Final Year Project Report

Project Title: ,,	The Sources of, and Prospects for U.S. Hegemony: An International Political Economy Approach.
Student Name:	David O'Mahony
Student ID:	0245453
Supervisor:	Dr. Owen Worth
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Abstract

The global financial crisis and subsequent effects on sovereign debt, the “rise of China”, prolonged war in the Middle East, as well as the recent as yet uncertain wave of political unrest and civil war known popularly as the “Arab Spring” have shaken the world, and called into question the future of U.S. hegemony. In this regard, the prospects for continued U.S. hegemony in the international political economy will be analysed. First, however, it will be necessary to determine exactly what factors are constitutive of U.S. hegemony. In this regard, the structural analysis devised by Susan Strange in the 1980s is apt to illustrate the main sources of U.S. power in the international system. Additionally, the insights of Robert Cox’s analysis of the internationalization of production, world order, and his application of Gramsci’s theory of hegemony to the international political economy allow for a more thorough understanding of the nature of the U.S. hegemony. Additionally, East Asia and Latin America will briefly be analysed due to their potential as sites for collective counter-hegemony, if not on a global, then at least on a regional level. It will be concluded that U.S. hegemony through dominance in the structures of production, finance, security and ideology appears to be relatively safe from effective contestation for the foreseeable future. Once again, the decline of the U.S. has been much exaggerated due to a lack of focus on structural power, and an in depth analysis of the myriad sources of power which the U.S. draws from.

Contents

Introduction

The global financial crisis and subsequent effects on sovereign debt, the "Rise of China", prolonged war in the Middle East, as well as the recent as yet uncertain wave of political unrest and civil war known popularly as the "Arab Spring" have shaken the world, and called into question the future of U.S. hegemony. In this essay the prospects for continued U.S. hegemony in the international political economy will be analysed. First, however, it will be necessary to determine exactly what factors are constitutive of U.S. hegemony. In this regard, the structural analysis devised by Susan Strange in the 1980s is apt to illustrate the main sources of U.S. power in the international system. Additionally, the insights of Robert Cox's analysis of the internationalization of production, world order, and his application of Gramsci's theory of hegemony to the international political economy allow for a more thorough understanding of the nature of the U.S. hegemony.

Firstly, it is necessary in an evaluation of power in the international system, to outline what exactly is meant when we speak of power. According to Strange (ibid: p. 24), there are two types of power exercised in a political economy – structural power and relational power. Relational power is "the power of A to get B to do something they would otherwise not do" (ibid: p. 25). An example of relational power would be the huge amounts of U.S. government bonds held by China, which increase China's power in relation to the U.S.

Structural power on the other hand, "is the power to shape and determine the structures of the global political economy within which other states, their political institutions, their economic enterprises and (not least) their scientists and other professional people have to operate" (ibid: p. 25). Expressions of such power would include the control that the U.S. exerts over the institutions of global economic governance, which set the agenda and impose policies which are in the interests of the U.S. Additionally, this structural power could be in the form of "customs, usages, and modes of operation" which are projected into and adopted by wider society generally (Strange, 2002: p. 145). This additional qualification by Strange of what she meant by structural power happens to be very similar to the definition of hegemony as used by Robert Cox. By hegemony, Cox means "a structure of values and understandings about the nature of order that permeates a whole system of state and non-state entities (Cox, 1992: p. 151). "Hegemony derives from the ways of doing and thinking of the dominant social strata of the dominant state or states insofar as these ways of doing and thinking have inspired emulation or acquired the acquiescence of the dominant social strata of other states. These social practices and the ideologies that explain and legitimize them constitute the foundation of the hegemonic order. Hegemony frames thought and thereby circumscribes action" (Cox, 1992: p. 518).

Strange believed there to be four main structures of power within the global political economy, each structure both supported by and conversely supporting the other three structures of power. “These four sources, corresponding to the four sides of a transparent pyramid, are: control over security; control over production; control over credit; and control over knowledge, beliefs and ideas” (Strange, 1994: p. 26). These structures of power, as theoretical models are artificial constructs with which to understand the complex and highly interrelated nature of power within the global political economy. Suffice it to say that this fact alone should demonstrate how interconnected these “structures” of power are, and how it is difficult to say with any certainty how important one is over the other without being guilty of abstraction from reality. Each construct of power is vital for the others to have any real explanatory significance.

Of course, any one theory can only provide one perspective of the complex global political economy. With this in mind, additional insight can be gained by the use of the Coxian neo-gramscian notions of hegemony, world order and the internationalization of production. While not fully embracing the historical materialism of cox, nevertheless, his insights have profoundly altered the depth and scope of the study of International Political Economy since the late 1970s and so have the potential to add to an understanding of the global processes at work within capitalism to which virtually all states have become substantially subordinated.

Additionally, the insights of Antonio Gramsci concerning hegemony, and Cox’s application of this to the international system illustrate processes and means with which the international system is shaped by consent and coercion by the dominant state, incorporating subordinate allies, and liquidating counter-hegemonic forces in the formation of what Gramsci termed, a “historic bloc”. These insights have given profound applicability to the study of international political economy, especially in this current period of U.S.-led globalization of production and finance, as well as near-worldwide reach of the U.S. military, engaged in alliance-building and asymmetric warfare.

The Production Structure

According to Strange, a production structure is defined as “the sum of all the arrangements determining what is produced, by whom and for whom, by what method and on what terms” (Strange, 1994: p. 64). Strange points to there being two main changes in the production structure in the last two centuries; the transformation in Western Europe to a capitalist, market economy and secondly, a “gradual, uneven but apparently inexorable supplanting of a production structure geared primarily to serve national markets to one geared to serve a world market” (ibid: p. 65). This latter change not only involves multi-national corporations (MNCs), but also small and medium sized enterprises geared toward the world market (ibid: p. 65). In the course of the last century there have been many examples of countries attempting to shield themselves from external economic forces, such as the communist powers of the Soviet Union and China, as well as the import substitution strategies of India and Latin America. Today, however, virtually all countries have come to accept the logic of globalization as a means of development, albeit to a lesser or greater extent.

The transformation of the global production system from one centred on national economies to one geared towards the international system was "in large measure an American achievement" (ibid: p. 73). In the aftermath of the Second World War, the U.S. was the only major power to possess an undamaged manufacturing infrastructure and "had half of the world's wealth, and incomparable security and global reach" (Chomsky, 2012). Due to its need to utilize the massive manufacturing base which it had created by the end of the war, and also to counter the influence and possible expansion of the Soviet Union, the U.S. adopted the Marshall Plan, which gave European economies $13 billion dollars between 1948 and 1952. This money was largely recycled back to the U.S. due to the conditionality on the loans which insisted on the funds being used to buy U.S. goods. In addition to the Marshall Plan, there was the European Payments Union (EPU), which facilitated European trade. After the dissolution of the EPU, the Bretton Woods monetary system came into effect in 1958, the same year that the U.S. balance of payments began producing deficits.

The architecture of the Bretton Woods institutions was central to how the U.S. dominated the global economy in the post-war period. After the U.S. congress' rejection of the International Trade Organization (ITO) in 1947, the General Agreement on Tariffs and Trade (GATT) became the default institutional regime governing the regulation of international trade. From its setting up, to its transformation into the World Trade Organization (WTO) in 1994, there were eight multilateral rounds of negotiations regarding, for the most part, the reduction of tariffs and trade barriers in order to increase world trade and prosperity. For an economy as large and as dominant as the U.S., freer trade meant that it could benefit from the competitive advantages that it had inherited from the war. In fact, an illustration of who benefits from the WTO agreement is noted by David Harvey, who points out that "The U.S. Senate ratification of the WTO agreement carried with it the proviso that the U.S. could ignore and refuse any WTO ruling that it considered to be fundamentally unfair to U.S. interests", thus laying bare where the power lies in this institution (2003: p. 73). Any investigation into the sources of funding, staffing and training, ideological conformity and veto powers, besides the relational power which the U.S. can exert in the Bretton Woods institutions will show that power within these organizations almost invariably lies with the United States and to a lesser extent with its subordinated allies (Woods, 2003; Al-Islam Alqadhafi, 2007).

The post-war years saw U.S. multi-national corporations (MNCs) increasingly operate across the globe. Part of the reason for their success was in the legacy of the Second World War. Due to the devastation of the other powers' industrial infrastructure, the U.S. had by the end of the war over half of the world's manufacturing base, which gave the Americans a significant competitive advantage. Additionally, managerial and disciplinary skills had been developed within the U.S. military which were applicable to large and geographically dispersed businesses (Strange, 1994: p. 75). Increasingly, this infiltration of foreign economies by U.S. firms continually decreased the U.S. manufacturing base, at least within its own territory. This internationalization of U.S. business lessened direct U.S. control over such production, yet increased U.S. power within the production structure of the global economy. Strange described this "spilling out", as, "the consolidation of an entirely new kind of non-territorial empire" (ibid: p. 6). Although these companies are in theory independent from the U.S. government, in reality, these firms generally do what they are told when asked by the U.S. As Strange notes, "the ability of Washington to tell U.S. companies what to do or what not to do is immeasurably greater than the ability of Tokyo to tell Japanese companies in the United States what to do" (Strange, 1988: p. 7). Strange sees U.S. corporate enterprises as being crucial to the military-industrial complex and, by extension, the U.S. Empire. She describes the U.S. as a "corporation empire", where "America's "legions"" "are not military but economic" (Strange, 1994: p.10). In response to the outward spread of U.S. companies, non-American firms also began to internationalize as a means to stay competitive (Strange, 1994: p. 76). As predominantly European and Japanese enterprises expanded their share of world trade substantially, "so the American-controlled share of international business, though still growing in absolute terms, fell from two-thirds before 1970 to less than half in the 1980s" (ibid: p. 76).

With the adoption and projection of neo-liberalism from the early 1970s, this internationalization of production in the supposed search for greater efficiency intensified, with many MNCs outsourcing their lower end jobs abroad. This had the effect over time of creating a world order where peripheral countries were incorporated into a global division of labour at the bottom end of the scale of value-added. According to Cox, the internationalization of the state was another major development in the move towards globalization of production. Whereas, throughout most of the century, the role of the state has been to act as a "buffer protecting the national economy from disruptive external forces so as to be able to encourage internal levels of economic activity sufficient to sustain adequate employment and welfare", the priority "shifted to one of adapting domestic economies to the perceived exigencies of the world economy" (ibid: p. 193). Institutions designated to international economic and trade relations transmitted the free market ideology through national agencies or as Cox calls them, "transmission belts", promoting policies they had no part in deciding (ibid: p. 193).

The internationalization of production has brought about a "global division of labour in which technological development is concentrated in a core area, while physical production of goods is moving increasingly into peripheral areas" (Cox, 1977: p. 359). Cox describes multinational corporations as "technology and control mechanisms" which link the core and peripheral areas (ibid: p. 359). "The internationalizing of production, as it penetrates into the peripheries of the world economy, benefits some social groups and disadvantages others" (ibid: 195), creating small sections of pliant elites in peripheral countries willing to use political power against the best interests of the majority of the population. Also central to the restructuring of these economies in the periphery were the neo-liberal policies of the World Bank and the International Monetary Fund (IMF) which especially from the 1980s debt-crisis began attaching conditionalities onto their loans. These specified that borrowing countries would impose structural adjustment policies, now known as the Washington Consensus. These consisted of a set of policies aimed at reducing the size of the state, privatization of significant sections of the economy, deregulation of finance and industry, reducing/abolishing capital controls, and reorganizing the economy towards export-led growth aimed at incorporation into the global economy.

During the British Empire international investment largely took the form of portfolio investment where the control over the productive resources remained with the borrower. With direct investment however, control of productive resources remains with the creditor (Cox, 1981: p. 110). "The essential feature of direct investment is possession, not of money, but of knowledge – in the form of technology and especially in the capacity to continue to develop new technology. The financial arrangements for direct investment may vary greatly, but all are subordinated to this crucial factor of technological control. These enterprises become suppliers of elements to a globally organized production process planned and controlled by the source of the technology. Formal ownership is less important than the manner in which various elements are integrated into the production system". (ibid: 110).

In terms of U.S. hegemony in the international political economy, capital flight and loss of manufacturing to the periphery has not had the kind of debilitating effect on U.S. power that many had predicted in the 1980s. The "declinists", as they were collectively known, argued that every great power, or hegemon had, as a prerequisite, a large manufacturing base. Implicit in this argument is the belief that a hegemon must have a manufacturing base within the territorial location of the state. Strange countered this, however, when she argued that having lost its manufacturing base to other countries, it nonetheless exerts significant control over the production structure of the world economy by means of control over the world's largest MNCs, many of which make more than entire countries. The U.S. controls significant world share of production through equity in MNCs, and so as long as there is a liberal trade regime which can ensure that the core can obtain primary commodities and manufactured goods from the periphery, then in fact, there is no reason why the U.S. cannot continue to dominate the production structure of the world economy, along with other advanced countries. According to Strange, "it is the information rich occupations, whether associated with manufacturing or not, that confer power, much more now than the physical capacity to roll goods off an assembly line" (Strange, 1988: p. 5). Strange also notes how the location of manufacturing is insignificant compared to "the location of the people who make the key decisions on what is to be produced, where and how, and who design, direct and manage to sell successfully on a world market" (ibid: p. 5).

In the 1980s, there was much debate within IPE about whether the U.S. could continue as hegemon with a decreasing level of exports. Japan was seen by many as being the successor to U.S. hegemony since its manufacturing of electronics, automobiles, as well as other high end goods seemed to indicate a continued rise, and therefore a supplanting of U.S. dominance. This largely came to nothing, with Japan's economy becoming mired in debt, and having only modest growth since then. With the Asian Financial Crisis of 1997 Japan's growth took a further hit, but even without this setback, it had by then become clear that Japan lacked the full range of structural and relational power to be capable of achieving hegemony, at least on a world level.

In recent years, China has emerged as the new successor apparent to U.S. hegemony. In 2009, China grew to be the world's largest exporter of goods, overtaking Germany (Nolan and Zhang, 2010: 1). Many have heralded the continuous and substantial growth of the Chinese economy, as well as the size of China's population as having enough potential to remove the US from its hegemonic position in the global political economy. However, if one looks a little closer at the basis of China's rise, one will see that China has substantial hurdles to climb before it should be considered as a rival to the U.S.

Since the wave of neo-liberal globalization took off in the 1970s, there has been a massive amount of consolidation of international firms, with mergers continually reducing the number and increasing the size of the world's largest companies. This is the case in almost every sector. "In many sectors, two or three firms account for more than half of total sales revenue" (ibid: 1). Illustration of the consolidation of global business in certain sectors can be seen in Table 1, below.

Alongside this change in the production structure of the world economy, there have been further changes in that these companies "have emerged as "systems integrators" at the apex of extended value chains" (ibid: 1). This has a "cascade effect" on their suppliers, further increasing consolidation (ibid: 1). Hence, not only do firms have to compete with the leading "systems integrators", but they also have to compete with the supporting firms which consolidate the extended value chains which have been built (ibid: 1). An illustration of the consolidation with global value chains, from 2006-08 is given in Table 2, below.

Table 1. *Industrial concentration among system-integrator firms, 2006–09*

	Number of firms	*Global market share*
Large commercial aircraft	2	100
Automobiles	10	77
Fixed-line telecoms infrastructure	5	83
Mobile telecoms infrastructure	3	77
PCs	4	55
Mobile handsets	3	65
Pharmaceuticals	10	69
Construction equipment	4	44
Agricultural equipment	3	69
Cigarettes	4	75*

Source: *Financial Times* and company annual reports; estimates of market share. * Excluding China.

Table 2. *Industrial consolidation within global value chains, 2006–08*

	Number of firms	*Global market share*
Large commercial aircraft		
Engines	3*	100
Braking systems	2	75
Tires	3	100
Automobiles		
Auto glass	3	75
Constant velocity joints	3	75
Tires	3	55
Information Technology		
Micro-processors for PCs	2	100
PC operating systems	1	90
Glass for LCD screens	2	78

Source: *Financial Times* and company annual reports. * Including GE's joint venture with Snecma.

(ibid: 2).

Additionally, the consolidation of research and development (R&D) shows an equally high degree of concentration (ibid: 2). Three sectors (IT, Pharmaceuticals and autos) account for two thirds of total R&D. Of the world's top 1,400 firms (G1400), "companies from the U.S., Japan, Germany, France and the UK account for 80%", "while within this group, the top hundred firms account for 60 per cent of total R&D investment" (ibid: 3).

This consolidation of international business continues relatively unabated. In the years 2007-2008, there were 169 cross border mergers and acquisitions valued at over $3 billion. Of these, "just eight involved companies with headquarters in low and middle-income countries" (ibid: 3). In the globalization years (1980-2008), more generally, companies from the advanced capitalist core increased their outward stock of foreign direct investment (FDI) from $503 billion to $13,623 billion", while by 2008, the combined total of developing-world FDI "amounted to less than a fifth of the core's" (ibid: 3). Additionally, most of the FDI which occurred during this time was between core economies. "The inward stock of FDI in the advanced economies rose from $394 billion in 1980 to $10,213 billion in 2008, mostly from other advanced economies" (ibid: 3). An additionally bleak picture is painted for developing countries when Nolan and Zhang compare the largest 100 TNCs from the core economies to the 100 largest TNCs from developing economies. "On the eve of the crisis, the international assets and foreign revenues of the "top hundred TNCs from developing countries - including firms from South Korea, Kuwait and Qatar – amounted to barely 14 per cent of those of the world's hundred largest TNCs"" (ibid: 3). For a more detailed illustration of the gulf between developed and developing world TNCs, see Table 3, below.

TABLE 3. *Comparing world's largest TNCs with developing-economy TNCs*

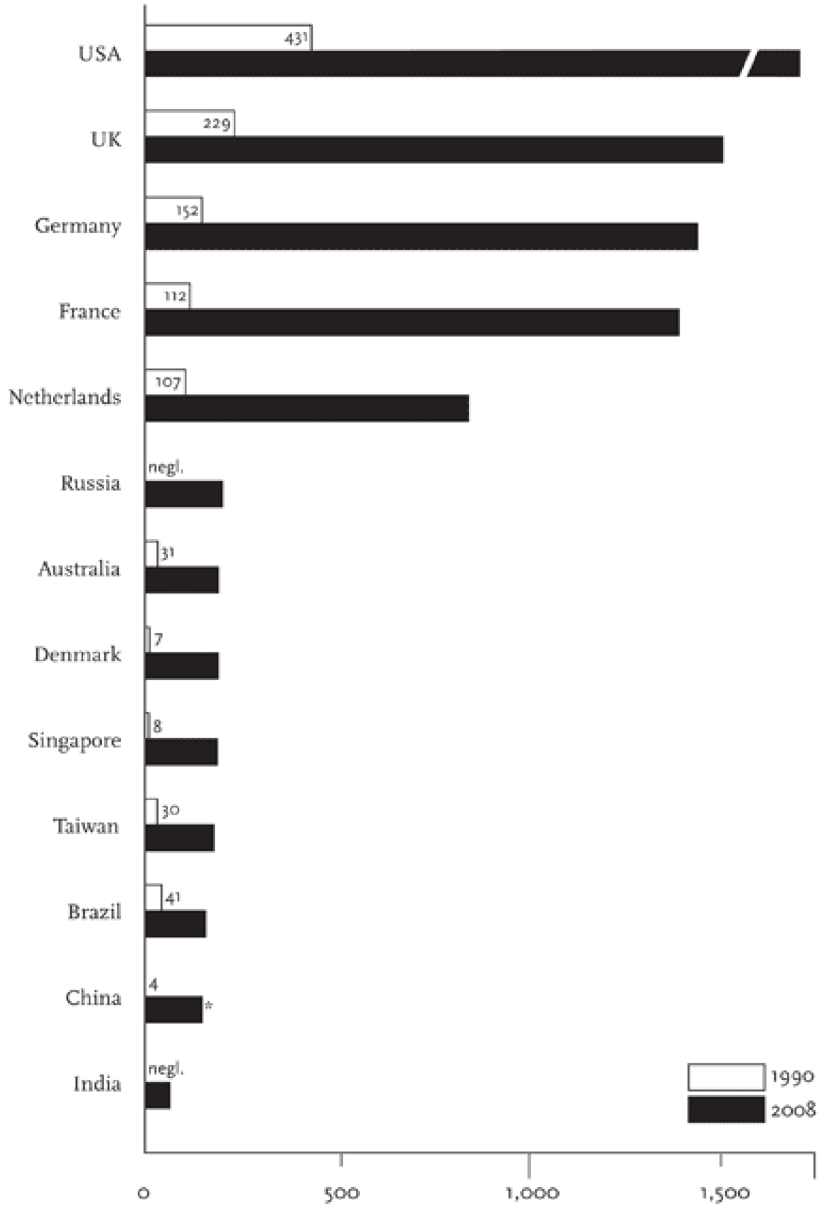
	A 100 largest TNCs	B 100 largest developing-economy TNCs	B/A (%)
Assets ($ billion)			
Foreign	6,094	767	12.6
Total	10,687	2,186	20.5
Foreign as % of total	57	35	
Sales ($ billion)			
Foreign	5,208	737	14.1
Total	8,518	1,617	19.0
Foreign as % of total	61	46	
Employment ('000s)			
Foreign	8,898	2,638	29.6
Total	15,302	6,082	39.7
Foreign as % of total	58	43	

Source: UNCTAD, *World Investment Report 2009*, Geneva.

(ibid, 4).

In looking at China in particular, the huge foreign exchange reserves that have been accumulated are significant. As of December 2010, this figure stood at over $2.84 trillion (People's Bank of China, 2011). Yet, Nolan and Zhang put this figure into perspective by comparing it to the fact that the combined "market capitalization of the top ten U.S. firms alone amounted to $2.4 trillion, while the top 500 asset managers had a total of $63.7 trillion at their command – of which 96 per cent was managed by firms from Europe, North America and Japan" (ibid: 4). China's outward stock of FDI is also far from impressive, with Russia, Singapore and Brazil all investing more than China abroad (ibid: 4). "Significantly, nearly two-thirds of China's outward FDI goes to Hong Kong and Macao and less than a tenth goes to the high-income countries, in which Chinese companies have virtually no presence" (ibid: 4). Conversely, companies from the core countries have become "deeply embedded" in the Chinese economy (ibid; 4). Figure 1 gives an illustration of the outward stock of FDI from the period 1990 to 2008.

FIGURE 1. *Outward stock of FDI in $ billions, 1990 and 2008*



Source: UNCTAD, *World Investment Report*, Geneva, 2009. * Includes flows to Hong Kong and Macao.

(ibid, 5).

Overall, China's rise within the production structure of the world economy has been primarily due to its huge growth, from a low initial base, in exports. However, these exports, while initially in low end goods during the 1980s and 1990s in goods such as toys, textiles and cheap electronics, are now primarily in more advanced goods which are owned, designed and incorporated into extended value chains dominated by large western TNCs, with the overriding benefits accruing to these firms and their shareholders as opposed to China. It has become incorporated into the global economy which by its nature constrains the Chinese from developing its own path independent from U.S.-led global production networks. How much the Chinese economy benefited from American companies in particular is highlighted by Hughes when he points out that "Wal-Mart alone purchased $18 billion worth of Chinese goods in 2004, making it China's eight-largest trading partner – ahead of Australia, Canada and Russia" (Hughes, 2005: 94). It has been pointed out by some that increased imports by China in order to fuel its resource-hungry economy has begun to alter Asia's developmental landscape, with many economies benefitting hugely from exporting to China (Beeson, 2010). However, with the majority of China's economic growth coming from exports which are primarily part of the global production networks as mentioned above, this indicates that China is rising to a level of development which, although higher than peripheral commodity and primary producers, nonetheless will for the foreseeable future be constrained by the core of the global economy.

How much the elites of China will be willing to spread the wealth accruing to the country is yet to be seen. However, the indicators do not seem to be very favourable to such an outcome. Inequality in the country is vast, and although many have been taken out of poverty in recent years, this has largely been due to the TNCs, and not so much due to the Chinese government itself, which has been happy to develop according to the needs of transnational business interests before the interests of labour. Having demonstrated the structural power of the US in the production structure of the global political economy, and China's relative weakness, attention will now turn to the finance structure of the global political economy.

The Finance Structure

According to Strange (1994: 90), the finance structure is "the sum of all the arrangements governing the availability of credit plus all the factors determining the terms on which currencies are exchanged for one another". According to this definition, there are a number of factors which determine where power lies in the international political economy. In looking at the sources of U.S. power in the finance structure, attention will have to turn to the Bretton Woods system in order to understand the forces which altered that system from being based on the dollar-gold standard, to one based solely on the dollar. Additionally, the internationalization of finance which was the main driver of such changes, as well as how the U.S. uses its privileged position within international finance is crucial to understanding how it gained its unprecedented hegemony up to the present day.

With the Marshall Plan and the Bretton Woods monetary regime, the post-war capitalist world was dominated by the U.S. A war-ravaged Europe and a booming U.S. economy meant that U.S. finance had the ability to develop a considerable head start, and so the dollar became the predominant currency in international transactions, replacing the faltering Pound Sterling. By the time European countries had recovered sufficiently, "the American financial system had already gone through almost two decades of domestic financial growth" (Panitch and Konings, 2007: p. 16). Having gained a head start against the rest of its competitors, the U.S., with the establishment of the dollar-gold standard, the strength of its economy, and the centrality of New York as the world's financial hub, set the stage for continued U.S. financial dominance. During the period 1945 to 1965, the world economy grew substantially, aided by the continuous increase in the amount of dollars in circulation, due to investment by U.S. MNCs abroad and also by the dollar becoming the reserve currency of choice for countries' foreign exchange reserves. This liquidity in the international system sustained continuous and sizeable economic growth in the capitalist west. Eventually however, this situation was increasingly considered to be unsustainable. Robert Triffin was the most vociferous in pointing out that the continued increase in dollars held by foreign central banks would eventually lead to "overhang" which would destroy confidence in the U.S. ability to honour its commitments to convert dollars into gold. The U.S. on the other hand was quite happy to keep the U.S. dollar overvalued, so as to be able to engage in what de Gaulle described as "expropriation", with U.S. businesses buying up European companies cheaply (Rickards, 2011: p. 82). The creation of the European Economic Community (EEC) in 1958 meant that there was an incentive for U.S. MNCs to manufacture inside this zone rather than import into it (Strange, 1986: p. 106). The increased activity of U.S. MNCs in Europe was a major factor in the "phenomenal expansion" of the Eurocurrency markets (ibid: p. 106).

The expansion of these Euromarkets also resulted from the U.S. financial system itself. Owing to the legacy of the Great Depression, there existed in the U.S. a range of regulations to which U.S. banks were subjected. During the 1950s, market interest rates began to rise due to the Federal Reserve "gradually abandoning support for the Treasury's debt funding efforts" (Ahearn, 1963). This meant that while previously U.S. MNCs had routinely parked their short term surpluses with U.S. banks, "short-term securities became more attractive than holding it with banks" (Konings, 2007: p. 45). This meant that banks were unable to lend to borrowing corporations due to a lack of funds, while this had the additionally damaging consequence for the banks in that the corporations also began to use the money markets for their borrowing requirements (ibid: p. 45). "This meant that banks were being bypassed in two ways, on both the liability side and the asset side" (ibid: p. 45). This situation led to a sea-change in banking. "Instead of managing assets on the basis of a given liability structure, the burden of securing liquidity and profitability shifted towards the management of a bank's liabilities" (Chernow, 1990: p. 54). A multitude of new financial techniques were subsequently developed, "the most important of which was the so-called negotiable certificate of deposit (CD)" (Konings, 2007: p. 46). After having created a secondary market in these CDs, banks could offer similar rates to what the corporations had been getting in the money markets, and so this enabled the banks attract back the corporate funds they had lost. This increased marketization of credit relations which had previously escaped mediation by financial markets "was a qualitatively new and unique institutional basis for financial intermediation" (ibid: p. 47). Due to the continued increase by the Fed of interest rate ceilings on time deposits, the CD market continued to increase during the 1960s. By the time the Fed had fully realized the inflationary implications that this credit creation posed, it was already too late. Had it attempted to stop the market, it would have created a serious financial crisis (ibid: p. 47). What followed were a series of measures whereby the Fed attempted to close loopholes, while the banks reacted by finding new ones. Eventually, the banks found that the easiest way around the Fed interference in their activities was to follow the MNCs and "apply their new financial techniques in the Euromarkets" (ibid: p. 47). With the "credit squeeze" of 1966 caused by the Fed's attempt to control inflation, the Euromarkets were given a massive boost. Whereas in 1967 the total liabilities of US banks stood at $2 billion, by 1969 this had increased to $13 billion (De Cecco, 1987: 190). "While the transformation and subsequent internationalization of American finance threw into jeopardy more traditional and direct modalities of state intervention, it gave a huge boost to the structural capacity of the American integral state" (Konings, 2007: 49). In short, the internationalization of American finance had the effect of Americanizing international finance.

While many have focused on the switch to floating exchange rates and the dollar standard in international monetary relations, a more revealing picture of how the U.S. dominates international finance is seen when one takes into account the massive use of dollar denominated debt-instruments which took off in this period. The U.S. Treasury eventually realized the benefits which accrued to the U.S. through the emerging dynamics of the international financial system. "While the internationalization of American capital had a deleterious effect on the U.S. payments position and fed the dollar overhang, the ability of American intermediaries to sell dollar debt had the effect of rendering the U.S. payments position less salient and so loosened external constraints" (ibid: 49)."The international extension of securitized and dollar-denominated debt relations and the creation of a highly integrated and liquid financial structure (straddling the domestic and the international) enhanced America's structural power in international finance" (ibid: 50). This increased power within the international financial system, coupled with the contradictory effect of reducing the fed ability to control the creation of money and credit would be resolved during the 1970s with the introduction of monetarism to resolve these inherent contradictions (ibid: 50).

In terms of inter-state monetary relations throughout the 1960s, the dollar was the predominant currency of choice for foreign reserves. Backed by the promise of gold at the price of $35 an ounce, the world economy grew for an uninterrupted period of about two decades. "Partly in response to an outbreak of panic buying of gold in 1960, which had temporarily driven the market price of gold up to $40 an ounce", the London Gold Pool was created as a collaborative exercise between the U.S, the U.K., France, Germany, Italy, Belgium, the Netherlands and Switzerland (Rickards, 2011: 82). It both bought and sold gold so as to keep the price stable at the $35 parity. However, by 1965, it had become almost exclusively a seller. In the mid-sixties, there were calls for there to be an alternative to the dollar as the international reserve currency. In 1965, de Gaulle famously renounced the "exorbitant privilege" that accrued to the U.S. due to the widespread use of the dollar and the resulting benefits accruing to the U.S. as a result of its ability to externalize the costs of domestic adjustment to other countries. He called for a return to the classical gold standard as the only reasonable and fair standard for international monetary relations (ibid: 82). By 1967, France had left the Gold Pool after having redeemed its dollars for gold. By March 1968, the London gold pool had collapsed, and thereafter, there began what became known as the gold window. This was a period whereby there was a two-tier price system for gold, with central banks able to buy gold according to the old international payments price of $35 an ounce, while on the open market, gold was sold for $40 an ounce. Among U.S. allies, there was agreement not to abuse the ability of central banks to engage in gold arbitrage.

Nixon then engaged in his policy of "benign neglect" which "allowed the balance of payments deficits to grow unchecked in the anticipation that its attempts to force dollars onto European countries would leave them with no choice other than to revalue their own currencies" (Gavin, 2004). This policy was successful in another way however, in that "it had become clear that dollars had already stopped being backed by gold in any meaningful way and that a run on the dollar would be self-defeating" (Konings, 2007: 50). In this way, the switch to a paper-dollar standard after the closing of the gold window was the logical extension of the policy of benign neglect, and once the dollar was devalued and capital controls were abolished, "what had in the 1960s appeared to be America's problem had now become Europe's problem" (ibid; 50).

The reason why the dollar was seen as the only contender to become the world's reserve currency, unbacked by gold, was that there was no other country which possessed financial markets with the depth and liquidity that characterized dollar markets (ibid: 50). Also, other countries' reliance on foreign trade meant that they needed to impose capital controls in order to protect the external value of their currencies, and so did not have enough depth in their financial architecture to be able to absorb the huge demand that this position required (ibid: 50). The paper-dollar standard allowed the U.S. to invert the traditional basis of monetary power. Instead of being the predominant provider of credit, the U.S. determined to use external debt as a means of control, allowing it to finance the Vietnam War, and "to retain substantial flexibility in domestic economic policy" (Gowan, 1983: 63). The collapse of the Bretton Woods system in 1971 was therefore beneficial to the U.S. With floating exchange rates, the volatility of the dollar became much more important to other economies than it was to the Americans (Strange, 1994: 109).

Throughout the 1970s and early 1980s, "the American state waged a vigorous battle to revive the industrial economy" (Gowan, 2009: 24). Central to this was the Nixon Shock of 1971, where on August 15, Nixon announced on primetime television his New Economic Policy, "consisting of wage and price controls, a ten per cent surtax on imports and the closing of the gold window" (Rickards, 2011: 86). What had been so surprising for U.S. trading partners was not the devaluation of the dollar, but the ten per cent tax on imports which effectively amounted to protectionism, especially when combined with the dollar devaluation. However, within two years the U.S. economy was mired in the worst recession since the Second World War, with rising inflation, collapsing GDP, rising unemployment, an oil crisis and a crashing stock market (ibid: 92). However, according to Harvey, the arab oil-shock of 1973 was initiated with the collusion of the U.S., the Saudis and the Iranians, with the aim of hurting the more vulnerable economies of Europe and Japan much more than the U.S. economy, which was far less dependent on Middle Eastern supplies (ibid: 61). The oil wealth that the OPEC oil spike created was recycled through the Euromarkets where they could gain the most interest. This had the effect of further increasing U.S. financial power. "U.S. banks (rather than the IMF which was the preferred agent of other capitalist powers) gained the monopoly privilege of recycling the "petrodollars" into the world economy" (ibid: 62). Additionally, the increased volatility of financial markets during this time meant an increased demand for financialization in order to hedge risk, and this helped spark the derivatives revolution (Panitch and Konings, 2009: 2). In order "to regulate derivatives so as to aid their development", the Commodity Futures Trading Commission was created in 1974 (ibid: 2). Its stated aim was to spread, and hence reduce risk, but in reality its main goal was to lead the development of financial innovatory products which kept U.S. capitalism at the forefront of financialization and credit creation, and hence to increase U.S. power in the realm of international finance (ibid: 2). "Finance capital, in short, moved centre-stage in this stage of U.S. hegemony, and it was able to exercise a certain disciplinary power over both working class movements and state actions, particularly whenever and wherever the state ran up significant debts" (Harvey, 2003: 64).

As mentioned with regard to the production structure, the move towards financial power had a devastating effect on the U.S.'s industrial infrastructure. "Offshore production became possible, and the search for profit made it probable" (ibid: 65). The benefit of this to the U.S. was the availability of cheaper and cheaper consumer goods, and increasing profits for the richest segments of society in the form of shareholder dividends. During the 1980s, as increasingly higher value-added industries moved abroad, together with stagnating incomes for most of the population, finance became the growth industry of the U.S. With the neoliberal turn, there was an increased emphasis on financializing U.S. society itself. Increasingly, lower income families were encouraged to take on more and more debt, and this continued unabated until the financial crisis of 2007. Aggregate US debt to gdp rose from 163 per cent in 1980 to 346 per cent in 2007 (Gowan, 2009: 10). The two sectors which most accounted for this rise were the household sector and the financial sector. "Household debt rose from 50 per cent of gdp in 1980 to 100 per cent of gdp in 2007", while financial sector indebtedness rose "from 21 per cent of gdp in 1980 to 83 per cent in 2000 and 116 per cent in 2007" (ibid: 10). The consumer model of the U.S. economy must be understood not as merely profligate spending, but at a more fundamental level as a means and result of financial sector control over the U.S. state since the early 1980s. Furthermore, this elevation of finance served U.S. hegemony abroad by making the rest of the world dependant on the dollar.

Of course, no analysis of U.S. hegemony in the finance structure of the world economy can ignore the global financial crisis which swept the world from 2007 to the present day. In assessing the causes of the global financial crisis, and the future of U.S. hegemony in the finance structure of the global political economy, the role of Wall Street and of Washington need to be analysed as to their changed relationship during this time. What is clear is that the relations between Washington and Wall Street converged to a significant degree since it was realized that the internationalization of finance, and the continuous financial innovation which helped to dissipate U.S. liabilities, resulted in advancing the goal of U.S. hegemony, albeit with reduced central bank control over the mechanisms of money and credit creation in the commercial banking system" (Konings 2007: 58). It was this contradiction of increased power and reduced control which finally led to the global financial crisis.

Gowan (2009) describes the changed system since the early 1980s as a "New Wall Street System", which "produced new actors, new practices and new dynamics" (ibid: 1). For Gowan, there were a number of preconditions which facilitated the rise of this new system; "the "fiat" dollar system, the privatization of exchange-rate risk, and the sweeping away of exchange controls" (ibid: 2). Furthermore, the system could not have arisen had it not been seen as an answer to problems within U.S. capitalism.

Whereas before the 1980s Wall Street banks engaged in very little securities trading on their own account (preferring instead to trade on behalf of clients), proprietary trading became an increasingly common activity for both commercial and investment bank alike. Furthermore, these banks became increasingly involved with lending to other bodies (predominantly hedge funds, private equity groups, and special investment vehicles (SIVs), which were often created by the investment banks themselves) which used these funds to trade themselves (ibid: 2). Known in the industry as "prime brokerage", this became a very profitable activity for the banks, and occasionally became their predominant activity. With the constantly increasing levels of credit created through these activities, and the vast amounts of money at the disposal of the major banks, it became possible for Wall Street to create their own arbitrage profits by generating price differences with the sheer scale of the resources at their disposal. "Time and again, Wall Street could enter a particular market, generate a price bubble within it, make big speculative profits, then withdraw, bursting the bubble" (ibid: 2). This occurred frequently in emerging markets, due to the ease with which capital could enter and leave a market quickly. The IMF and the World Bank also facilitated this by opening up new and easy to manipulate markets in emerging economies. This type of activity was the cause of the Asian Financial crisis of 1997, the Russian stock market crash soon after (although this was partly caused by the Asian crisis), the dot.com bubble, the housing bubble, as well as the commodity bubble which was created after the housing bubble had crashed, among others (ibid; 2). Dominated by just five banks, which had at their disposal over $5 trillion, Wall Street used maximum leverage ratios to move vast amounts of capital (ibid; 3) all with the acquiescence of Washington, which had by this time operated a revolving door policy with Wall Street, whereby individuals regularly moved between governmental and banking institutions, effectively negating the separation of interests which should have existed.

With this vast increase in banking speculation and arbitrage rose the so-called shadow banking system. It consisted of unregulated hedge funds and SIVs which bought and sold securities without any capital requirements or regulatory supervision. Banks and hedge funds began sharing collateral assets through a process known as hypothecation, thus further expanding their leverage ratios (ibid: 5). "The debate whether deregulation or reregulation in the financial sector has been occurring since the late 1980s seems to miss the point that there has been a combination of a regulated and an unregulated shadow system, working dynamically together" (ibid; 5). In addition to hedge funds, since the 1990s "over the counter" derivatives markets became an increasingly important component of the shadow banking system. Credit default obligations (cdos) and credit default swaps (cdss) became the most infamous of such instruments through which leverage was increased and risk was spread. Securitized loans were famously bundled together and given Triple A ratings in return for a fee to the ratings agencies.

Since the 1980s, real wages in the US had begun to stagnate as a result of the de-industrialization of the U.S. In order to grow the economy the U.S. promoted consumer debt so as to increase demand. Alongside this development was the wealth effect generated through inflated asset prices, especially during the 1990s (ibid: 10). This convinced many Americans that they were richer than they actually were. House prices continually rose during this period, and with this new-found "wealth", people were encouraged to take out second mortgages in the illusion that asset values would keep rising. "Citigroup ran a billion-dollar campaign advertising second mortgages" in the 1990s, while other

Wall Street banks followed suit (Gowan, 2009: 7). Once the middle classes had been fully incorporated into the financial system by means of car loans, mortgages, student loans, and pensions, securitization ensured that these debts would be multiplied by being sold on again and again. In time, banks sought out more capital, and began offering credit to the lowest income classes in the form of sub-prime mortgages, so much so that "by 2006, subprime mortgages represented 28 per cent of total U.S. mortgages" (Panitch et al, 2009: 5). With a faltering economy, war in Iraq and Afghanistan, and a raising of interest rates in order to halt a decline of the dollar (ibid, 5), delinquency rates began to mount and the industry found that much of what they believed to be triple-A rated debt was in fact junk. Such was the interconnected nature of the globalized financial system, that "a sub-prime mortgage market involving a mere $34 billion in troubled loans had by the summer of 2007 imperilled a $57 trillion American financial system and then spread to numerous countries around the globe" (Kolko, 2009 21). Furthermore, similar processes of housing market bubbles in Europe further added to the near meltdown in the globalized financial structure.

The financial crisis and the resulting recession have had the effect of severely damaging the credibility of the western model of neoliberal finance. It was also a further illustration of the potential damage that the so-called Washington consensus could wreak, and so led to further hostility towards the IMF and the World Bank. In reacting to the crisis however, there has been no straying from neoliberal policies, as states have embraced austerity and guaranteed their own banks with massive bailouts at the expense of the citizens. This should not be surprising given the close historical relationship between liberal democratic states and banks. These institutions developed symbiotically together and it is hard to picture one without the other, they were mutually constitutive. Also, although the policies of the IMF and World Bank have been discredited, the financial crisis has actually been beneficial to them in that before the crisis these institutions had actually been running out of money, and were in need of a purpose after the disastrous policies which they imposed on countries the world over in recent decades. This is similar to the early 1980s when these institutions were in a similar situation with no definite purpose until the third-world debt crisis hit.

In analysing what effect the financial crisis has had on U.S. hegemony, there is no doubt that it has been damaging. The increased levels of sovereign debt as a result of the bailouts and quantitative easing aimed at keeping the "too big to fail" banks from insolvency has led to serious doubts about the ability of the U.S. to repay the $14 trillion or so of US sovereign debt. The quantitative easing has further decreased the value of the dollar, in what some have called a "currency war" (Rickards, 2011), where the U.S. aims to devalue its debt, while increasing its exports by means of increasing its competitiveness. This action may precipitate widespread currency devaluation by other states; most notably China in order to keeps exports competitive. In January 2010, Obama announced his intention to double U.S. exports within 5 years. According to Rickards, by a process of elimination, the only available option for doing so would be to continually devalue to dollar (ibid: 129). This could put strain on the confidence that other central banks place in the dollar as a reliable store of value for foreign exchange reserves. If confidence were to drop significantly, then a repatriation of this money could spell disaster. This is unlikely however, due to the interconnectedness of the U.S. economy with the rest of the world, and also the political nature of such a decision. The crisis has illustrated just how connected the U.S. economy is with the rest of the world, especially Europe. In fact, it makes little sense to speak of American finance per say, with the London square mile acting essentially as an extension of Wall Street, and like the 1960s, much less regulated. This can be seen by the percentage of derivatives contracts which were traded in New York and London before the crisis. In 2007, "the U.K. had a global share of 42.5 per cent of derivatives based on interest rates and currencies, with the U.S. handling 24 per cent. In terms of credit-derivatives trading, the U.S. handled 40 per cent in 2006, while London handled 37 per cent" (Gowan, 2009: 6).

Even after the crisis, Wall Street continues to develop financial innovatory products, albeit more focused on emerging markets than before. In this way, finance aims to expand to new markets which offer higher returns than the more developed economies. With the financial crisis, there were many mergers of the largest banking institutions, thereby making the largest bigger, and more systemically vital for the continued "health" of the U.S. and world economy. This increased consolidation and concentration of capital mirrors what has been happening in the production structure, where economies of scale continually make it impossible for effective competition to take place. As already mentioned, often these economies of scale are used to create arbitrage opportunities, otherwise known as "market making". With the continual advancement of high-frequency trading, the even more consolidated "too big to fail" banks, maximally leveraged balance sheets, and government support if anything goes wrong, these banks, which are the nexus of U.S. and hence world finance, will continue to dominate the globalized financial system.

Many have heralded the financial crisis as being proof of the unsustainability of the Anglo-Saxon model of neoliberal finance, however they fail to show what political authority is going to change anything. The U.S. government showed quite clearly, not just in the last bailout, but in the many bailouts which have occurred since the 1980s, that they are willing to bail out these banks when busts occur. Finance has become the most powerful lobby group in the U.S., and as of 2006, the finance industry accounted for over 40 per cent of US corporate profits (Gowan, 2009: 1), which makes it systemically vital for the health of U.S. government finances. Losses will continue to be put on the backs of the taxpayer, and this has shown to be true in Europe also.

As far as China is concerned, the huge export surpluses that its workers have earned for the state have been recycled back into the U.S., thus increasing the liquidity of the global financial system (ibid: 10), and thereby helping to keep interest rates low for continued borrowing and speculation. Of course China has the potential to use these reserves to damage the U.S., but more likely they are for defensive purposes, as seen with the Keynesian-style stimulus of $586 billion in infrastructure, education, housing and health care, aimed at shielding China from the effects of the financial crisis.

In terms of international banking, the Chinese have also shown very little interest in globalizing their operations to compete with western institutions. "China does not have a single bank among the world's top fifty, ranked by geographical spread" (Nolan and Zhang, 2009: 7). Furthermore, during the financial crisis, there was a perfect opportunity for Chinese banks to acquire banking assets in the high-income countries, yet they were "conspicuously absent" (ibid: 7). Even though China has the three largest banks in the world in terms of market capitalization, they are still not developed to the same degree as western banks. They operate in a closed market, with little experience the type of competition as in London and Wall Street (ibid: 7).

One of the central bases of U.S. hegemony is dollar hegemony. The dollar is the world's predominant currency in international trade and foreign exchange reserves. In international institutions, transactions are carried out in dollars. Also, oil is priced in dollars, and this is a very sensitive area for the U.S., whereby any threat by an oil producing state to price their oil in another currency has often been a factor which has led to conflict. Saddam Hussein's proposal to denominate his oil sales in euros rather than dollars may have been one reason for the decision to invade Iraq (Harvey, 2003: 82). Similarly, invasion and overthrow followed Gaddafi's proposal to create the gold dinar which, had it been launched, may have become a major currency in North Africa and potentially in OPEC (www.global research.ca, 2010). The recent move by Iran to change from the dollar in its oil sales adds to the escalating tension regarding its uranium enrichment program.

In 2009, the chairman of the Central Bank of China, Zhou Xiaochuan, called for a new global reserve currency in the form of a basket of currencies to replace the dollar. Similar statements have come from Brazil and Russia. However, the fact that they have called for one without any action indicates the dearth of alternatives to the dollar. The U.S. is unlikely to give up its monopoly privilege, and the two main contenders do not appear to offer a suitable replacement anytime soon. The eurozone is undergoing a major debt crisis, which, although it will last due to political will, for the time being will not be able to offer the kind of stability needed for a reserve currency. The Renminbi on the other hand does not float; it is pegged, which means that it is not traded on the international markets. By 2020 however, China intends to operate a fully functioning financial services sector, and by this time also, the euro may have overcome the structural weaknesses that have plagued the Eurozone economies in recent years.

Ironically, when crises hit the global economy, investors tend to buy dollars as a safe-haven investment, and so the financial crisis, which emerged from the US, had the effect of increasing U.S. power in international finance. The likeliest outcome of the prolonged recession is a reliance on the dollar, even as it sinks in value due to U.S. attempts to inflate away its debt and to increase exports. Eventually there will be a more multipolar currency landscape, however, this may take some time to materialize. Even if the proposals for drastically increasing the use of the IMF's Special Drawing Rights (SDRs) materializes, the power which the U.S. has within this organization may mean that the means of U.S. power in international currency transactions could shift to a more subtle means.

Overall, the power of the U.S. in international finance appears safe for now. China does not appear to be interested in challenging the U.S. "for leadership in shaping the institutions of the world economy", due to the fact that it is concentrated on "maintaining domestic growth and carrying through the leap of dynamic capital accumulation from the coast to the interior" (Gowan, 2009: 11). In fact the development of China's economy may vastly increase the opportunities for U.S.-China trade relations, and lead to a so-called special relationship given the already close business ties through MNCs, and the potential that trade deals could offer to help reduce the U.S. trade deficit and China's relatively undeveloped interior.

Of crucial significance for U.S. power in international monetary relations will be how the U.S. manages to reduce its trade deficit by exporting more, most likely by devaluing the dollar, while keeping the dollar strong enough to maintain its share of world reserves, which, if repatriated would mean the disaster for the U.S. economy. As mentioned however, for the foreseeable future, this would also mean disaster for the world economy, and so is unlikely for the time being. Also crucial will be the configuration of power between Wall Street and Washington. It seems likely that the "too big to fail" banks will continue to influence Washington. Besides Wall Street banks being the largest contributors to U.S. presidential campaigns, U.S. monetary policy will likely be aimed at keeping these banks from going insolvent, many of which may in fact already be with "off-balance sheet" accounting capable of hiding insolvency. Whether Washington can partially decouple from Wall Street before the rest of the world decouples from the U.S. remains to be seen, but seems unlikely for the foreseeable future.

As far as China's model of banking goes, as a model to be emulated it is still unclear whether China's economy is not in a bubble of its own, with vast amounts of real estate built in recent years, with entire cities having been built which, upon completion, lie deserted. No doubt there has been significant corruption with property development, with the motto, "build it and they will come" having been the operative principle in many cases. Whether this will spell disaster for its economy