Essay 2: Is the US still a global hegemonic power?

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The essay will critically argue that the United States (US) is still a global hegemonic power, but it is minimal hegemony based on non-ethical deception relating to the increasing legitimacy crisis of neoliberal policies, especially since the ongoing financial crisis and the rise of developing countries - and related global imbalances - such as China. Firstly, the essay will consider the background and development of US hegemony since World War II and how the role of the dollar has been central to this. Included within this will be an outline of the theoretical perspective, neo-gramscianism, which has informed the essay – especially the neo-gramscianism concepts: minimal hegemony, non-ethical deception and universal interests. To illustrate the dollar's importance for US hegemony, there will be a critical analysis of its relationship to the US's energy and oil domestic and international policy, alongside the effects the financial crisis has had upon the US's role and other countries' -especially developing countries' – opinions regarding the US's, and especially the dollar's, hegemonic sustainability. Finally, the essay will consider the process of US hegemonic adaptation through negotiation and compromise within international organisations, specifically the G20, that reflect the changing international political economy - whilst commenting on the problems for the dollar to remain a universal interest.

Wittkopf *et al* (2003) refer to how US's hegemonic decline relates to the construction of the Bretton Woods System after World War II, especially in terms of the role of the dollar that through Bretton Woods became fixed to gold and, thus, the international reserve currency (p.204). Every member country of Bretton Woods had to value their own currency in relation to the US dollar to ensure a fixed exchange rate, with the US - through the dollar - providing important international liquidity (p.205). However, by the 1960s/1970s there was increasing concern about the role of the dollar under Bretton Woods, given the volume of dollars in the system creating problems regarding its value, with rising trade deficits alongside the US unable to ensure direct convertibility of dollars and gold (p.205-206). Due to this and the US's increasing domestic problems, such as ongoing inflation rises, the 'Nixon Shock' (1971) stopped this direct convertibility, bringing an end to the Bretton Woods System and ushered in a movement towards free-floating exchange rates (p.206-207). This relates to the 'Triffin Dilemma', as the more dollars printed the harder it became for the US to keep to its commitment of ensuring convertibility, with confidence in the dollar decreasing due to the dollar 'overhang' (Underhill 2005:108).

Therefore, in the 1970s, there was a boom of academic literature regarding apparent US hegemonic decline, especially by Hegemonic Stability Theory (Cafruny 1990:97). However, despite these problems, the 'Nixon Shock' in ways provided the US with more flexibility and power. For instance, the 1980s' Latin American 'lost decade', due to the rise of US interest rates, saw faith in the dollar restored, US growth increased and inflation decreased with the US perceived as a safe place for financial investment and trade unlike in the 1960s/1970s, when Latin American countries borrowed considerable amounts of money from Western banks and governments – mostly denominated in dollars - especially due to the oil shocks, after oil producing countries recycled their petrodollars (Wittkopf *et al* 2003:208-211). Unable to keep up with repayments of these loans, developing countries sought International Monetary Fund (IMF) assistance, with the US gaining more power and influence, especially through structural adjustment programmes and the rise of the Washington Consensus emphasising privatisation, deregulation, liberalisation and financialisation - opening up more markets for the US and US companies, alongside reducing the power of unionised domestic labour through outsourcing of cheap transnational labour (Wittkopf *et al* 2003:208-211; Gore 2000:789-790). This helped increase the circulation of US dollars internationally, assisting the US's financing of its extensive deficits and debts (Scherrer 2011:227).

Through utilising neo-gramscianism, where Antonio Gramsci is applied to international relations, the essay is arguing that US's changing hegemonic position is a reflection of structural, institutional and ideological shifts. For Gramsci, there are three levels of society: civil society is where hegemony is constructed, political society refers to political and coercive institutions that differs from a broader construction of the state, relating to the interdependence of the civil society and political society at large and its relationship with the third level: economic production and relations (Augelli and Murphy 1993: 128-129). The relationship between the economic structure and the superstructure (civil society and political society) creates a historic bloc, which if hegemonic sees a ruling social class ensuring different social groups consent to be ruled through the creation of institutions, economic relations and culture/ideas that appear to reflect universal interests with subordinate groups having some of their interests met – only if a subordinate class can organise and rule other subordinate groups can a new bloc form to challenge the hegemonic one (Cox 1983:167-169). Therefore, maintenance of hegemony requires ongoing adaptation and compromise to ensure any oppositional forces consent to be ruled. The US's national hegemonic historic bloc since World War II, Cox (1983) argues, outwardly expanded to become a world hegemony with force being used on the peripheries (p.171).

After the 'Nixon Shock', the US was less willing and able to ensure international economic stability (Wittkopf *et al* 2003:207). This relates to the US becoming a minimal hegemon. Cafruny (1990: 105-113) utilises Gramsci's three forms of hegemonic power: integral hegemony is the most resilient and integrated system where the ruling group ensures its own, and the system as a whole, interests are met; declining hegemony sees the subordinate and ruling groups' interests come into more intense conflict/contradiction making it harder for the ruling group to meet its own and the system's interests, with hegemony ideologically declining; minimal hegemony sees rulers not wanting to lead any more, with their own interests taking prominence over any concern for others' and the system's interests, but oppositional forces are too weak to challenge the system through a counter-hegemonic bloc. Cafruny argues the US was an integral hegemon after World War II through their role as leaders of the Bretton Woods System and related embedded liberalism until the 1960s, and then became a declining hegemon with the dollar increasingly vulnerable to speculative attacks, whilst Europe and Japan recovered economically; but after 1971, the US became a minimal hegemon, as evidenced by the 'lost decade'.

Cox (1981) argues that the rise of international capital faces problems with achieving - or maintaining - hegemony because of the increased marginalisation of considerable amounts of people across the world through poverty and inequality (p.149). Thus, Cafruny (1990) argues that neoliberalism does not have a mass identity nor popular social forces coherently supporting it, which creates problems given the importance of financial liberalisation and excessive consumption/debt for maintaining US hegemony (p.114). Thus, Cafruny argues this void in popular acceptance of neoliberalism, propped up by elites on a weak basis through minimal hegemony, illustrates the weakness of oppositional social forces (p.114-118). This relates to Gramsci's two types of supremacy - domination and ethical hegemony - with non-forceful domination, unlike ethical hegemony, relying upon consent through deception (Augelli and Murphy's 1993:127-128). The current US hegemonic global political economy could therefore be viewed as primarily rule by non-forceful domination in the Gramscian sense, through being based on fraudulent and non-ethical leadership given the disjuncture between promises and reality of neoliberalism and financialisation (Augelli and Murphy 1993:133-137).

After the 'Nixon Shock', the dollar has remained the global reserve currency (Cafruny 1990:111), and is central to the US's global hegemony. However, the dollar's hegemony is financed through surplus countries, especially developing countries such as China, buying large amounts of US dollars as reserves – this intensified after the Asian financial crisis, which helped developing countries delay adjustment burdens without having to use the IMF (Cohen 2008:461). The dollar's demise has been predicted for years; however, the size, depth and robust nature of the US economy and US's political stability has been key to the dollar's resilience (Kirshner 2008:419). Nevertheless, Kirshner (2008) provides two key economic assessments regarding actors' willingness to hold dollars: absolute calculation – confidence the dollar will hold its value and stability in the long-term; and, relative calculation – the dollar's attractiveness compared to plausible alternative currencies (p. 419). Kirshner argues we are seeing cracks in both (p.419).

Large US deficits are creating an inflation threat with the dollar therefore likely to witness ongoing depreciation due to it being overvalued; which undermines confidence in surplus countries holding large amounts of dollars, thus moving towards diversifying their reserve portfolio to become less reliant on dollars (see Reuters 2013) – this threat is intensified when, unlike previous dollar problems, those who hold most of US's dollars are not US allies (Kirshner 2008:421). Therefore, relating to the relative calculation, the dollar could become a 'peer competitor' amongst several other key alternative currencies (Kirshner 2008:421). However, Helleiner (2008) argues potential alternative countries such as China do not have well developed, open and sophisticated financial markets to ensure liquidity (p.358). Nor is it clear that China wants to become the global hegemon, with Beeson (2009) arguing that China's entry into the World Trade Organisation illustrated a “highpoint of US influence and ascendency” and thus the respect China still has for US hegemony and the status quo (p.729).

Furthermore, China's sovereign wealth funds, financed through China's large reserves, has increased China's influence in the US through investing and even bailing out key US financial institutions, whilst also illustrating the significant interest China has in the US remaining hegemonic (Beeson 2009). This relates to how China has to be careful when reducing its dependence on the dollar, as any inevitable depreciation of the dollar through drastic action would create costs for China - including undermining their export competitiveness (Cohen 2008:460-462 and Kirshner 2008:428). For Bowles and Wang (2008):

> The future of the dollar depends partly on China and the US being able to effectively manage the tensions arising from the large bilateral trade imbalances and the build-up of foreign exchange reserves by China (p.335).

This relates to Bowles and Wang's (2008) discussion regarding the US's demands for China to allow their currency to appreciate; whilst China has moved to a more flexible exchange rate and Chinese economists are increasing preferring a more flexible regime, they want this to happen gradually, not rapidly as the US demands (p.341-344). However, given China is an export-led economy with many foreign funded enterprises operating within it that import materials into China to then manufacture in China - through easy access to low-cost labour - and then re-export these goods, appreciation is also offset by a cheapening of imports (p.343). Nevertheless, China are beginning to re-orientate their economy, especially given the growth of regional inequalities and social tensions (p.345). Such movements away from dollar dependence could illustrate challenges for US hegemony in ensuring the dollar is viewed as meeting universal interests and especially the interests of countries such as China; therefore the need for ongoing negotiations, Bowles and Wang discuss, between the US and China is evidence of the importance this symbiotic relationship and process is for maintaining US's hegemonic position.

Importantly, Kirshner (2008) argues that the flexibility of financing its deficits and US's structural power - key to US's hegemonic position - gained from the 'Nixon Shock' could be undermined if significant dollar diminution takes place, facing reduced international political influence and macroeconomic policy autonomy when international political crises occur alongside a reduction in ideological soft power (p.429-432). With the US public unlikely to accept increased taxes and reduced military/defence spending, the problem of adjustment facing the US is potentially devastating (p.432). Its inability to address these imbalances illustrates how the US is a minimal hegemon, given it is more concerned about its own short-term interests rather than the system's long-term interests, with US's hegemony - based on constant adaptation in order to maintain support of apparent universal interests, such as the role of the dollar as the reserve currency - reflecting elite, rather than popular social forces, based interests due to the rise of neoliberalism.

The dollar is key to the US's stance on climate change and energy policy. Cheap oil is crucial for maintaining US's overconsumption, inefficient use of energy and also the stability of the dollar; but once a country with large amounts of oil reserves, the US is now reliant on maintaining foreign supplies (Goel 2004:468-469). If domestic demand reduced, the stability of the dollar could be threatened and thus undermine US's economic, political and military reach, as petrodollar flows finance an estimate of 45% of the US's current account deficit (etopianews 2011). Given oil is finite, this causes concern regarding the US economy's sustainability and consequently its hegemonic position globally. Defence spending is closely linked to the US's heavy reliance on oil, especially in the Middle East (Goel 2004:470). There are claims that the Iraq invasion was due to US's desire to control Iraq's oil, especially with Saudi Arabia becoming a less guaranteed US oil reserve trading partner (Jhaveri 2004). William Clark (see etopianews 2011) controversially argues the Iraq War related to conflict regarding how oil is denominated, as shortly before the invasion Saddam Hussein had changed the denomination of Iraq's oil from dollars to Euros. However, it is China – not the US – that are set to benefit from Iraq's expected movement to becoming the number two oil exporter in the world (Cockerham 2013).

The US could face problems if such oil is not denominated in dollars and also in ensuring ongoing foreign supply of oil reserves to maintain US's high-level domestic demand and related excessive consumption and the stability of the dollar (Goel 2004:478). A reduction in US domestic demand for oil would see a reduction in international demand, as the US would not need to ensure oil rich regions have friendly environments for investment (Goel 2004:487). However, for the dollar to maintain stability, the US faces problems with reducing domestic demand whilst ensuring its hegemony and responding to growing pressures to tackle climate change internationally. This is especially concerning given the development of a new balance of power internationally, reflecting US's gradual decline and the rise of developing countries (see Roberts 2011). Furthermore, the Byrd-Hagel Resolution (1997) - prohibiting US signing of any international agreement on greenhouse gas emissions if it undermines the US economy and if developing countries are exempt from the emission targets/reductions (Lisowski 2002:104) - also means US signing/ratifying any international agreement regarding emission targets and reductions is unlikely.

The global financial crisis of 2007/8 has arguably intensified the threats to US's global hegemony, with many questioning the US's economic, ideological and political basis and practices with their Anglo-American model facing a legitimacy crisis, as the crash roots to growing imbalances and inequalities associated with the development of neoliberalism since the 1970s to deal with US's minimal hegemony (Duménil and Lévy 2009). Such decline in confidence has made countries such as China less likely to keep holding vast amounts of US dollars (Alessandrini and Fratianni 2009:342), with the crisis effecting China's export-led growth given the problems with European and US import markets; China are therefore wanting to develop their import based trade, with concerns that their recent return to surplus may reflect inaccurate trade data (BBC 2011; BBC 2013).

Thus, the financial crisis has seen movements from the neoliberalism's focus on 'corrupt' national developing countries towards the international system itself as being the problem, with developing countries' development models - where the state plays an active role - gaining more credibility (see Mosley in Various 2009). Scherrer (2011), focusing on hegemony within the US, argues that despite financial capital remaining hegemonic after the 2008 financial crisis, given its continuing centrality in the process of accumulation, the public's passive consent has been lost (p.219-220). This relates to Gramsci's concept of non-ethical consent where dominance has been ensured through deception. However, despite this domination, the lack of an alternative counter-hegemonic bloc - due to financial capital undermining opposition since the 1970s and also conflicts between the middle and working classes - means financial capital and related US hegemony is “only more or less passively accepted” (p.235), thus ensuring minimal hegemony. Crucially, the public are more critical of individuals such as bankers, rather than systemic imbalances and inequalities of the current system, with financial capital escaping any far-reaching regulation changes (p.236).

Furthermore, in terms of international organisations, since the financial crisis it could be argued that the US have undergone a process of adapting their hegemonic historic bloc through institutional negotiations and changes (see, Cox 1983:168-169) in order to reflect the changing political economy and to take into account developing countries', such as China’s, interests. For instance, in the G20 there has been a process of adapting the institution to offer compromises and benefits for developing countries, whilst not undermining the interests of the US and other western developed nations - especially the ideological prominence and role of neoliberalism internationally - which is central to the recreation of universal interests and reasserting the US's hegemonic position (Beeson and Bell 2009). Nevertheless, since the financial crisis - concerned about the dollar's long-term value and sustainability - China have called for the IMF's Standard Drawing Rights (SDRs), effectively foreign exchange reserves, to replace the dollar's role (Anderlini 2009).

This relates to discussions regarding potential alternative reserve currencies and how Bretton Woods arguably contained the seeds of its own destruction. Alessandrini and Fratianni (2009) argue that if Maynard Keynes' idea for a global bank - International Clearing Union (ICU) - and an international currency – bancor - separate from national currencies as a unit of account for international trade had not been rejected by the US, there would have likely been more control and prevention of the massive trade imbalances that have resulted due to the instability of the dollar firstly tied to gold and then rapid liberalisation after 1971. Keynes' plan (p.348-352) consisted of all countries having a bancor overdraft at the ICU, by the end of the year all countries would have to clear their bancor accounts so they have neither an excessive surplus (more than half of its overdraft) or deficit (more than half of its overdraft). Those that do would face interest charges on their account alongside having to revalue currencies and making relevant changes to capital export rules. Key was the idea that surplus countries had an obligation to help debtor nations, with any excessive surplus confiscated by the end of a year; this was something the US did not want and given they were the most powerful, economically and politically, country they blocked it. Drawing on these plans, Alessandrini and Fratianni argue the dollar can be gradually replaced through introducing supranational currency (p.340-342). For instance, alongside China, the United Nations has even called for the US dollar to be replaced as the reserve currency through SDRs (Charbonneau 2010). This illustrates potential problems for the dollar to remain appearing as a universal interest.

In conclusion, the US is still the global hegemon but this is minimal hegemony - as it is not based on what is best for the system long-term - with it supported through non-ethical domination given the legitimacy crisis of neoliberalism and the global political economy alongside weak oppositional forces. This relates to the role of the dollar as the international reserve currency since World War II. Whilst the US's hegemonic position was temporarily undermined through the 'Nixon Shock', the US reasserted its hegemonic power through more self-interested ways in the 1980s-1990s, especially through structural adjustment programmes by institutions such as the IMF and associated ideological primacy of the Washington Consensus. However, given the financialisation ushered in through these reforms created global instability and inequality, especially since the Asian financial crisis, developing countries such as China amassed huge amounts of reserves to protect themselves against such economic pressures. This has seen huge imbalances form, with the US now the biggest debtor country relying on surplus countries such as China to finance its extensive deficits and debts that are crucial to the US's economic, political and ideological hegemony. However, especially since the 2007/8 international crisis, there is increasing criticism and scepticism regrading the dollar's long-term value and sustainability - with doubt over whether the dollar will continue to be viewed as an universal interest - as surplus countries move towards diversifying their reserve portfolio amongst calls to replace the dollar as the reserve currency. There are also problems with oil reserves reaching peak levels and the petrodollar system being undermined, which also creates problems for dollar stability. Nevertheless, China still needs the US economically, with the US engaged in a clever process of constant adaptation, especially institutionally, to remain hegemonic. Therefore, whilst the US is still the global hegemon, there are needed gradual domestic and international adjustments; however, there is currently no clear alternative - with weak oppositional forces through ongoing financial hegemony - to such a system, with the US engaged in ongoing adaptation and negotiation, mainly amongst elites, to remain hegemonic.

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