



# Trigger of American Hegemony: the origin of the US Hegemony

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## Abstract

This study explores the decline of American hegemony, which dominated the latter half of the 20th century following the United States' emergence as a global leader post-World War II. Despite unprecedented economic prosperity and military dominance, the United States' hegemonic status began to face skepticism in the 1970s due to global recession and disillusionment with American-style liberalism. The 1985 announcement of the US as a debtor nation marked the beginning of a perceived decline in American economic power. Although the 1990s economic boom provided temporary optimism, subsequent economic challenges and the 2008 financial crisis reignited debates about the sustainability of the American-led neoliberal order. This study critically evaluates the ideological foundations of American hegemony and questions the stability of the neoliberal international order that has shaped global governance since the late 20th century.

**Keywords:** the US hegemony, China, IPE, Liberalism, Hegemony

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## I. Introduction

The 20<sup>th</sup> century was a century of the US. Being the only country to come out unscathed and even victorious of the two devastating world wars, the US naturally assumed leadership over the reformation of the world order after World War II (Ikenberry 2004: 145-146; Taylor 1999). Accounting for more than half the world's production and trade in the postwar years, the US enjoyed unprecedented levels of economic prosperity and military superiority over all other nations. This is why the US has been inarguably called as the world hegemon throughout the latter half of the 20<sup>th</sup> century. It might build up and manifest greatly during this period that many at the time believed that the US will maintain its hegemonic status into the 21<sup>st</sup> century (Cox 2004b; Nye Jr 2010: 11-12) (Brooks and Wohlforth 2008: 2; Jervis 2006: 6).

However, after the moment the US Department of Commerce announced, on September 16, 1985, that the US was now a debtor nation, the US has become normal from the empire<sup>1</sup>. In other words, the collapse of American economic power will accelerate the process of the hegemon's decline.<sup>2</sup> The hegemonic status of the US already has begun to face rising questions and criticisms since the 1970s as the worldwide recession and the Vietnam War amplified skepticism of American-style liberalism.<sup>3</sup> Although the *New Economy*, the 1990s economic boom rapidly replacing post-Cold War gloom with a new optimism, the abrupt deterioration in economic indicators after the new millennium dawned has been again inviting

<sup>1</sup>Vidal (1992) *The Decline and Fall of the American Empire*, New York: Odonian Press.

<sup>2</sup>Ferguson (2010), 'Complexity and Collapse: Empires on the Edge of Chaos' *Foreign Aff.*, 89.: 28-29; Kolko (2009) *World in Crisis: The End of the American Century*, London: Eng., Pluto Press.

<sup>3</sup>Gilpin (1987) *The Political Economy of International Relations*, New Jersey: Princeton University Press; Cox (1981b), 'Social Forces, States and World Orders: Beyond International Relations Theory' *Millennium-Journal of International Studies*, 10(2); Krasner (1976a), 'State Power and the Structure of International Trade' *World Politics*, 28 (3).

serious questions regarding the economic basis of the American hegemony.<sup>4</sup>In particular, the onset of the worldwide financial crisis in the autumn of 2008 has reinvigorated the decline theory, with the tremendous amount of deficits in the US' current account unveiling the crisis of the dollar-centered monetary order and the demand for a new international monetary order rising to the surface.<sup>5</sup>

The glories of its past notwithstanding, it is difficult to deny the increasing signs of crisis in the American hegemony today. This study attempts to analyze the decline of the American hegemony. It examines the neoliberal order that forms the ideological basis of the American hegemony and critically assesses the sustainability of that basis. In particular, this study examines whether the international order that has been conforming more and more to the neoliberal economic structure since the end of the 20<sup>th</sup> century is a stable model of world governance.

## II. Theoretical Analysis: Structure of U.S. Hegemon and Financial Globalisation

Even though the US has always had foreign policies specific to Asia, the Asia-conscious policies are far more active than their predecessors.<sup>6</sup> While many argue that the purpose of such policies of the Obama administration is to seek greater benefits for the U.S. and to assert U.S. hegemony over the region, the fundamental motives and specific rationales for such pursuits are still lacking. To overcome these limitations, a theoretical understanding of hegemony and an understanding of the hegemonic structure of the U.S. are necessary.

### The Hegemonic Theory

The conditions of the 1970s, such as the changes of the political status of Third World countries after the Oil Shock, the collapse of the Bretton Woods system, and the restructuring of the global financial system, were important turning points for the tradition of mercantilism and liberalism.<sup>7</sup> These have aggravated the composite and organic alliance between politics and economy.<sup>8</sup> In terms of economic globalisation, the emergence of TNCs as powerful non-national actors in international relations has changed the mercantilist tradition, while the increase in political uncertainty about the mutual economic cooperation within the Western bloc has also led the 'risk of the regime' theory to speculate that Western cooperation needs to pivot itself around U.S. hegemony. Furthermore, with the historical experiences, the expansion of Organization of Petroleum Exporting Countries(OPEC) leverage affected the global economy in 1970s, the emergence of Third World countries as influential factors in the world also means a risk of world-systems theory.<sup>9</sup>

Such changes in the international environment has led to a neorealist hegemonic stability theory (HST) that emphasises self-changes in mercantilism. HST theorists, including Robert Gilpin, argue that changes

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<sup>4</sup>Murphy (2007) *Are We Rome?: The Fall of an Empire and the Fate of America*, New York: Mariner Book; Bender and Robertson-von Trotha (2003) *Weltmacht Amerika: Das Neue Rom*, Stuttgart: Klett-Cotta; McCoy (2010) 'Taking down America' Available from: <http://www.tomdispatch.com/post/175327/> ['Accessed' 1st May].

<sup>5</sup>Ferguson, 'Complexity and Collapse: Empires on the Edge of Chaos': 30-31

<sup>6</sup>Armitage and Nye (2007) *The U.S.-Japan Alliance: Getting Asia Right through 2020*, Washington DC.: Center for Strategic and International Studies, pp. 1-4; Manyin, Daggett, Dolven, Lawrence, Martin, O'Rourke and Vaughn (2012) 'Pivot to the Pacific? The Obama Administration's Rebalancing toward Asia' *Congressional Research Service Report*, Available from: <http://fas.org/sgp/crs/natsec/R42448.pdf> ['Accessed' 26th June 2014], pp. 2-3.

<sup>7</sup>Strange (1970), 'International Economics and International Relations: A Case of Mutual Neglect' *International Affairs (Royal Institute of International Affairs 1944-)*, 46 (2).

<sup>8</sup>Higgott (1994) *International Political Economy*, London: Pinter Pub Ltd; Strange (1995), 'Political Economy and International Relations' *International Relations Theory Today*.

<sup>9</sup>Wallerstein (2011) *The Modern World-System*, California: University of California Press.

in the structure of the international system are the most important deciding factors of the acts of states and suggest the possibility of mutual economic dependence and exchange by combining these factors with free trade, which is a liberalist concept.<sup>10</sup> To look into it more closely, they opine that hegemons retain the global system by providing *public goods*, such as free trade, global currency and security.<sup>11</sup> This theory characterises the existing hegemonic system as being maintained and managed in such a way that it facilitates access to foreign markets based on the relative advantage of hegemons that also enables them to benefit not only economically but also in terms of their national security.<sup>12</sup> However, such characteristics of public goods may lead to the issue of *free-rider*, as well as the long-term decline of hegemons that are weaker, or may lead to hegemonic battles, which cause the transfer of hegemony.<sup>13</sup> To summarise, the HST considers the structure of the international system as a hierarchy of powers and explains changes in such a structure.

Nevertheless, such understanding is not sufficient in analysing the fundamental motives of the recent return of the U.S. to Asia because it is a-historical and only focuses on the relative advantage of socio-political reality and order.<sup>14</sup> Arrighi argues that we should analyse the global system in a multilayered and extensive manner from a historical capitalist perspective.<sup>15</sup> Cox also emphasises analysing nations as state-society complex system and in order to understand the world system, social relations under the production system has to be considered as a basis of the international system.<sup>16</sup> It is because the production relation forms international and domestic foundation of power, and it functions as international order.<sup>17</sup> The viewpoint of Cox and Arrighi analyse history through non-determinist elements that form historical structures with ideology, institution, and material capabilities, and it is in contrast with the structuralists, which distinguishes between neorealist international politics and domestic politics.<sup>18</sup> Eventually, upon production structures, they imbue the possibility of changes into the unchangeable structures postulated

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<sup>10</sup>Gilpin, *The Political Economy of International Relations*: Krasner (1976b), 'State Power and the Structure of International Trade' *World Politics*, 28 (3), pp. 319-321; Waltz (1990), 'Realist Thought and Neorealist Theory' *Journal of International Affairs*, 44 (1), p. 29.

<sup>11</sup>Krasner, 'State Power and the Structure of International Trade', pp. 321-323.

<sup>12</sup>Gill (1993) 'Epistemology, Ontology and the 'Italian School'', in Gill (ed), *Gramsci, Historical Materialism and International Relations*. Cambridge: Cambridge University Press, p. 25.

<sup>13</sup>Gilpin (2001) *Global Political Economy: Understanding the International Economic Order*, Oxford: Princeton University Press, pp. 81-91; Gilpin (1988), 'The Theory of Hegemonic War' *The Journal of Interdisciplinary History*, 18 (4).

<sup>14</sup>Cox (1981a), 'Social Forces, States and World Orders: Beyond International Relations Theory' *Millennium-Journal of International Studies*, 10 (2), p. 129.

<sup>15</sup>Arrighi (2007) *Adam Smith in Beijing*, London: Lineages of the Twenty-First Century, pp. 215-216; Lefebvre and Bryant (1976) *The Survival of Capitalism: Reproduction of the Relations of Production*, London: Allison & Busby.

<sup>16</sup>Cox (1992) 'Towards a Post-Hegemonic Conceptualization of World Order: Reflections on the Relevance of Ibn Khaldun', in Rosenau and Czempiel (eds), *Governance without Government: Order and Change in World Politics*. Cambridge: Cambridge University Press, p. 144; Cox (1993) 'Gramsci, Hegemony and International Relations: An Essay in Method', in Gill (ed), *Gramsci, Historical Materialism and International Relations* Cambridge University Press, p. 61.

<sup>17</sup>Cox (1987) *Production, Power, and World Order: Social Forces in the Making of History*, New York: Columbia University Press, pp. 1-9, 17.

<sup>18</sup>Cox, 'Social Forces, States and World Orders', p. 136.

by HST theorists.<sup>19</sup>

Such epistemological gap between them leads to a disparity in the concept of hegemony. According to Gilpin, hegemony is the power with which a state can dominate the international regime and can hold fast to its interests.<sup>20</sup> On the other hand, Cox and Arrighi understand hegemony as the combination of power and consensus; which is based on Antonio Gramsci's concept of hegemony, based on the consensus theory which talks about transnational hegemony; and contraposed it against the neorealist concept of hegemony.<sup>21</sup> In other words, transnational hegemony is formed by being generalised into notions, norms, regulations, and institutions that normally accommodate the interests of a coalition of international social powers, including not only international organisations, but also various civic and social arenas through an extended state.<sup>22</sup> Cox overcomes the strict distinction between domestic and international politics through the concept of transnational hegemony, and relates international politics with society, as well as material capabilities with consensus/agreement.<sup>23</sup> In other words, transnational hegemony is the world order that is formed with dominant modes of production that interconnect subordinate modes of production and is the aggregate body of international social relationships.<sup>24</sup> Based on such a concept, it is possible to understand the *structure of dominance* that does not limit any combination among states and groups while being free from the limited meaning of dominance by state.<sup>25</sup>

Notably, Cox expands Gramsci's assertion and tries to provide a more organic and specific explanation by explaining the structure of global capitalism as a *neoliberalist* hegemony and the process of establishing a new hegemonic structure.<sup>26</sup> Thus, the viewpoint suggested by Cox, which pivots around historical distinctiveness or production structure is helpful. However, understanding neoliberalism based on such a concept of hegemony overlooks the process of *capital accumulation*, which makes it impossible to identify the limitations of the crisis of modern global capitalism and its hegemonic structure.

In that regard, Arrighi's approach is considerable to overcome such limitations. Arrighi takes into account the international hegemonic hierarchy and the capital accumulation system in which such a hierarchy is formed instead of the relationships among the transnational ranks.<sup>27</sup> Arrighi views the issue of transnational ranks as a power in the international system and proposes the concept of *global hegemony*. He reinterprets Marx's general formula of capital, 'Money-Commodity-Money', as the formula of global capitalism and expands the concept; that the global hegemonic system is a systematic circulation of an

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<sup>19</sup>Cox, 'Social Forces, States and World Orders'.

<sup>20</sup>Gilpin, *Global Political Economy: Understanding the International Economic Order*, pp. 93-94; Gilpin, *The Political Economy of International Relations*, p. 117.

<sup>21</sup>Cox, 'Social Forces, States and World Orders', pp. 133-140; Gramsci (1971) *Selections from the Prison Notebook* New York: International Publishers, pp. 689-691; Arrighi (1990), 'The Three Hegemonies of Historical Capitalism' *Review* 13 (3), pp. 365-367.

<sup>22</sup>Cox, 'Social Forces, States and World Orders'.

<sup>23</sup>Cox (1983), 'Gramsci, Hegemony and International Relations: An Essay in Method' *Millennium-Journal of International Studies*, 12 (2), pp. 170-171; Cox, 'Social Forces, States and World Orders'.

<sup>24</sup>Cox, 'Gramsci, Hegemony and International Relations', pp. 169-170.

<sup>25</sup>Cox, 'Social Forces, States and World Orders': Gill and Law (1988) *The Global Political Economy: Perspectives, Problems, and Policies*, Baltimore: Johns Hopkins University Press.

<sup>26</sup>Cox, 'Social Forces, States and World Orders': Cox, 'Gramsci, Hegemony and International Relations'.

<sup>27</sup>Arrighi, 'The Three Hegemonies of Historical Capitalism', p. 367.

“endless” accumulation of capital.<sup>28</sup> In other words, Arrighi, through his explanation of the process of capital accumulation, expands and supplements Cox’s concept of interclass exploitation for it to become international exploitation. Arrighi also argues that the international system was formed several centuries ago through the circulation of capital in a more expanded scale and scope, including various nations and enterprises, and that such a circulation of capital has established an accumulation system of circulation driven by material and financial expansion.<sup>29</sup> His conceptualisation explains the core functions of the ‘good old times’ of financial capitalism up to the Reagan and Clinton eras. In other words, Arrighi overcomes Cox’s limitations by conceptualising the accumulation system, which helps in our understanding of the relationship between the 2008 global financial crisis and the recent US hegemonic system established through global financialisation.

### **Formation and Crisis of the U.S. Hegemony and New Hegemonic System, Financial Globalisation**

The transnational global hegemony of the U.S. was not based on its dominance, which depended on the relative power but was formed while the liberal economic system, structured after the U.S. economic development model such as the open economy / free trade system, is diffused globally and imitated by nations which are U.S.-allies.<sup>30</sup> This was made possible by diffusing U.S.-dominated social power groups all over the world through various channels such as the network of human resources educated by the U.S. universities and the functions of international financial institutes<sup>31</sup>, which led to the emergence of the *transnational hegemonic bloc* that identified US interests as its own.<sup>32</sup> In short, the international society recognises the U.S. not as a threat but as a partner accorded with the interests of the world.<sup>33</sup> This has led

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<sup>28</sup>Arrighi, 'The Three Hegemonies of Historical Capitalism', p. 372: Marx (1982) *Capital: A Critique of Political Economy, Vol. 1*, London: Penguin Books, pp. 247-257.

<sup>29</sup>Arrighi, 'The Three Hegemonies of Historical Capitalism', p. 367.

<sup>30</sup>Cox, *Production, Power, and World Order: Social Forces in the Making of History*, P. 254: Gowan (2004), 'Empire as Superstructure' *Security Dialogue*, 35 (2): Gowan (2006) 'Contemporary Intra-Core Relations and World Systems Theory', in Chase-Dunn and Babones (eds), *Global Social Change: Historical and Comparative Perspectives*. Baltimore: Johns Hopkins University Press.

Meanwhile, the U.S. also utilised this open economic system as the basis of its economic advantages and material concession, such as the Marshall Plan. To be more specific, the open economic system solved the problem of the dollar gap through the Marshall Plan, and established an environment in which the American transnational enterprises could take roots in Europe, function as a major principle on which economic interpenetration among the nations can take place in the global centre and also operate the global economy. Gowan, 'Contemporary Intra-Core Relations and World Systems Theory': Reifer and Suddler (1998) 'The Interstate System', in Hopkins and Wllerstejn (eds), *The Age of Transition: Trajectory of the World-System 1945-2025*. London: Zed Books: Helleiner (1994) *States and the Reemergence of Global Finance: From Bretton Woods to Global Finance*, New York: Cornell University Press.

<sup>31</sup>Cox, *Production, Power, and World Order: Social Forces in the Making of History*, p. 261, 267.

<sup>32</sup>Cox, 'Towards a Post-Hegemonic Conceptualization of World Orde'.

<sup>33</sup>Furthermore, Pax-Americana was based on the social relationships between the types of states as welfare states and the production systems supported by *embedded liberalism*. It was a lesson learned from adverse circumstances in which the crisis of the previous British hegemony had caused radical labour movements and eventually, led to the rise of anti-colonialist movements.<sup>33</sup> Thus, the U.S. hegemony, which appeared in the 20<sup>th</sup> century, tried to establish a labour-friendly system to avoid the same circumstance as the Britain. Ruggie (1982), 'International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order' *International Organization*, 36 (2), pp. 104-138: Gill and Law, *The Global Political Economy*:

to the globalisation of the American modes of production and to its hegemonic structure.<sup>34</sup> However since 1974, U.S. hegemony has suffered structural changes along with the global crisis, took the form of *organic crisis* in which the global economic crisis had become a hegemonic crisis.<sup>35</sup> Cox opines that the internationalisation of both production and states have stimulated globalisation, which have in turn, led to the crisis.<sup>36</sup> He also states that the crisis of production and stimulated internationalisation facilitated post-Fordism and a new type of state, namely *hyper-liberal state*, which has in turn, accelerated the internationalisation of production and finance.<sup>37</sup> Here, the new financial neoliberalism can be explained as the process of establishing a new hegemony. To Cox's arguments, Arrighi adds his understanding of the process of capital accumulation and identifies the crisis of modern global capitalism and its characteristics through the process of the capital accumulation of neoliberalism. Specifically, he concludes that the 1970s crisis was the result of the contradiction of physical expansion, and it accelerated the transition to a new accumulation system, in the form of financial expansion of the global economy, which ultimately resolved the contradiction in the existing accumulation system.<sup>38</sup>

### **Peculiarity of the U.S. Hegemony: Financial Globalisation and Neoliberalism**

Such financial neoliberalism can be understood as a form of U.S. hegemony in the late 20<sup>th</sup> century.<sup>39</sup> Thus, in the neoliberalist transition since the 1980s, one can identify the emergence of the current form of U.S. hegemony.

In the restructuring of the neoliberalist U.S. hegemony promoted by Paul Volcker, the global economic structure was rearranged to favour US' financial accumulation premised upon its hegemony. It also worked as an opportunity for the full-scale absorption of floating capital into the U.S. on the global level.<sup>40</sup> Internally, the reorganisation led to the formation of huge financial institutions through large-scale financial insolvency and selective adjustment.<sup>41</sup> Externally, the reorganisation process favoured the U.S. in such a way that the American-led financial accumulation structure was able to diffuse worldwide. In the name of deregulation, each country was forced to adopt an economic structure in favour of financial

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*Perspectives, Problems, and Policies*, pp. 79-80: Cox, *Production, Power, and World Order: Social Forces in the Making of History*, pp. 219-230: Arrighi (1994) *The Long Twentieth Century: Money, Power, and the Origins of Our Times*, London: Verso, pp. 174-195: Silver (2003) *Forces of Labor: Workers' Movements and Globalization since 1870*, Cambridge: Cambridge University Press, pp. 131-138.

<sup>34</sup>Huang (2010), 'Debating China's Economic Growth: The Beijing Consensus or the Washington Consensus' *The Academy of Management Perspectives*, 24 (2): Ramo (2004) *The Beijing Consensus*, London: Foreign Policy Centre.

<sup>35</sup>Cox, *Production, Power, and World Order: Social Forces in the Making of History*, p. 273.

<sup>36</sup>Cox, *Production, Power, and World Order: Social Forces in the Making of History*, p. 244, 253.

<sup>37</sup>Cox, *Production, Power, and World Order: Social Forces in the Making of History*, p. 250, 358.

<sup>38</sup>Arrighi, *The Long Twentieth Century: Money, Power, and the Origins of Our Times*, pp. 214-248.

<sup>39</sup>Amin and Camiller (2003) *Obsolescent Capitalism: Contemporary Politics and Global Disorder*, London: Zed Books: Duménil and Lévy (2004c) 'The New Configuration of Us Imperialism in Perspective' *Modem, Cepremap, Paris*. Available from: <http://www.jourdan.ens.fr/~levy/dle2004l.htm> ['Accessed' 23rd June 2014], pp. 2-4: Arrighi (2005a), 'Hegemony Unravelling-I' *New Left Review*, (36).

<sup>40</sup>Bailey and Schonhardt-Bailey (2008b), 'Does Deliberation Matter in Fomc Monetary Policymaking? The Volcker Revolution of 1979' *Political Analysis*, 16 (4), pp. 406-407: Panitch and Gindin (2004b), 'Finance and American Empire' *Socialist Register*, 40, p. 47.

<sup>41</sup>Panitch and Gindin, 'Finance and American Empire', p. 65.

capital accumulation, achieved through financial restructuring imposed upon by international financial institutions, which aided the U.S. hegemonic system since the financial crisis that had erupted as a result of over-accumulation.<sup>42</sup>The worldwide diffusion of the American norm of neoliberalism was not led by New York but by Washington with the international financial organisations as its hegemonic tools.<sup>43</sup> As a result, the U.S. was able to form a capital accumulation architecture in which the entire globe pivoted around its financial capital and, furthermore, established the foundation of its hegemony.<sup>44</sup>Eventually, neoliberalism took a hierarchical shape in which the U.S., which was transformed by finance as its leading industry, was placed at the top. As a consequence, the American economy created an illusion of permanent growth in its unprecedented boom of the stock market from mid-1990s onwards.<sup>45</sup> It is important that such a finance-centric system could provide a structure in which global capital could flow into the U.S. in the 1980s and 1990s, and this structure apparently works as the reinforcement and perpetuation of the U.S. hegemony.<sup>46</sup> In particular, since the 1995 Anti-Plaza Agreement, the strong-dollar policy and the stock market boom in the US has provided the negative risk premium of the U.S. market, as a safe haven from financial crises. This has subsequently, led to the formation of a hegemonic structure for international capital to flow into the U.S.<sup>47</sup> The fact that the ratio of the foreign asset possession, which was 20% of the total U.S. GDP in 1985, grew rapidly to 72% in 2003 shows that the current account deficit of the U.S. is offset by its capital account surplus attained by capital influx.<sup>48</sup> Here, East Asian countries that purchased American treasury bonds played a key role<sup>49</sup>and such purchases have even increased after the 1997 Asian financial crisis. While investing in the U.S. was mainly by private investors, the purchase of American treasury bonds by Asian governments have also rapidly increased after the East Asian financial crisis<sup>50</sup>. These governments wanted to increase its foreign reserves in the wake of the financial crisis. This has in turn formed a structure, in which almost all such foreign reserves in the region flowed back into the U.S.<sup>51</sup> In other words, the U.S. was able to circulate the trade surplus of other countries to make up for its own debts.<sup>52</sup>Thus, while the US government debts form

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<sup>42</sup>Wade (2004a), 'Bringing the Economics Back In' *Security Dialogue*, 35 (2), p. 246.

<sup>43</sup>Panitch and Gindin, 'Finance and American Empire', p. 57.

<sup>44</sup>Gill (2005a), 'The Contradictions of U.S. Supremacy' *Socialist Register*, 41: Arrighi, 'Hegemony Unravelling-I'.

<sup>45</sup>Elgar and Bellofiore (1999a) *Global Money, Capital Restructuring and the Changing Patterns of Labor*, Northampton: Edward Elgar, p. 54.

<sup>46</sup> The reason why it is apparent reinforcement and maintenance will be discussed at the next section with the evaluation of the global financial crisis in 2008.

<sup>47</sup>Brenner (2004b), 'New Boom or New Bubble' *New Left Review*, 25, pp. 257-259; Duménil and Lévy, 'The New Configuration of Us Imperialism in Perspective', p. 9.

<sup>48</sup>Duménil and Lévy (2004a), 'The Economics of U.S. Imperialism at the Turn of the 21st Century' *Review of International Political Economy*, 11 (4), p. 667.

<sup>49</sup>Brenner, 'New Boom or New Bubble', p. 87.

<sup>50</sup>Arrighi, 'Hegemony Unravelling-I', p. 66; Wade, 'Bringing the Economics Back In'; Brenner, 'New Boom or New Bubble', p. 86.

<sup>51</sup>Wade, 'Bringing the Economics Back In', p. 249.

<sup>52</sup>Callinicos (2003) *The New Mandarins of American Power: The Bush Administration's Plans for the World*, Oxford: Blackwell Publishing, p. 168; Gill, 'The Contradictions of U.S. Supremacy', pp. 31-32; Harvey (2009a), 'The 'New' Imperialism: Accumulation by Dispossession' *Socialist Register*, 40: Panitch and Gindin, 'Finance and American Empire'.

the basis of its economic growth, the economic growth of other countries based on their exports to the U.S. are in fact, supported by US debts. Furthermore, the trade surplus of these countries flow back into the U.S. as capital investments, which in turn, goes to maintain U.S. hegemony.<sup>53</sup>

### III. Empire debate and the exceptionalism of the American hegemony

Hegemony has been thought of as a natural aspect of capitalism although empires have taken on different attributes from age to age<sup>54</sup>. Thus it is understood neoliberalism as a hegemonic structure particularly associated with the end of the 20<sup>th</sup> century. It is the turn to neoliberalism in the 1980s that explains much of the exceptionalism—the unique basis and vulnerabilities—of the American hegemony.

#### 1. Financial transformation and the hierarchical rearrangement of capital

The neoliberal transformation of the world economy, which began with the end of the dollar convertibility to gold and the introduction of the floating exchange rate system in 1971, and proceeded with the rollback of the stringent financial regulations, the deregulation of the stock market, and the spread of the currency principle, culminated into the huge increase in the interest rate by Paul Volcker, then chair of the US Federal Reserve, in 1979, along with other measures aimed at contraction and financial restructuring.<sup>55</sup>

On the external front, the entire process also expedited the transformation of the world financial order in favor of the US. Nations worldwide were forced to change their economic structures to favor financial and capital accumulation under the name of *deregulation*. Some nations took to this change voluntarily; others were forced to restructure themselves after financial crises in the wake of excessive accumulation.<sup>56</sup>

This series of sweeping changes rendered the American economy more amenable to financial accumulation and helped the US to absorb astonishing amounts of floating capital worldwide.<sup>57</sup> The US, in other words, succeeded in transforming the entire economic order on planet in its own favor.<sup>58</sup> Neoliberalism that formed the core of this worldwide transformation buttressed the US' position on the top of the new world hierarchy, locking Americans and the rest of the world in the mirage of the *New Economy* that *permanent growth* would be possible amid the unprecedented stock-market boom.<sup>59</sup> The American norms of neoliberalism rapidly spread around the world. At the helm of this transformation was not New York, but Washington, wielding international financial organizations as major instruments for reinforcing the Pax-Americana.<sup>60</sup>

#### 2. Influx of capital into the US and the American power

The influx of capital into the US, which began in the 1980s, began to accelerate in the 1990s. Since the anti-Plaza agreements of 1995, the strong dollar policy conspired with the American stock-market boom to amplify the amounts of capital flowing into the US.<sup>61</sup> The negative risk premium of the US market made

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<sup>53</sup>Duménil and Lévy, 'The New Configuration of Us Imperialism in Perspective', p. 12; Brenner, 'New Boom or New Bubble', pp. 79-81.

<sup>54</sup>Amin and Camiller, *Obsolescent Capitalism: Contemporary Politics and Global Disorder*; Duménil and Lévy, 'The New Configuration of Us Imperialism in Perspective': 2-4; Hobson (2004) *The Eastern Origins of Western Civilisation*, Cambridge: Cambridge university press.

<sup>55</sup>Bailey and Schonhardt-Bailey, 'Does Deliberation Matter in Fomc Monetary Policymaking? The Volcker Revolution of 1979': 406; Helleiner (1996) *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s*, Ithaca: Cornell University Press.

<sup>56</sup>Wade, 'Bringing the Economics Back In': 246

<sup>57</sup>Panitch and Gindin (2004a), 'Finance and American Empire' *socialist register*, 40.: 47; Bailey and Schonhardt-Bailey, 'Does Deliberation Matter in Fomc Monetary Policymaking? The Volcker Revolution of 1979': 406-407

<sup>58</sup>Gill (2005b), 'The Contradictions of Us Supremacy' *Socialist Register*, 41.

<sup>59</sup>Perelman (1987) *Marx's Crises Theory: Scarcity, Labor and Finance*, CA : ABC-CLIO.: ch 6; Elgar and Bellofiore (1999b) *Global Money, Capital Restructuring and the Changing Patterns of Labour*, Northampton: Edward Elgar .: 54

<sup>60</sup>Panitch and Gindin, 'Finance and American Empire': 57

<sup>61</sup>Brenner, 'New Boom or New Bubble': 257-259



it a safe haven against risks of financial crises.<sup>62</sup>

Two major patterns have been noteworthy with respect to this phenomenon since the late 1990s. First, the amount of assets in the US held by foreigners increased abruptly. Second, East Asian countries became major holders of the US Treasury bonds. In other words, the US gained the ability to fund its deficits with the trade surpluses of other countries.<sup>63</sup>

More specifically, the ratio of foreigner-held assets in the US gross domestic product (GDP) skyrocketed from 20 percent in 1985 to 72 percent in 2003.<sup>64</sup> This attests to the fact that the US compensated for its current account deficits with its capital account surpluses. Playing a pivotal role in this process was the purchases of the US Treasury bonds by the East Asian countries.<sup>65</sup> The tendency to favor the Treasury bonds grew all the stronger after the foreign exchange crisis that swept across Asia in 1997. Whereas investments in the US prior to the 1997 crisis were made mostly by private investors, the crisis prompted governments in Asia to invest heavily in the Treasury bonds.<sup>66</sup>

Moreover, despite the alarming increase in the US current account deficits since the financial crisis of 2008, Asian countries continued to refuse to keep the US dollars in their reserves, and rather invested them back into safe assets on the American market in a phenomenon that is now known as the "dollar recycle."<sup>67</sup> This phenomenon attests to the continuing power of the US, as well as the possibility of sustaining and increasing accumulation through the dispossession of others.<sup>68</sup>

#### IV. Instability of the basis for the American hegemony

The result of a war over hegemony bears a close correlation to the resources of production and economic basis such as financial factors.<sup>69</sup> If so, the continuous increase in the US trade and financial deficits over the last two decades, and the crisis of the dollar system are strong indicators of a profound shift afoot in the US-led unipolar world order.<sup>70</sup>

#### Global Financial Crisis of 2008 and the U.S. Hegemony

The seemed to be perfect U.S. hegemony structure however face a threat at the onset of the global financial crisis of 2008. The global financial crisis, which started with the insolvency of subprime mortgage in the U.S., led to the insolvency and bankruptcy of global financial institutions and to insufficient liquidity and credit crunch in the global financial market. The crisis also expanded into a recession of the global real economy, which gradually accelerated discussions on the end of the neoliberalist system.<sup>71</sup>

Before that, it was regarded that financial instability had been rather functional and would not inflict any

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<sup>62</sup>Duménil and Lévy, 'The New Configuration of US Imperialism in Perspective': 9

<sup>63</sup>Callinicos, *The New Mandarins of American Power: The Bush Administration's Plans for the World.*: 168; Gill, 'The Contradictions of US Supremacy': 31-32.

<sup>64</sup>Duménil and Lévy, 'The Economics of U.S. Imperialism at the Turn of the 21st Century': 667

<sup>65</sup>Brenner, 'New Boom or New Bubble': 87.

<sup>66</sup>Arrighi, 'Hegemony Unravelling-I': 66; Wade, 'Bringing the Economics Back In'; Brenner, 'New Boom or New Bubble': 86

<sup>67</sup>Krugman (2007a), 'Will There Be a Dollar Crisis?' *Economic Policy*, 22 (51); Bordo (2005) *The Gold Standard and Related Regimes: Collected Essays*, Cambridge: Cambridge University Press; Elwell (2008b) 'Dollar Crisis: Prospect and Implications', 'Available.

<sup>68</sup>Harvey (2003) *The New Imperialism*, Oxford: Oxford University Press; Harvey (2009b), 'The 'new' imperialism: Accumulation by Dispossession' *Socialist register*, 40; Panitch and Gindin, 'Finance and American Empire'; Wade, 'Bringing the Economics Back In'.

<sup>69</sup>Kennedy (1988) *The Rise and Fall of the Great Powers*, London: Unwin Hyman Limited.: xv-xvii

<sup>70</sup>Elwell, 'Dollar Crisis: Prospect and Implications': Krugman, 'Will There Be a Dollar Crisis?'.

<sup>71</sup>Davidson (2008), 'Is the Current Financial Distress Caused by the Subprime Mortgage Crisis a Minsky Moment? Or Is It the Result of Attempting to Securitize Illiquid Noncommercial Mortgage Loans?' *Journal of Post Keynesian Economics*, 30 (4); Foster and Magdoff (2009) *The Great Financial Crisis: Causes and Consequences*, New York: New York University Press.

significant impacts on the U.S. hegemony. It was because risks of financial turmoils had been managed by the development of financial derivatives and by the modulating functions of international financial institutions, and had been imputed to subordinate countries and classes.<sup>72</sup> Accordingly, the American current account deficit was not regarded as the origin of the crisis. The sustainability of the American neoliberalist system was deemed positive because countries in the centre were less likely to divert from the American-led regime and were governed by the global financial system formed in a hierarchical shape.<sup>73</sup> As mentioned above, it was regarded to assure the sustainability of the American neoliberalist system that the U.S. had the political economy advantage in which it can utilise East Asia as the safe that compensated the current account deficit of the U.S.<sup>74</sup>

However, such current account deficit and the dollar recycling system from East Asia rather aggravated the global imbalance, and eventually, the global financial crisis broke out in 2008.<sup>75</sup> Furthermore, the causes of the trade imbalance were basically the collapse of the Bretton Woods system and the establishment of the dollar's hegemonic system in which the quantity of dollar excessively increased and which led to a fundamental threat to the U.S. economic system as well as to the U.S. hegemony.<sup>76</sup>

To look into the situation more closely, it was in 1971 when the U.S. first became a trade deficit country from a surplus country. The trade deficit of the U.S., which was only USD 1.3 billion in 1971, grew to over USD 700 billion in 2009.<sup>77</sup> In addition, the U.S. fiscal deficit reached USD 1 trillion, 500 billion in 2009, and USD 1 trillion, 300 billion in 2010, being maintained at a level of about -10% with regard to GDP.<sup>78</sup> Moreover, as of 2009, USD 3 trillion, 400 billion, which was about half of the public debt of the U.S., was foreign debt. Therefore, the overseas outflow of dollar spent in paying the interest on such foreign debt was also at a serious level.<sup>79</sup> However, repetition of such cycle and the decline in the household savings rate gradually increased trade deficit, and the U.S. had to depend on the further inflow of capital. Eventually, the overseas outflow of income led to a decrease in domestic capital income and to a crisis of the dollar recycling system.<sup>80</sup> Such current account deficit and the East Asian dollar recycling system

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<sup>72</sup>Rude (2009) 'The Role of Financial Discipline in Imperial Strategy', in Panitch and Konings (eds), *American Empire and the Political Economy of Global Finance*. London: Mcmillan, pp. 200-205, 213-218.

<sup>73</sup>Panitch and Gindin, 'Finance and American Empire': Cox (2004a), 'Empire by Denial? Debating U.S. Power' *Security Dialogue*, 35 (2).

<sup>74</sup>Wade, 'Bringing the Economics Back In'.

<sup>75</sup>Krugman, 'Will There Be a Dollar Crisis?': Elwell (2008a) 'Dollar Crisis: Prospect and Implications' *Congressional Research Service Report*, Available from: <http://fpc.state.gov/documents/organization/99488.pdf> ['Accessed' 5th July 2014].

<sup>76</sup>Bordo and Eichengreen (2007) *A Retrospective on the Bretton Woods System: Lessons for International Monetary Reform*, Chicago: University of Chicago Press: Bordo and Eichengreen (2008) 'Bretton Woods and the Great Inflation' *National Bureau of Economic Research Working Paper No. 14532*, Available from: <http://www.nber.org/papers/w14532.pdf> ['Accessed' 20th July 2014].

<sup>77</sup>The U.S. Congressional Budget Office (2014) *The Budget and Economic Outlook*, Washington DC: Congressional Budget Office.

<sup>78</sup>Office of Mangement and Budget (2014) *Fiscal Year 2015: Historical Tables*, Washington DC.: U.S. Government Printing Office, p. 23.

<sup>79</sup>The U.S. Congressional Budget Office (2009) *The Budget and Economic Outlook*, Washington DC: Congressional Budget Office.

<sup>80</sup>Duménil and Lévy, 'The New Configuration of Us Imperialism in Perspective', pp. 11-13.

rather aggravated the global imbalance and, eventually, gave rise to the 2008 financial crisis.<sup>81</sup>

In addition, when the Obama administration was launched in 2008, what Obama could do to overcome the global financial crisis was only the issue of national debt caused by increase in fiscal spending. Yet, it became the the biggest weakness of Obama's administration.

U.S.' national debt had reached USD 14 trillion as of December 2010, the fiscal deficit of the federal government in Fiscal Year 2011 was the highest in record, and the ratio of its national debt to GDP was over 100%, which had caused concern about the fiscal soundness of the U.S.<sup>82</sup> Accordingly, Standard & Poor had lowered the national credit rating of the U.S. by one rank from AAA to AA+ on August 5, 2011, and gave a negative forecast of its credit rating.<sup>83</sup> Such an adjustment reflected the vicious circle whereby treasury bonds to compensate the deficit of fiscal balance were issued, which in turn, increased its national debt. It also implies the limitations of the dollar recycling system. Moreover, the Obama administration faced an internal and external dilemma of political polarisation, aggravated by the Republican Party's victory in the House of Representatives in 2010 and when budget sequestration became effective whereby the federal government's budget was uniformly cut instead of raising the ceiling of national debt.<sup>84</sup> Eventually, the U.S. hegemony had to find a solution to fix the system out, and it was the 'Pivot to Asia' which is the fundamental cause of the global imbalance to overcome the decline of U.S. hegemony.

To sum up, such a transition is the result of the 1970s crisis, which stimulated the transition into a new accumulation system that can solve the contradiction of the existing accumulation system,<sup>85</sup> i.e. the contradiction between capital accumulation in the U.S. and the material expansion in the global economy caused by global financial expansion. However, as Arrighi argues, such a system will lead to a systemic chaos, and this study interpret this is the global financial crisis of 2008.<sup>86</sup> This also means that the huge adjustment in terms of time and space made from the viewpoint of the recent capital accumulation crisis has caused the balance of political power to tilt towards China.<sup>87</sup> Finally, the Asia-conscious policies are presented as a means to overcome such a situation and as the way forward in retaining and managing U.S. hegemony.

### **Excessive household debts**

The decline of manufacturing and excessive military spending culminate into the multiplication of financial deficits, represented by the dramatic increases in the gross and public debts. The cycle of manufacturing decline-increasing imports-increasing trade deficits finally meets the cycle of excessive military spending-increasing financial deficits. Already in 2008, the US gross debt per capita exceeded USD 30,000, and the US gross debt per working person reached USD 60,000.<sup>88</sup> The US has already set on a

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<sup>81</sup>Krugman, 'Will There Be a Dollar Crisis?': Elwell, 'Dollar Crisis'.

<sup>82</sup>The U.S. Department of Treasury (2011) 'Secretary Geithner Sends Debt Limit Letter to Congress' Available from: <http://www.treasury.gov/connect/blog/pages/letter.aspx> ['Accessed' 1st July 2014].

<sup>83</sup>Standard and Poor's (2011) 'United States of America Long-Term Rating ' Available from: <http://www.standardandpoors.com/ratings/articles/en/us/?assetID=1245316529563> ['Accessed' 3rd July 2014].

<sup>84</sup>Kupchan and Trubowitz (2007), 'Dead Center: The Demise of Liberal Internationalism in the United States' *International Security*, 32 (2).

<sup>85</sup>Arrighi, *The Long Twentieth Century: Money, Power, and the Origins of Our Times*, pp. 214-248.

<sup>86</sup>Arrighi, *Adam Smith in Beijing*.

<sup>87</sup>Harvey, *The New Imperialism*, p. 123: Arrighi, *Adam Smith in Beijing*.

<sup>88</sup>FRS (2008) *Statistical Supplement to the Federal Reserve Bulletin 2008*, Washington DC: Board of Governors of the Federal Reserve System.

financially unsustainable path. The Congressional Budget Office (CBO) predicted that the current level of the US budget, already infeasible and unsustainable, will conspire with the increases in the gross debts due to the increasing demand for social spending due to the aging and healthcare needs, and it would negatively influence on the prospects for long-term economic growth.<sup>89</sup>

The growth of the American economy since the 1990s has been closely related to the increases in government, corporate, and household debts. The growth of the consumer market, in particular, was a direct result of the dramatic increases in household debts, which, in turn, was correlated to the drop in the savings of the high-income households.<sup>90</sup> One should note that the rapid increases in mortgage loans and rising house prices since 1995 also fuelled this trend.<sup>91</sup> The increase in American household debts has served to raise the US current account deficits, which has increased exports from other nations to the US. The resulting trade surpluses of other nations were turned into capital reinvestments into the US, thus sustaining the *virtuous cycle* of the American financial sector. The prolongation of this cycle, however, continues to reduce household savings, forcing the US economy to depend more and more on foreign capital investments. This ultimately leads to a drop in the capital gains in the US, thus bringing the virtuous cycle to an end.<sup>92</sup> Attesting to this principle are the major blow the US economy has suffered since the onset of the financial crisis in 2008, and the increasing signs of the decline of American hegemony.

The increase in the amount of interests paid out, due to the increase in debts, also contributes to the financial and hegemonic deterioration of the US. As of 2009, almost half of America's public debts, or USD 3.4 trillion, were owed to foreign parties. Paying interests on these debts to foreigners has led to the worrisome outflow of the US dollars.<sup>93</sup> In 2007 and 2008, USD 240 billion, approximately 9.5% of the US federal budget, flowed out of the country as interests on public debts, becoming the third-largest spending item next only to defense and social security.<sup>94</sup> The CBO expects that almost half of the increase in the US public debts between 2009 and 2019 will come from the increase in the amount of interests to be paid on debts. The interest burden will grow only severer once the interest rate goes back up to the normal level. This will set in course a new vicious cycle, starting with the increases in US debts, the weakening of the US dollar and its credit, the increase in the interest rate on the Treasury bonds, the increase in the amount of interests to be paid, and new increases in debts to fund all these increasing costs.

### **Crisis of the Pax-Dollarium**

The reason the US has been able to sustain the practice of compensating for its financial deficits by issuing tremendous amounts of Treasury bonds, notwithstanding the astonishing increases in its trade, financial, and gross debts, can be found in the so-called "dollar-Wall street system."<sup>95</sup> This fact alone illustrates the close relationship between the international monetary order and world hegemony.<sup>96</sup> As a matter of fact, the British sterling enjoyed a significantly elevated status in the aftermath of World War I, and the US dollar—and hegemony—suffered serious blows in the face of economic challenges from Germany and Japan during the oil shocks of the 1970s.<sup>97</sup> Under the current dollar-Wall Street system subjected to little

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<sup>89</sup>CBO (2009) *The Budget and Economic Outlook*, Washington DC: Congressional Budget Office.: 4-5

<sup>90</sup>Duménil and Lévy, 'The New Configuration of Us Imperialism in Perspective': 12

<sup>91</sup>Brenner, 'New Boom or New Bubble': 79-81

<sup>92</sup>Duménil and Lévy, 'The New Configuration of Us Imperialism in Perspective': 11-13

<sup>93</sup>CBO, *The Budget and Economic Outlook*.

<sup>94</sup>CBO, *The Budget and Economic Outlook*.

<sup>95</sup>Duncan (2003) *The Dollar Crisis: Causes*.: 9; Bordo, *The Gold Standard and Related Regimes: Collected Essays*.: 395-512; Gowan (1999) *The Global Gamble: Washington's Faustian Bid for World Dominance*, London: Verso.: 16

<sup>96</sup>Frankel and Wei (1994) 'Yen Bloc or Dollar Bloc? Exchange Rate Policies of the East Asian Economies', in Ito and Krueger (eds), *Macroeconomic Linkage: Savings, Exchange Rates, and Capital Flows, Nber-Ease Volume 3*. Chicago: University of Chicago Press.: 13-15; Gilpin, *The Political Economy of International Relations*.: 246-247; Krugman (2000) *The Return of Depression Economics*, London: WW Norton & Company; Perelman, *Marx's Crises Theory: Scarcity, Labor and Finance*.: 213.

<sup>97</sup>Eichengreen (1989) 'Hegemonic Stability Theories of the International Monetary System', in Cooper (ed), *Can Nations Agree?: Issues in International Economic Cooperation*. Washington D.C.: The Brookings Institution: Beeson and Broome

capital regulation and buttressed by floating exchange rates, the US enjoys the privilege of maintaining its hegemony so long as the amount of foreign capital inflow outweighs the amount of current account deficits.<sup>98</sup>In turn, the overall trend of growth worldwide depends on the expansion of the American consumer market, which explains the continued flow of world capital into the US in a securely locked pattern of interdependency. In the meantime, the international cooperation system of G7 maintains a control over foreign currencies, notwithstanding the floating rate system, which gives the US the additional privilege of exporting deflation and job losses to other countries as well.<sup>99</sup> This is how the use of the US dollar as the key currency has helped the US maintain its hegemony over the world.<sup>100</sup>

As of February 2014, the total amount of US Treasury bonds held by foreign governments amounted to USD 5.8 trillion. China and Japan held USD 1.27 trillion and USD 1.21 trillion of this, respectively. Overall, more than half of the total amount of US Treasury bonds is held by Asian governments. As already mentioned, this may attest to the enduring power of the US and its ability to sustain its expanding economy by translating its current account deficits into capital investments from its trading partners.<sup>101</sup>Nevertheless, the fact that much of the capital the US lures in to compensate for its current account losses in the new millennium comes from East Asian foreign reserves, which is concentrated in the government bonds, also indicates that the East Asian countries wield a considerably greater leverage vis-à-vis Washington.<sup>102</sup>Moreover, should the accumulation of foreign debts continue in the US economy, the value of the US dollar will depreciate further so much that it may lose its use as the key international currency. This, in turn, will serve a fatal blow to American hegemony.

Accelerating the crisis of the dollar system are the attempts of Beijing to diversify the currencies in its foreign reserves (amounting to USD 3.8 trillion as of the end of 2013) and to globalize the renminbi (RMB).<sup>103</sup>The 2008 financial crisis has compelled the Chinese government to realize the need to manage financial risks by reducing its dependency on the US dollar and to consider the likelihood of globalizing the renminbi in the light of the narrowing economic gap between China and the US.<sup>104</sup>The recent global financial crisis was a result of Washington issuing the dollar and Treasury bonds and adjusting the standard interest rate at no cost to itself without being subjected to the true consequences of increasing deficits.<sup>105</sup>Since 2008, Beijing has therefore allowed certain regions in China to pay for trade accounts in the renminbi and has been expanding the amount of the renminbi in circulation in those regions.<sup>106</sup>In other words, Beijing is seeking to increase the markets for and the influence of the renminbi.

In fact, although still insignificant compared to the overall volume of international trade conducted in the US dollar, the volume of trade conducted in the renminbi continues to grow at a rapid pace. According to the Society for Worldwide Interbank Financial Telecommunication (SWIFT),<sup>107</sup> the amount of the renminbi used for international trade made up only 1.89% of overall trade volume worldwide as of January 2012. By October 2013, however, the currency represented 8.66% of worldwide trade, becoming

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(2010), 'Hegemonic Instability and East Asia: Contradictions, Crises and Us Power' *Globalizations*, 7 (4): 513

<sup>98</sup>Wade, 'Bringing the Economics Back In': 243-246

<sup>99</sup>Harvey, 'The new imperialism: Accumulation by Dispossession': 64: Harvey, *The New Imperialism*.

<sup>100</sup>Williamson (1977) *The Failure of World Monetary Reform, 1971-74*, New York: New York University Press.: 78: Arrighi, 'Hegemony Unravelling-I'.

<sup>101</sup>Wade, 'Bringing the Economics Back In': Panitch and Gindin, 'Finance and American Empire'.

<sup>102</sup>Arrighi, 'Hegemony Unravelling-I'.

<sup>103</sup>The People's Bank of China (2014) 'Gold & Foreign Exchange Reserves' *Jan. 2013 to Dec. 2013*, Available from: <http://www.pbc.gov.cn/publish/html/2013s09.htm> [Accessed 21st April].

<sup>104</sup>秦亞青; (2009), '國際體系轉型以及中國戰略機遇期的延續' *現代國際關係*, (4): 35-37: 尚鴻 (2009),

'金融危機對美國霸權地位的衝擊' *現代國際關係*, (4): 32-34

<sup>105</sup>張世鵬 (2009), '關於全球金融經濟危機原因的幾點思考' *國際政治研究*, 112 (2): 81-83: 李琮 (2009),

'關於美國霸權問題論爭的評析' *世界經濟與政治論壇*, (2): 27-33

<sup>106</sup>Xinbo (2010), 'Understanding the Geopolitical Implications of the Global Financial Crisis' *The Washington Quarterly*, 33 (4): 155-163: Hsiao (2009), 'Is Renminbi Becoming Asia's Currency and Decoupling from the West?' *China Brief*, 9 (21).

<sup>107</sup> RMB monthly Tracker (November 2011).

the second most frequently used currency of trade in the world. The renminbi as a settlement currency came in the 20<sup>th</sup>, representing only 0.25% of international settlements as of January 2012 but climbed to the 12<sup>th</sup> by October 2013, representing 0.87% of international settlements worldwide. Since the 2008 global financial crisis, Beijing has signed multiple currency swaps with the central banks of numerous countries, thus enhancing the function of the renmibi as a reserve asset and its influence worldwide. Beijing has also been pressuring the international community to reform the international monetary order by increasing the proportion of special drawing rights (SDRs) in international settlements; returning to the Keynesian principle that the US rejected at the Bretton Woods Conference; and making fundamental changes to the dollar system. All these amount to major challenges to the continued US hegemony. In the meantime, the Gulf oil producers are increasingly abandoning the dollar as the currency for oil transactions. Should these countries stop investing in the US Treasury bonds, stocks, and real estate, the value of the dollar will quickly plummet.

Of course, the efforts to turn the SDRs into a new key currency are unlikely to bear any tangible fruit for the time being because of the enduring obsession with “sovereignty,” the impossibility of creating a new financial market that would satisfy all the requirements and the position of the US as the largest shareholder and a strong vetoer at the IMF. Moreover, since the IMF, the fundamentally US-centered organization, will be supplying the SDRs, the new SDR system may not be so different from the dollar system in effect. The fact that the renminbi still occupies a minor status in the world capital market and China’s military and security influences are limited also supports the forecast that the dollar system will retain its governing position at least for the foreseeable period of time.<sup>108</sup>A bigger threat to the dollar system rather comes from the attempts to expand the reach of the euro.<sup>109</sup>

While it is certainly difficult to forecast how all these attempts at reform will evolve in the future, these attempts are not negligible in themselves. Should these efforts for the reform of the international monetary and financial systems actually begin to take effect, the US system of sustaining trade and financial deficits with debts will finally collapse, and the US hegemony that was established at the 1944 Bretton Woods Conference will be damaged beyond repair.

## Conclusion

It needs to be stressed that this study is making no claim about the imminent decline and *fall* of the US.<sup>110</sup> The possibility of the US disappearing completely from the map because of an outside invasion is so distant as to be almost nonexistent. Given the sheer sizes of its territories and human and physical resources, the US will remain exceptional in almost all respects. The *decline* of the US that is the central concern of this study refers to the return of the country to its *natural size* befitting its geographic, human, and other resources.<sup>111</sup>Such a return to the “natural size” entails the decrease or even abandonment of the global commitments that have been the norm of the American foreign policy since the days of Woodrow Wilson.

The decline of the US is both absolute and relative in that the country’s economy is in a serious crisis on its own and in that the country’s power relative to other strong states appears to be weakening. We should not expect that the decline of American hegemony will be so visible and abrupt that the country would return to its natural size overnight.<sup>112</sup>However, once must remember that the temporary resurrection of *Pax Americana* in the 1990s was made possible because of the information technology revolution and the support from Japan that began with the anti-Plaza agreements of 1995. Although the

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<sup>108</sup>De Cecco (1974) *Money and Empire: The International Gold Standard, 1890-1914*, Oxford: Blackwell: Strange (1971) *Sterling and British Policy: A Political Study of an International Currency in Decline*, Oxford: Oxford University Press: Posen (2008), ‘Why the Euro Will Not Rival the Dollar’ *International Finance*, 11 (1): Gladwell (2006) *The Tipping Point: How Little Things Can Make a Big Difference*, New York: Back Bay Books: Schelling (2006) *Micromotives and Macrobbehavior*, New York: WW Norton & Company.

<sup>109</sup>Williamson, *The Failure of World Monetary Reform, 1971-74.*: 128-129

<sup>110</sup>Gibbon (1781) *The History of the Decline and Fall of the Roman Empire*, London: W. Strahan and T. Cadell.

<sup>111</sup>Kennedy, *The Rise and Fall of the Great Powers.*: 533

<sup>112</sup>Nye Jr (2010), ‘Futures of American Power-Dominance and Decline in Perspective, The’ *Foreign Aff.*, 89.

US still possesses the chance of overcoming the current economic crisis through another scientific and technological breakthrough, it remains doubtful that the country will be able to maintain its central position in the world economy and security, notwithstanding the growing influences of China and the EU. The reason the US has been able to intervene with the domestic affairs of Southeast Asian and Middle Eastern countries, even by issuing astounding amounts of Treasury bonds, can be found in the dollar system. Should the financial deficits and external debts of the US continue to increase and begin to hover above the growth rate, the dollar system will fundamentally weaken, making it impossible for the US to maintain its overwhelming economic superiority.

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