/s/0/4a1a7768-0cfa-11e0-ace7-00144feabdc0.html#axzz1R8HF6Aw>China extends help to tackle euro crisis.

¹⁰⁹ “Germany to Push EU to Recognize China’s Market Economy Status: Communiqué,” *China Daily*, July 16, 2010, http://www.chinadaily.com.cn/china/2010-07/16/content_10118453.htm.

¹¹⁰ For a discussion of these figures see Reich and Lebow, *Good-bye Hegemony!*, 83-130.

¹¹¹ Aizenman, “On the Causes of Global Imbalances,” 23-30.

¹¹² Caroline Freund, “Adjustment in Global Imbalances and the Future of Trade Growth,” in *Rebalancing the Global Economy*, 11-22.

¹¹³ Bank for International Settlements, *81st Annual Report, 1 April 2010 – 31 March 2011* (Basel, Switzerland: Bank for International Settlements, 2011), 35.

¹¹⁴ Aizenman, “On the Causes of Global Imbalances,” 28.

¹¹⁵ Linda Y.C. Lim, “Rebalancing in East Asia,” in *Rebalancing the Global Economy*, 31-8.

personal saving rates are among the highest ever recorded.¹¹⁶ The Chinese household savings rate exceeded 53% in 2008, far above OECD countries such Germany, known for prudent savings, but at 26%, still less than half the rate of China.¹¹⁷

What sets China apart historically, according to Guonan Ma and Wang Yi, is not just this high household savings rate, as many Western commentators suggest, but the combination of high household, corporate *and* government savings rates.¹¹⁸ Chinese corporate consumption rates, as measured as a ratio of GDP, are also estimated to be below 40%. This compares to an average of 55% for the rest of Asia, which is a very low figure in comparison to the rest of the world.¹¹⁹ China is awash in private and corporate money.¹²⁰ Ben Bernanke, chairman of the US Federal Reserve during the Great Recession, identified this “global savings glut” as the major cause of global macroeconomic imbalances.¹²¹

Recognizing the implications of this imbalance for global financial liquidity, China has moved to address this problem. At the March 2011 annual meeting of the Peoples’ Congress, the Communist Party Leadership announced that raising China’s exceptionally low consumption rate us its top economic priority.¹²² Given demographic and structural impediments, changing consumption patterns is no easy task. Recycling corporate and government money through loans, aid and the investments is easier.

It is perhaps ironic that prodding Chinese consumers to spend more has become harder than moving in the direction of becoming the global “lender of last resort.” Yet China has moved to address this liquidity problem by injecting cash in the global system through a massive expansion of its global aid and investment through its sovereign wealth funds.

Aid is notoriously difficult to calculate and compare outside of the OECD states. This is clearly true of China.¹²³ The Chinese government does not use standard World Bank reporting guidelines to account for its aid, nor does the broad swathe of assistance and loans it offers all fall within strict definitions for aid, making comparison difficult and often resulting in exaggerated estimates.¹²⁴ Yet what is clearly evident, however, is a remarkable shift in the course of last two decades -- from China as a recipient of aid to a donor -- as the amount of Chinese ODA has surged in the form of grant program, zero-interest loans, youth volunteer programs and technical assistance. The Chinese now generally use their own companies, materials and even their own labor to build infrastructure projects rather than simply handing out money, food or other resources as aid.¹²⁵ China’s ODA is often strategic, designed to stimulate trade with developing markets, foster Chinese foreign direct investment, and secure access to natural resources. The overwhelming proportion of Chinese imports from Low Income Countries (LICs) consists of fuel of various kinds.¹²⁶ Beyond immediate economic

¹¹⁶ Michael Pettis, “Rising Chinese Consumption Won’t Lead to US Rates Jump,” *Financial Times*, April 18, 2011, <http://www.ft.com/cms/s/0/cf36cf7c-69b2-11e0-826b-00144feab49a.html#axzz1QlfW5UzD>.

¹¹⁷ Guonan Ma and Wang Yi, “China’s High Saving Rate: Myth and Reality” (BIS Working Papers 312, Basel, Switzerland, June 2010).

¹¹⁸ Ma and Yi, “China’s High Saving Rate”.

¹¹⁹ Lim, “Rebalancing in East Asia”.

¹²⁰ Ryan Clarke, “Expert analysis on Sino-US Trade and Currency Issues in the United States: Policy Impacts and Future Directions,” *China: An International Journal*, March 1, 2011. <http://www.thefreelibrary.com/Expert+analysis+on+Sino-US+trade+and+currency+issues+in+the+United...-a0252192365>.

¹²¹ Bernanke cited in Lim, “Rebalancing in East Asia”.

¹²² Pettis, “Rising Chinese Consumption”.

¹²³ Deborah Bräutigam, “China, Africa and the International Aid Architecture” (Working Paper 107, African Development Bank Group, Tunis, Tunisia, April 2010).

¹²⁴ Bräutigam, “China, Africa and the International Aid Architecture,” 27.

¹²⁵ Bräutigam, “China, Africa and the International Aid Architecture,” 6-7.

¹²⁶ “New Growth Drivers for Low-Income Countries: The Role of BRICs,” International Monetary Fund, January 12, 2011,

goals, much of the purpose of this ODA is to foster Chinese influence with countries desperate for its funds with “no strings attached,” and at lower interest rates than loans offered by World Bank. Deborah Bräutigam suggests that “China’s grant aid and zero-interest loans usually promote broad diplomacy objectives, while the concessional foreign aid loans operated by China Eximbank mix diplomacy, development, and business objectives.”¹²⁷

Since 2005, Chinese aid has mushroomed, dwarfing that of the United States.¹²⁸ That year, China increased its overseas food aid by 260%, making it the third largest donor of food.¹²⁹ A second upswing in overseas aid came during the global financial crisis. Eximbank awarded loans of at least \$110 billion to governments and companies in 2009 and 2010. This exceeded the \$100.3 billion loaded by the World Bank.¹³⁰ Indeed, Chinese assistance has become so important to developing economies that the World Bank sought ways to cooperate with China “to avoid escalating competition over loan deals.”¹³¹ By 2013, China has become a larger source of loans to Latin America than the World Bank and the InterAmerican Development Bank combined.¹³²

Sub-Saharan Africa serves as a good example of the dynamics of Chinese aid. It is generally linked to “tied” expenditures designed to enhance Chinese investments and trade. Africa reportedly received 14% of Chinese investment in 2010, a sum that again surpassed the World Bank’s contribution. Chinese government assistance has enhanced local market competitiveness, often displacing traditional protected producers and criticism from the West is plentiful.¹³³ Yet this aid helped to increase employment and boost African exports, which had been negligible in value a decade before, to over \$120 billion.¹³⁴ Aid has been accompanied by other critical injections of finance through investments in local banks, such as the Chinese government-owned Industrial and Commercial Bank’s purchase of 20% of South Standard Bank, the largest bank, measured by assets, in Africa.¹³⁵ Chinese aid and investments have bought the Beijing considerable goodwill among Africa’s political leadership, one South African commentator describing it as “the single most important development of the previous decade for the continent. China is now Africa’s largest trading partner. Sino-African trade now represents 10.4% of the continent’s total trade, is more than 10 times what it was in 2000, having increased from \$11-billion to \$129-billion. By 2012, Chinese-African trade may rise to as much as \$400-billion a year.”¹³⁶ China and Africa have bypassed global multilateral institutions and effectively displaced the traditional influence of the World Bank, the US and the former European colonial powers. The same true of Latin America.¹³⁷

<https://www.imf.org/external/np/pp/eng/2011/011211.pdf>, Figure A1.5.

¹²⁷ Bräutigam, “China, Africa and the International Aid Architecture,” 17.

¹²⁸ For an overview of Chinese aid see Charles Wolf Jr., “China’s Foreign Aid Offensive,” The Rand Corporation, June 29, 2015, <http://www.rand.org/blog/2015/06/chinas-foreign-aid-offensive.html>.

¹²⁹ “China Emerges as World’s Third Largest Food Aid Donor,” World Food Program, July 20, 2006, <http://www.wfp.org/node/534>.

¹³⁰ Geoff Dyer, Jamil Anderlini and Henny Sender, “China’s Lending Hits New Heights,” *Financial Times*, January 17, 2011, <http://www.ft.com/intl/cms/s/0/488c60f4-2281-11e0-b6a2-00144feab49a.html#axzz1RFIPRpT0>.

¹³¹ Dyer, Anderlini and Sender, “China’s Lending Hits New Heights”.

¹³² Ralph Atkins, “Europe’s Debt Woes put Squeeze on Cross Border Flows of Capital,” *The Financial Times*, February 28, 2013, 1.

¹³³ “Trying to Pull Together: Africans are Asking whether China is Making their Lunch or Eating It,” *The Economist*, April 20, 2011, http://www.economist.com/node/18586448?story_id=18586448.

¹³⁴ “Chinese in Africa: The Chinese are coming. . . to Africa,” *The Economist*, April 22, 2011, http://www.economist.com/blogs/dailychart/2011/04/chinese_africa.

¹³⁵ *The Economist*, “Trying to Pull Together.”

¹³⁶ Lloyd Gedye, “China’s Boom Swells the Coffers of African Economies,” *Mail & Guardian Online*, 6 May 2011, <http://mg.co.za/article/2011-05-06-chinas-boom-swells-the-coffers-of-african-economies/>.

¹³⁷ Atkins, “Europe’s Debt Woes”.

Finally, and perhaps most critically, China buttressed the global economic system by bailing out key American banks and financial services firms at critical moments in the 2007-2009 financial crisis through its sovereign wealth funds. The Chinese Investment Corporation (CIC) was created in 2007 as a partner for the older State Administration of Foreign Exchange (SAFE). By June of 2010, SAFE (with an estimated \$347 billion in assets) and CIC (with \$289bn) were the fourth and fifth largest sovereign wealth funds (SWFs) in the world.¹³⁸ Their total assets reputedly outstripped those of all hedge funds and private equity combined.¹³⁹ Their extensive array of assets include financial instruments such as treasury bills, mortgage backed securities and bonds. As noted earlier, they have been very active in the purchase of US Treasuries and Euro-bonds. Their mandate also provides for investments in individual stocks and real estate. It is in this latter area that they arguably played their greatest strategic role in the midst of the financial crisis.

In 2007, major American banks became the center of public attention as their exposure in the US subprime mortgage market became evident. The resulting bankruptcy of Lehman Brothers Holdings threatened the viability of the entire American banking system. Stock values plummeted and major investors withdrew their funds from large banks and other financial institutions. Governmental efforts to shore up the banking sector proved ineffective. Some firms, such as Merrill Lynch, were folded into others.

At the epicenter of this meltdown was Morgan Stanley, among the world's largest global financial services firms (and then the second largest in the US). The bank was hemorrhaging cash in the winter of 2007 and reputedly lost \$300 million in one day, in large part due to its involvement in Beazer Homes USA, a major victim of the bursting US housing bubble. With investors fleeing and the value of its assets falling precipitously, China's CIC took a large market position in Morgan Stanley. It provided a \$5.6 billion capital infusion in the form of mandatory convertible securities as a passive investor in exchange for securities that would be convertible to 9.9% of the firm's total shares in 2010. This arrangement was similar to its \$3 billion investment in the Blackstone Group earlier that year.¹⁴⁰

Chinese officials told reporters that the "CIC believes that Morgan Stanley has potential for long-term growth, particularly in its investment banking, asset management and wealth management businesses, as well as new business development opportunities in emerging markets."¹⁴¹ The value of both stocks continued to decline but the CIC held firm their passive investor position despite widespread criticism in China, ensuring that the market momentum towards meltdown was halted.

The CIC's response, in the face of Morgan Stanley's ailing fortunes, was to announce in March of 2009 that it would invest a further \$1.2 billion in the company, purchasing 44.7 million shares of common stock and thus raising its equity ownership to 9.86%. The CIC's total investment of \$6.8 billion was only exceeded by that of the Mitsubishi UFJ Financial Group's purchase of \$9bn of convertible shares.¹⁴²

¹³⁸ Tina Aridas, "Largest Sovereign Wealth Funds in the World – 2010 Ranking," *Global Finance*, accessed August 5, 2011, <http://www.gfmag.com/tools/global-database/economic-data/10300-largest-sovereign-wealth-funds-swf-2010-ranking.html#axzz1RPoOHB6A>.

¹³⁹ Aridas, "Largest Sovereign Wealth Funds".

¹⁴⁰ Megan Davies and Jessica Hall, "Beijing Fund to Hike Stake in Blackstone," Reuters, October 16, 2008, <http://www.reuters.com/article/2008/10/16/blackstone-bwil-idUSN1640464920081016?sp=true>.

¹⁴¹ "China fund to invest \$5b in Morgan Stanley," *Chinadaily*, December 20, 2007, http://www.chinadaily.com.cn/bizchina/2007-12/20/content_6335134.htm.

¹⁴² Wang Xu, "CIC increases stake in Morgan Stanley," *Chinadaily*, March 3, 2009, http://www.chinadaily.com.cn/china/2009-06/03/content_7978689.htm.

Morgan Stanley trailed its major rival, Goldman Sachs, for six consecutive, disappointing quarters before posting a \$1.96 billion profit in the second quarter of 2010.¹⁴³ Yet even a year later, its stock still stood at less than half of its value in December 2007; \$49.89 a share on 19 December 2007 versus \$22.73 on 1 July 2011.¹⁴⁴ If the CIC's goal had been to profit directly from Morgan Stanley's misfortune, then it had failed miserably. A more plausible explanation is that, as a representative of the Chinese government, CIC recognized the critical importance of supporting a pivotal US financial institution. The effects of a Morgan Stanley bankruptcy (hard on the heels of the Shearson Lehmann debacle) for global capitalism and inevitably, China's economic interests, would have been hard to overstate. Thus this lender of last resort proved critical in propping up this bastion of global capitalism.

The pattern is the same whether viewed through the indicators of global macro-economic balances, government bond purchases, aid or investment: China has sought to use its huge capital surpluses to provide liquidity to the global system. In performing the role of global lender of last resort, even in a relatively limited manner compared to the US in the immediate postwar period, it has combined its material power with bilateral diplomacy to expand its interests.¹⁴⁵

Security provisions. The final function of a hegemon is upholding and enforcing the security architecture, one we characterize as 'sponsorship.' As mentioned, Liberals and Realists alike regard the US as crucial in this respect, their only dispute being the time horizon involved. Robert Keohane, for example, observes that hegemony rests on the twin premises that "that order in world politics is typically created by a single hegemonic power" and "that the maintenance of order requires stability."¹⁴⁶ The evidence clearly points to the US maintaining that role, even as it has lost the credibility required for leadership and thus spends increasing amounts of effort underwriting global protocols that are advocated by others while still serving American interests.

Like their European and Chinese counterparts, domestic historical and cultural factors have largely imbued America's leaders with a culture of national security. This culture hesitates to prioritize threats and assumes that America's vast military arsenal gives it the capacity to adequately address them -- generally through the use of force as an early (if not first) option rather than a last one. Domestic interests that benefit from America's bloated military budget bolster this cultural propensity. Obvious examples include defense contractors, politicians from states whose economies rely on military bases and resource firms who benefit from America's global military presence. The product is a military budget that is regarded by both a large percentage of policymakers and the public as sacrosanct, even in a period of fiscal austerity.

Indeed, the growth in the military budget since the turn-of-the-century has been nothing short of spectacular. Between 2001 and 2010 the US defense budget increased by 128

¹⁴³ "Morgan Stanley's Earnings Take Off," *WSJ*, July 22, 2010, <http://online.wsj.com/article/SB10001424052748704684604575380823427652984.html>.

¹⁴⁴ See "Morgan Stanley (MS)," Yahoo Finance, <http://finance.yahoo.com/q/hp?s=MS&a=11&b=19&c=2007&d=06&e=7&f=2011&g=m>.

¹⁴⁵ For a more systematic assessment of the relative contributions of China and the United States as lenders of last resort during the 2008 financial crisis see Norrlof and Reich, "American and Chinese Leadership".

¹⁴⁶ Robert O. Keohane, *After Hegemony: Cooperation and Discord in the Modern World* (Princeton, NJ: Princeton University Press, 1984), 31; David A. Lake, "Leadership, Hegemony, and the International Economy: Naked Emperor or Tattered Monarch with Potential?" *International Studies Quarterly* 37, no. 4 (1993), 459-89, especially 480.

percent.¹⁴⁷ In 2003, the US spent \$417 billion on defense, 47 percent of the world total.¹⁴⁸ In 2008, it spent 41 percent of its national budget on the military and its two ongoing wars. By 2010 the US defense budget stood at \$693 billion and still accounted for over 43 percent of world defense spending.¹⁴⁹ In absolute terms this was twice the total of Japan, Russia, the United Kingdom, Germany and China combined. By 2012 the U.S. defense budget stood at over \$700 billion and climbed to an estimated figure of over \$868 billion if the cost of foreign wars, homeland security and other related expenses are included.¹⁵⁰ Subsequent sequestration reduced the US' base defense budget to \$598 billion by 2015. But that figure is projected to increase over the next five years.¹⁵¹ China spent approximately 2% of its GDP on defense between 2008 and 2012 and vowed to reduce the rate of growth in its military budget in 2016.¹⁵² Europe spent – and spends -- far less, prompting President Obama to call for NATO members to increase their defense in the Spring of 2016.¹⁵³ Both China and Europe's expenditure is a mere fraction of the 4.7 percent spent by the US in the first decade of the century and still dwarfed by the American figure of 3.5 percent by 2014.¹⁵⁴

Liberals and to a lesser extent Realists have convinced themselves that the role of this military is to ensure system stability. But, as note earlier, America has fought more wars than any other country (bar, possibly, the UK and France) since 1945.¹⁵⁵ Yet there is a growing American trend towards the use of American military and technological capability that addresses accusations of it being simply an instrument of dominance. It entails the US responding to global protocols that are built on consensus, and are thus multilateral rather than unilateral in character. They involve – in the famous words of an anonymous White House source reputedly cited during the invasion of Libya – “leading from behind.” Examples are surprisingly plentiful: In addition to Libya, they include the global campaigns against human trafficking and piracy, and the humanitarian and technological assistance provided in the aftermath of the Japanese tsunami in 2011.¹⁵⁶ In practice, these sponsorship initiatives have several advantages over traditional hegemonic ones: notably they are politically bipartisan, relatively low cost, involve easy exit strategies and help to rebuilt America's diminished credibility. Yet either way, the American self-perception as an indispensable nation means that the academic and political voices calling for retrenchment are largely sidelined in academic

¹⁴⁷ SIPRI, *SIPRI Yearbook 2011: Armaments, Disarmament and International Security* (New York: Oxford University Press, 2011), 158.

¹⁴⁸ SIPRI, *SIPRI Yearbook 2004: Armaments, Disarmament and International Security* (New York: Oxford University Press, 2004), appendix 10A.

¹⁴⁹ *SIPRI Yearbook 2011*, 9.

¹⁵⁰ Robert Johnson, “The 2012 Defense Budget Is The Highest Since World War II,” *Business Insider*, July 19, 2011, <http://www.businessinsider.com/2012-us-defense-budget-largest-since-world-war-ii-2011-7>; Kimberly Amadeo, “FY 2012 U.S. Federal Budget,” *The Balance*, February 11, 2016, <https://www.thebalance.com/fy-2012-u-s-federal-budget-and-spending-3306318?kw>.

¹⁵¹ “Military Spending in the United States,” *The National Priorities Project*, accessed February 10, 2016, <https://www.nationalpriorities.org/campaigns/military-spending-united-states/>; “FY 2016 Budget Proposal,” U.S. Department of Defense, <http://www.defense.gov/News/Special-Reports/FY16-Budget>.

¹⁵² William Ide, “China Cuts Defense Spending as Economy Stumbles,” *VOA*, March 4, 2016, <http://www.voanews.com/content/china-defense-budget-slows-as-economy-stumbles/3219375.html>.

¹⁵³ J. Weston Phippen, “The End of Obama's Overseas Trip,” *The Atlantic*, April 25, 2016, <http://www.theatlantic.com/international/archive/2016/04/obama-europe/479706/>

¹⁵⁴ “Military Expenditure (% of GDP),” *The World Bank Data Base*, accessed February 8, 2015, <http://data.worldbank.org/indicator/MS.MIL.XPND.GD.ZS>.

¹⁵⁵ It is calculated on the basis of “Figure 1.3: The countries that have experienced the highest number of international armed conflicts, 1946–2003” and subsequent calculations by the authors. See Mack, “The Changing Face of Global Violence,” 26.

¹⁵⁶ Reich and Lebow, *Good-bye Hegemony!*, 131-70; Simon Reich, *Global Norms, American Sponsorship and the Emerging Patterns of World Politics* (Basingstoke: Palgrave MacMillan, 2010); “U.S. Military Provides Help in Wake of 9.0 Earthquake in Japan, Tsunami in Pacific,” U.S. Department of Defense, March 11, 2011, http://www.defense.gov/home/features/2011/0311_japan/; and for some recent cases see Dombrowski and Reich, “The Strategy of Sponsorship”.

or policy debates.¹⁵⁷ Thus whether traditional hegemonic or, alternatively, sponsorship strategies, the US continues to perform the security functions associated with hegemony even as it has relinquished or forfeited the capacity to set the global agenda or underwrite the global economy.

6. Rethinking Power and Influence in a Post-Hegemonic World

Traditional Liberal and Realist conceptions of power offer a one-dimensional analysis in which material power predominates. Based on this assumption, they have constructed a narrow formulation of hegemony that has demonstrated a surprising degree of rhetorical resilience, despite all evidence to the contrary. Their formulations have been used to justify a distinct, privileged position for the United States in the global order by offering an alternative vision of a dystopia in the absence of a hegemon. It is one in which the key functions of agenda setting, economic custodianship and buttressing the security architecture will remain unfulfilled if the United States has to relinquish its hegemonic position as the indispensable nation.

In this paper, we have offered both a theoretical and an empirical critique of that position. First, we have suggested that a hegemon is not required for these functions to be accomplished. No state or region need monopolize any one of these three functions. They are divisible if the incentives exist for states to act - substantiating Snidal's suggestion first voiced three decades ago.

Empirically, we suggested that this has happened. The United States long ago relinquished the status of a hegemon. Indeed, it occupied that position for only a brief period in the immediate aftermath of World War Two. Subsequently, its politicians, policymakers and some of its scholars have invoked the claim of America's continued hegemony to serve one interpretation of America's interests. But in a new global context, one in which material and social forms of power can configure in various ways, the capacity for the United States to coerce, cajole or lure other actors to conform with its objectives has become increasingly problematic.

Critics may argue that the shift we identify is problematic. Heightened levels of violence in the Middle East, the proliferation of failed and fragile states, the unprecedented growth in refugee populations and the continued resilience of Jihadism and militancy on a global basis all buttress the claim that a void has been created as a result of America's hegemonic decline.

Yet that perspective may nostalgically overstate the former capacity of the United States to influence global events. And it clearly fails to recognize the exigencies of a new security environment. It is one where the proliferation of new forms of security actors (from only states to non-state actors), in organizational forms (from simple hierarchies to include cells, networks, and franchises), of technologies that makes asymmetric warfare increasingly costly for powerful states (such as cyber) – all coupled with the new politics of identity -- have made stability harder to achieve. Even the fundamental character of threats has multiplied, from overwhelmingly anthropogenic ones (such as nuclear weapons and conventional warfare) to

¹⁵⁷ Christopher A. Preble, *The Power Problem: How American Military Dominance Makes Us less Safe, Less Prosperous and Less Free* (Ithaca, NY: Cornell University Press, 2009); Barry Posen, *Restraint: A New Foundation for Grand Strategy*, (Ithaca, NY: Cornell University Press, 2014); Mathew Spaulding, "The Ideology of Isolationism," *The Daily Signal* (blog), January 21, 2012, <http://blog.heritage.org/2012/01/21/the-ideology-of-isolationism/>; Stephen M. Walt, "Why Ron Paul May Actually Have something Right," *Foreign Policy*, January 6, 2012, http://walt.foreignpolicy.com/posts/2012/01/06/why_ron_paul_may_actually_have_something_right.

increasingly naturogenic ones (such as climate change and new forms of pandemics). Even a truly hegemonic America, comparable to the immediate postwar period, would be unable to stabilize this system.

This new era has been characterized as one shifting towards multipolarity by commentators, scholars and policymakers.¹⁵⁸ This misrepresents the pattern of development because that term is still founded on a bedrock of Liberal and Realist assumptions – particularly that material power predominantly (and in some cases exclusively) determines the behavior of states. We have suggested, in contrast, that elements of social and material power configure in distinct ways to create a new pattern of global politics, better depicted as one where influence can take many forms. It is one that often confounds traditional patterns of power. Inevitably, states will have to address this challenge in meeting new challenges -- and new threats – in the next decade.

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¹⁵⁸ For data in support of the multipolar position see National Intelligence Council (NIC), *Global Trends 2025: A Transformed World* (Washington, D.C.: U.S. Government Printing Office, November 2008). See "Global Trends 2025: A Transformed World," National Intelligence Council, November 2008, cf., p. vii, http://www.dni.gov/nic/PDF_2025/2025_Global_Trends_Final_Report.pdf. For non-American perspectives, arguing in favor of a trend towards multipolarity, see Dilip Hiro, *After Empire: The Birth of a Multipolar World* (New York: Nation Books, 2009); Giovanni Grevi, "The Interpolar World: A New Scenario" (Occasional Paper 79, European Union Institute for Security Studies, Paris, 2009); Luis Peral, ed., *Global Security in a Multipolar World*, Chaillot Paper 118 (Paris: European Union Institute for Security Studies, 2009); Thomas Renard, *A BRIC in the World: Emerging Powers, Europe and the Coming Order* (Brussels: Academic Press for the Royal Institute of International Relations, 2009); Álvaro de Vasconcelos, "Multilateralising Multi-Polarity: Between Self-interest and a Responsible Approach," in *Global Security in a Multi-polar World*; Kishore Mahbubani, *The New Asian Hemisphere: The Irresistible Shift of Global Power to the East* (New York: Public Affairs, 2008). For a brief popularized version of the argument see Niall Ferguson, "The Decade the World Tilted East," *Financial Times*, December 27, 2009. For a more sanguine view, in which others rise, rather than the US declines, see Fareed Zakaria, *The Post-American World* (NY and London: W. W. Norton & Company, 2008).

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