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Luís Miguel da Vinha

SÉRIE INVESTIGAÇÃO 2011/22

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THE EMPIRE STRIKES BACK OR PROSPECTS FOR US FOREIGN POLICY AFTER THE GLOBAL FINANCIAL AND ECONOMIC CRISIS?[1]

Luis Miguel da Vinha[2]

Abstract:

The global financial and economic crisis is the defining force shaping contemporary international politics. Its effects have devastated economies throughout the world and shattered illusions about global political and economic power, particularly US power. The present article argues that the effects on US foreign policy will depend on the magnitude and severity of the global crisis. Initially, the crisis will involve constraints on the resources for aid, diplomacy, and defence. Subsequently, a deepening of the crisis will affect the more fundamental issues of the political-economic philosophy underlying US global power. While the crisis has revealed the changing position of the leading states relative power, it is argued that is still premature to declare the end of US hegemony. The US can adapt to the international challenges and recast its foreign policy in order to maintain a dominant position in the international system.

Key Words: financial and economic crisis; unipolarity; US foreign policy.

[1] The current workingpaper results from a presentation delivered at the Conference "O Impacto da Crise Financeira na Política Externa dos Estados Unidos, Rússia, China e Portugal" organized by the Department of International Relations of the University of Beira Interior (Covilhã, Portugal) on January 14, 2011.

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Resumo:

A crise financeira e económica está a redefinir a política internacional contemporânea. Os seus efeitos têm devastado várias economias e demolido as ilusões sobre o poder global e económico, nomeadamente dos EUA. O presente artigo argumenta que os efeitos da crise vão depender da sua magnitude e severidade. Embora a crise tem revelado uma alteração da relação de poder internacional ainda é prematuro declarar o fim da hegemonia americana. Os EUA podem adaptar-se aos desafios internacionais e reenquadrar as suas políticas para manter uma posição dominante no sistema internacional.

Palavras-chave: crise financeira e económica; política externa americana; unipolaridade.

Introduction

> "Not that anyone doubted the sacred truths of *laissez-faire* capitalism or questioned the sublime wisdom of the bottom line. All present understood that the free market was another name for God, but then again, when one got to thinking about it, the market, like God, didn't always answer everybody's prayers, and some of the more anxious members of the troupe had begun to wonder whether they remained the masters of their fate and the captains of their destiny."
>
> (Lewis Lapham, *The Agony of Mammon*)

The global financial and economic crisis is the defining force shaping contemporary international politics. Its effects have devastated economies throughout the world and shattered illusions about global political and economic power. At first glance, the crisis appears to vindicate many predictions of the inevitable calamity of global capitalism and particularly the predicament of US economic power. However, the crisis has surpassed the mere financial and economic dimensions of policy. As Martin Wolf (2009) explained in his testimony to the US Senate Committee on Foreign Relations "it is also a crisis for foreign policy: a deep recession will shake political stability across the globe; and it threatens the long-standing US goal of an open and dynamic global economy".

The foreign policy implications of the crisis for the US have yet to be fully understood. Only time will tell how it will affect US power and its relationship with other states. Nevertheless, it is possible to forecast some of the major challenges for the near future. It is also possible to distinguish between more immediate and long-term effects. How the US will eventually respond to these challenges depends on many factors, but there are an assortment of courses of action which can be chosen. The reallocation of power in the international system need not be considered detrimental to US national interests.

Accordingly, this paper examines some of the possible consequences of the financial and economic crisis on the future of US foreign policy. The initial section explores the origin and evolution of the crisis. The subsequent section evaluates how the crisis affects US foreign policy. The effects will be segmented in accordance with the estimated magnitude and severity of the global financial crisis. First, the more immediate constraints on the resources for aid, diplomacy, and defence will be evaluated. Subsequently, the effects on the more fundamental issues of the political-economic philosophy underlying US power will be explored. The final section, analyzes the present debate about the end of the US unipolar system. The financial and economic problems facing the US, together with the increasing economic power of many states, have reinforced the argument that the US unipolar moment has ended. While the crisis has revealed the changing position of the leading states relative power, it is argued that is still premature to declare the end of US hegemony.

The Financial Crisis at a Glance

Financial crises are common episodes of modern economic life. Recent decades have witnessed various speculative bubbles – e.g., Poseidon stock market bubble, Japanese real estate bubble, dot-com bubble – followed by their eventual collapse. As Paul Krugman (2009) has suggested the contemporary crisis resembles many of the past financial crises. However, the present crisis presents all the characteristics of the past crises occurring at the same time. Therefore, we have witnessed the simultaneous occurrence of a bursting of a speculative bubble, a flood of bank runs, a liquidity trap, and a disruption of international capital flows accompanied by a succession of currency crises (Krugman, 2009).

The current financial crisis began with the implosion of the US housing bubble in 2007. The speculative bubble got underway in the early years of the 21st century and was driven by a monetary policy that favored extraordinarily low interest rates. More precisely, in early 2001 the US Federal Reserve (Fed) cut the funds rate to 6% in order to face a decelerating economy and continued decreasing it until it reached 1% by 2003[3]. This rate was maintained up until 2004 and then was gradually raised to 5,25% by mid-2006. John Taylor (2008) has pointed out that the Fed's policy of maintaining such low interest rates for such an extended period countered the historical and recommended practice[4] applied throughout the last couple of decades and that had contributed to the prosperity of the "Great Moderation"[5].

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[3] This was the lowest rate since 1958.

[4] The recommended course should have followed the "Taylor Rule", developed by Stanford economist John Taylor, which states that central banks should set their short-term interest rates as economic conditions change in order to achieve both its immediate goal of stabilizing the economy and its long-term goal of halting inflation.

[5] Period of robust economic growth and macroeconomic stability initiated in the early 1980s in the US.

The low interest rates allowed a growing number of individuals to secure the credit necessary to purchase their own homes. Furthermore, the low interest rates also led investors to look for higher yielding investments, even if they implied greater risk. The souring housing market led investors to funnel enormous sums of money into housing and real estate assets (Alexandre et al., 2009; Poole, 2010; Steil, 2009). The ever-increasing housing prices seemed like a sound investment for home-owners and financial investors alike. At first glance it seemed like a win-win situation for all. Contrary to previous decades, housing prices rose nearly 50% in the period from 1998 to 2005, while incomes merely increased between 5% and 11% for the same interval (Wheaton and Nechayev, 2008). However, it was believed that as long as home prices continued rising, "troubled borrowers could always either refinance or pay off their mortgage by selling the house" (Krugman, 2009: 167).

Accordingly, financial institutions kept on lending. In order to augment their revenue, investors started lending money to higher risk clients – i.e., the subprime segment[6]. The extension of credit to individuals whom in normal circumstances would not qualify for mortgages was encouraged by government programs (Alexandre et al., 2009; Taylor, 2008). The widespread access to credit was regarded as a policy instrument that allowed for a more equal distribution of incomes. In fact, the former Chairman of the Federal Reserve, Alan Greenspan, subscribed to this view:

> The gains were especially dramatic among Hispanics and blacks, as increasing affluence as well as government encouragement of subprime mortgage programs enabled many members of minority groups to become first-time home buyers. This expansion of ownership gave more people a stake in the future of our country and boded well for the cohesion of the nation, I thought. (Greenspan, 2007: 230)

Other policy measures strengthened the risk taking impetus. Government-sponsored agencies, such as Fannie Mae and Freddie Mac[7], were encouraged to

[6] The credit attributed to the subprime and Alt-A categories grew from 7,2% and 2,5% in 2001 to 20,1% and 13,4% in 2006.

[7] Fannie Mae (Federal National Mortgage Association) is a government-sponsored enterprise (GSE) chartered by Congress in 1968 as a private shareholder-owned company whose task is to supply liquidity and stability to the US housing and mortgage markets. It operates in the US secondary mortgage market and funds its mortgage investments mainly by issuing debt securities in the domestic and international capital markets. Freddie Mac (Federal Home Loan Mortgage Corp) is a stockholder-owned GSE chartered by Congress in 1970 as a competitor to Fannie Mae. It too operates in the secondary mortgage market by purchasing, guaranteeing, and securitizing mortgages to form mortgage-backed securities.

expand and buy securitized mortgages, namely those containing the subprime segment[8]. Similarly, the Community Reinvestment Act was set up to facilitate access to credit the underprivileged. Also, the government granted home mortgage interest deductions as incentives to families to purchase their own homes.

The conviction that the housing boom would continue for a considerable period favored these policies. In the midst of the home buying euphoria the President of Reecon Advisors, Inc[9], David Lereah (2005: 1), declared that "opportunities still abound in the US real estate markets" and "those opportunities will continue to exist throughout this decade and into the next". Nevertheless, housing prices began to gradually decrease at the end of 2005 and by mid-2007 prices had sunk over 18%[10] (Krugman, 2009: 167). The fall in house values and the trouble in selling them or refinancing loans, coupled with an increase in interest rates, led an ever growing number of homeowners to default on their payments. Consequently, the number of delinquency rates increased and foreclosures soared[11], especially in the subprime segment.

According to Krugman (2009), the major losers of the housing bubble bust were the homeowners themselves. The investors accounted for only one-eighth of the losses – i.e., roughly one trillion dollars[12]. However, the investor's losses triggered the collapse of the shadow banking network. The shadow banking system (or parallel banking system) consists of non-regulated non-depository financial institutions – i.e. "non-bank banks" (Krugman, 2009). Contrary to retail banks in which customer deposits are generally insured through capital adequacy regulations, the institutions of the shadow banking system "borrowed short-term in rollover debt markets, leveraged significantly, and lent and invested in longer-term and illiquid assets" without any safety nets (Acharya et al., 2009: 7).

These institutions flourished throughout the first decade of the 21st century and played an important role in providing credit across the financial system. More importantly, they developed a series of financial innovations that circumvented capital

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8 The responsibility of Fannie Mae and Bernie Mac in the financial crisis has come into question in various recent studies and it has been increasingly accepted that they were not directly complicit in the loosening of lending standards and the rise of subprime mortgages (see Krugman, 2009; Nanto, 2009; Peterson, 2009).

9 Reecon Advisors owns and publishes Real Estate Economy Watch, one of the real estate industry's leading Web sites, providing diverse information on the residential real estate market.

10 The boom and bust of the housing market in the US was unevenly distributed geographically, with heavy concentration in relatively few regions, namely Miami, Los Angeles, Las Vegas, Phoenix, San Diego, Tampa, and Washington DC.

11 By September 2009, 14,4% of all US mortgages outstanding were either delinquent or in foreclosure.

12 According to International Monetary Fund forecasts the losses of US and European banks due to toxic assets and from bad loans are expected to top $2.8 trillion from by the year 2010 (see http://www.reuters.com/article/idCNL554155620091105?rpc=44).

requirements imposed by regulators, such as Special Purpose Vehicles[13] (SPVs) and Collateralized Debt Obligations[14] (CDOs). As a result, the shadow banking institutions were able to evade regulatory limitations imposed on normal banks and in this way contributed to an extraordinary increase in the credit available to investors and individuals (Acharya and Richardson, 2009: 197; Alexandre et al., 2009: 56-57; Gamble 2010).

Many of these asset-backed products were in high demand due to encouraging ratings. By structuring these asset-backed securities the more senior shares were rated by the proper agencies as AAA-rated tranches. This attracted many institutional investors, such as pension funds who only purchase high rated products, and "opened up large-scale financing of subprime lending" (Krugman, 2009: 150). On the whole, securitizations increased from $767 billion in 2001 to $2,7 trillion in late-2006 (Acharya and Richardson, 2009), transforming the shadow banking institutions an significant component of the global economy.

However, beginning in 2007 "we effectively observed a run on the shadow banking system that led to the demise of a significant part of the (then) unguaranteed financial system" (Acharya et al., 2009: 8). The bank run began as soon as the market understood that these institutions had made mainly toxic loans and halted their indiscriminate financing, leading to the breakdown of several hundred nonbank mortgage lenders, which specialized primarily in subprime and Alt-A mortgages. Subsequently, the entire system of special purpose vehicles (SPVs) and conduits collapsed when investors realized that they had invested in very risky and illiquid assets, prompting a run on their short-term asset-backed commercial papers financing. As the aftershocks spread through the financial system, the major US independent broker-dealers - e.g., Bear Stearns, Lehman Brothers - also collapsed due to their liabilities. Within a few months the Wall Street system of independent broker-dealers had for all intents and purposes collapsed. The implosion of the shadow system continued as the liquidation of assets in money market funds and hedge funds intensified. Eventually, even other financial institutions such as insurance

[13] Also known as structured investment vehicles or special purpose entity. They are finance companies established to earn a spread between its assets and liabilities like a traditional bank. SPVs borrow money by issuing short-term securities, such as commercial paper and medium term notes and public bonds at low interest rates and then lend that money by buying longer term securities at higher interest rates, with the difference in rates going to investors as profit.

[14] Sophisticated financial tools that repackage individual loans into a product that can be sold on the secondary market. CDOs are distinctive because they represent different types of debt and credit risk. These different types of debt are often referred to as "tranches" or "slices" which have different maturity and risk associated with it. The higher the risk, the more the CDO pays.

companies, bond insurers, traditional banks, and nonfinancial and corporate institutions were mired in the financial bedlam.

Following traditional macroeconomic recommendations the Fed lowered interest rates to try to stimulate the economy. Nevertheless, access to credit was severely curtailed, creating a liquidity trap. Due to the fact that banks were not lending to each other or to nonbank financial institutions, the Fed had to step-in in order to guarantee the short-term liabilities of banks, nonbank financial institutions, and nonfinancial corporations (Acharya et al., 2009: 11). In order to contain the derailing situation the Fed had to intervene by providing liquidity to a vast range of financial institutions, launching throughout 2008 a series of special lending facilities such as the Term Securities Lending Facility (TSLF) and the Primary Dealer Credit Facility (PDCF), and began purchasing commercial paper as well, replacing the lending function that the private financial system was not performing effectively (Krugman, 2009).

The crisis promptly spread throughout international markets creating a severe currency crisis, dismissing claims of the decoupling of emerging countries from the US economy. The financial globalization initiated in the late Twentieth Century had created an increasingly interdependent global financial market in which investors in each country seized ever larger financial stakes in other countries. Once the financial calamity struck the US market, these vast crossholdings acted as a transmission mechanism that spread the crisis globally. Emerging markets were especially penalized due to the vulnerability of carry trade[15]. The implosion of investment banking in the US put the international derailment process into action:

> The conduit of funds from Japan and other low interest nations was cut off, leading to a round of self-reinforcing effects all too familiar from the crisis of 1997. Because capital was no longer flowing out of Japan, the value of the yen soared; because capital was no longer flowing into emerging markets, the value of emerging-market currencies plunged. This led to large capital losses for whoever had borrowed in one currency and lent in another. In some cases that meant hedge funds. (…) In other cases it meant firms in emerging

[15] A strategy in which investors borrow low-yielding currencies and lend (invest in) high-yielding currencies. A trader using this strategy attempts to capture the difference between the rates, which can often be substantial, depending on the amount of leverage used.

> markets, which had borrowed cheaply abroad, suddenly faced big losses. (Krugman, 2009: 178)

To worsen matters, what began as a severe financial crisis hastily progressed into a serious economic crisis. The US entered a recession in December 2007 which lasted until mid-2009, making it the longest recession since World War II. Inappropriate diagnosis of the problems affecting the credit markets and flawed policy options contributed further to deteriorating the situation in the US (Taylor, 2008). Eventually, the strong connectivity of the emerging markets to the US market led to a disruption of economic growth across the world.

On the whole, the global financial and economic crisis undermined US national interests. In particular, "the uncertainty and socio-political forces being generated are creating political instability, heightening security risks, and effecting US interests in ways that could hardly have been imagined just a year ago" (Nanto, 2009: 1). The magnitude of the effects of the global financial crisis on US security will ultimately depend on the duration and severity of the global recession. Therefore, the subsequent sections will analyze the effects of the crisis on US foreign policy according to its potential development. More specifically, it will consider the more immediate, conjunctural effects, as well the more enduring, structural implications.

The Effects of the Crisis on US Foreign Policy

The argument presented here is that the financial and economic crisis affects the main elements of US national interest – i.e., national security, economic well being (prosperity), and value projection (democracy) (Brands, 1999; Nanto, 2009). Nevertheless, the effects of the crisis will be varied depending on the depth and intensity of the crisis. If the global economic recovery takes-off in the not-so-distant future, the effects of the crisis are likely to only exacerbate previously existing trends in US policy and impose some conjunctural adjustments. Conversely, if the crisis is protracted it will surpass mere operational concerns of US foreign policy priorities and may call into question some of the underlying principles and means that underwrite the present US policy around the world.

However, first and foremost, the financial crisis will certainly constrain the resources that the US is capable and willing to devote for aid, diplomacy, and defense

(Altman, 2009; Nanto, 2009). After the Chairman of the Joint Chiefs of Staff, Admiral Mike Mullen, admitted that “Our national debt is our biggest national security threat” there is little doubt that it will be possible to evade considerable budget constrictions[16]. This conviction is not limited to top US officials. In a mid-2010 Gallup poll, Americans in general have expressed this view by placing the federal government debt as the most worrisome issue when they consider the threats to the future well being of the US – matched only by the treat of terrorism[17].

Accordingly, the reduction in national revenues due to economic deceleration alongside the increase in Government spending has augmented the struggle for securing the allocation of budget funds. As a result, the increased competition for resources will most likely make officials reshuffle their policy priorities. While security related matters will continue to be assigned high priority, choices will have to be made since it is not possible to accommodate all political aspirations. For example, choices may have to be made regarding increasing non-military aid for countries such as Afghanistan or Pakistan or increasing global health programs.

Although it is premature to speculate on the emergence of pattern of reduction in foreign aid, Mendoza et al (2009) have demonstrated that there is a tendency for US official development assistance to decline in worsened economic conditions. This naturally implies the possibility that a geographic reallocation of aid can occur. According to the same study (Mendoza et al, 2009: 10) US official development assistance “to sub-Saharan Africa has reflected a declining preference for the poorest and best-governed countries of this region”. With the international affairs budget[18] currently counting for slightly more than 1% of the US federal budget, a reduction of resources may further aggravate this tendency, leaving some countries without access to relevant US aid.

Equally important, the constraints on national budgets can also affect the policy options available to US policy-makers by limiting possible alternatives. For instance, resolutions of conflicts which entail some kind of direct or indirect financial support may have to be curtailed or dismissed altogether – e.g., support agreements

[16] http://www.huffingtonpost.com/2010/06/24/adm-mike-mullen-national_n_624096.html (January 07, 2011).
[17] http://www.gallup.com/poll/139385/federal-debt-terrorism-considered-top-threats.aspx (January 07, 2011).
[18] The international affairs budget – also known as referred to as Function 150 or the “150 account” – contains spending on global economic, diplomatic and humanitarian programs by the State Department (DOS), the United States Agency for International Development (USAID) and the Millennium Challenge Corporation (MCC) among others, compromising the majority of U.S. foreign assistance.

established under the 1994 Agreed Framework and Six Party Talks with North Korea[19].

Defense expenditures could also be hindered. As Niall Ferguson (2009) has suggested “as interest payments eat into the budget, something has to give - and that something is nearly always defense expenditure”. Therefore it is no surprise that significant cuts are anticipated in several US weapons programs[20]. Defense Secretary Robert gates announced in January 2011 a reduction in the Pentagon's budget of $78 billion over the next five years[21]. Due to the “extreme fiscal duress” which the US faces, Secretary Gates asserted that "We must come to realize that not every defense program is necessary, not every defense dollar is sacred or well-spent, and more of everything is simply not sustainable"[22]. Some of the emblematic programs terminated or deferred are the Expeditionary Fighting Vehicle[23] and the Joint Strike Fighter[24]. Cuts are also anticipated in troop strength. More exactly, beginning in 2015 the Army must reduce the number of soldiers on active duty by 27,000 and the Marines by 15,000 to 20,000. The projected savings are of $6 billion over two years and are timed to coincide with the planned troop withdrawals from Afghanistan.

In addition, the cutbacks foresee the reduction of the number of private military contractors by nearly a third over the next three years, the continuation of the freeze on civilian salaries, and the increase of health-care premiums for military retirees and their families, along with a cut in the number of generals and admirals, shrinking their ranks from about 900 to 800. These measures are in accordance with the suggestions made by the deficit commission appointed by President Obama which proposes reducing projected levels of defense spending by almost $1 trillion over the next decade[25].

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[19] From 1995 to 2002, the United States provided over $400 million in energy assistance to North Korea under the terms of the 1994 Agreed Framework, in which the DPRK agreed to halt its existing plutonium-based nuclear program in exchange for energy aid from the United States and other countries. In September 2005, the Six Parties issued a joint statement of principles, in which they pledged to promote economic cooperation in the fields of energy, trade and investment, bilaterally and/or multilaterally, and the United States, China, South Korea, Japan, and Russia stated their willingness to provide energy assistance to the DPRK.

[20] Wall Street Journal article “Contractors Brace for Cuts as Gates Readies Budget Ax” available at http://online.wsj.com/article/SB10001424052748703675904576064123516888778.html?mod=googlenews_wsj (January 06, 2011).

[21] http://www.washingtontimes.com/news/2011/jan/6/gates-proposes-78b-cuts-over-5-years/ (January 07, 2011).

[22] http://www.washingtonpost.com/wp-dyn/content/article/2011/01/06/AR2011010606646.html (January 07, 2011).

[23] The Expeditionary Fighting Vehicle is a Marine program estimated at $15 billion for developing a new amphibious landing craft development. The Falls Church-based General Dynamics was responsible for the manufacturing of the vehicle.

[24] A $4 billion program to supply the new-generation F-35 Lightning II airplane, built by Lockheed Martin.

[25] http://money.cnn.com/2011/01/05/news/economy/lawrence_korb_defense_spending/?cnn=yes (January 06. 2011).

The implementation and support of friendly regimes may also reflect the retrenchment of US foreign financial aid. According to a recent report by the US Congressional Research Service (Nanto, 2009) the financial and economic crisis can bring about discontent in foreign countries which may generate political instability. The recent uprisings in several Arab states certainly support this prognosis. In addition to living with authoritarian rule, rising sectarianism and blatant corruption, the unfulfilled economic promises created a deep frustration in the Arab populations that sparked the revolts (Lynch, 2011; Knickmeyer, 2011).

In more extreme cases the disgruntlement can "manifest in extremist movements, particularly in poorer countries where large numbers of unemployed young people may become susceptible to religious radicalism that demonizes Western industrialized society and encourage terrorist activity" (Nanto, 2009: 8). While there is some debate about the role of poverty in promoting terrorism (see Brzezinski, 2004; Jervis, 2005), the crisis can lead national governments to try to consolidate their power through more authoritarian means. This development can eventually lead to regime instability as discontented citizens might tend towards a more insurgent behavior. The risk of instability has long been recognized by US officials. In the *Annual Threat Assessment of the Intelligence Community*, the Director of National Intelligence, Dennis Blair (2009: 2) conceded that in case of a persistence of the crisis "Statistical modeling shows that economic crises increase the risk of regime-threatening instability". The resulting hazards for the US are quite evident considering the interests at stake:

> For US businesses operating overseas, stability is essential for smooth operations. Obtaining government approvals, building manufacturing facilities, expanding service networks, maintaining a labor force, and shipping components and final products all are threatened by political, financial, and economic instability. (Nanto, 2009: 13)

The prospect of the crisis contributing to the weakening or failure of sovereign States is certainly a risk for the US. Weak and failing states have been at the heart of US foreign policy for the greater part of the last decade. The rationale is that weak or failing states serve as a breeding ground for extremist groups and other perils to US interests and security (Brzezinski, 2004; Carment, 2003, Eizenstat et al, 2005; Rothberg, 2002). Besides serving as safe havens for terrorist groups, weak and failed states are also at the heart of international criminal activity. Consequently, if more states are weekend or fail due to the pressures of the crisis this will put added demands on US policy which is committed to the strengthening of the traditional Westphalian territorial state.

As established above, the financial crisis is already affecting US policy significantly, though it is not yet possible to confirm any pattern for future behavior. It will take a significant number of years to ascertain how the crisis ultimately affects resource allocation and foreign aid. However, stipulating that the global recession is prolonged, aggravating global growth and development, its effects are sure to be much more profound for US foreign policy. Rather than specific alterations of policy, more fundamental issues related to US security will come into question, namely the "basic economic philosophy or the underlying assumptions about the workings of market based economies" (Nanto, 2009: 1). This implies that capitalism, especially in its US-led neoliberal attire, will increasingly be discredited and forsaken (Datz, 2009; Whitley, 2009; Wolf, 2009).

This is especially treacherous for a country which has always leveraged its economic influence to fortify its overall power. Especially since the end of WW2, US predominance has been organized through the world market (Smith, 2004). In addition, US security and the national interest were believed to be intricately associated with a world order in which the free flow of capital and goods were guaranteed (Gamble, 2009; Ikenberry, 2009; Leffler, 2003). This conviction was materialized in the National Security Council Report 68 (NSC 68) when it proclaimed "We must lead in building a successfully functioning political and economic system in the free world"[26]. Indeed, this concern has endured in US political thinking throughout the decades. For instance, the 2010 National Security Strategy emphasizes "A strong, innovative, and growing U.S. economy in an open international economic system that promotes opportunity and prosperity" (The White House, 2010: 7) as one of America´s enduring interests. Since its early days, the belief that "America's *domestic* well-being depends upon such sustained, ever increasing overseas expansion" has persisted (Williams, 1988: 15). Accordingly, US capitalism and the national interest coalesce into a single strategic dimension of US foreign policy.

However, capitalism's demise has been announced many times before. Over three decades ago Joyce Kolko (1974: 181) pronounced that "as the economic system

[26] A digitalized copy of the full National Security Council Report 68 available at http://www.trumanlibrary.org/whistlestop/study_collections/coldwar/documents/pdf/10-1.pdf.

breaks down further and factories close or masses of workers are laid off, this current political situation is potentially explosive". Nevertheless, once the dust settled, capitalism stood high and proud. Changes had obviously been espoused, but contrary to its detractors, advocates wanted to deepen capitalism's unfettered force. Once Keynesianism was discredited due to stagflation[27] (Alexandre et al, 2009: 26; Cerny, 2008: 12-13) the call for a return of a more *laissez faire* inspired policy gained a chorus of enthusiasts. Particularly after the years of stagflation, government intervention in the economy was heavily condemned. Nobel laureate economist, Milton Friedman, and his wife, Rose Friedman, (Friedman and Friedman, 1980: 51) geared up the conceptual attack on government interference, accusing Big Government – i.e., excessive government intrusion in the public and private spheres – of destroying the prosperity provided by the free market.

However, the underlying logic of freeing-up markets surpassed the simple sphere of money matters. It embodied the liberal ideals so distinctive of American political thought since the early days of the Republic (Kagan, 2006; Weeks, 1992). Accordingly, there was an underlying political project of emancipation in the Friedman's outlook as well:

> Few measures that we can take would do more to promote the cause of freedom at home and abroad than complete free trade. (…) International free trade fosters harmonious relations among nations that differ in culture and institutions just as free trade at home fosters harmonious relations among individuals who differ in beliefs, attitudes, and interests. (…) Cooperation, not conflict, is the rule. (Friedman and Friedman, 1980: 51)

This optimistic view of capitalism was reinforced with the demise of the Cold War and the collapse of Marxist socialism. The early years of the 1990s bear witness to the triumphant splendor of the liberal order. Francis Fukuyama (1992: 45) declared exultantly that "there is now no ideology with pretensions to universality that is in a position to challenge liberal democracy". Many others embraced the idea that US capitalism represented the most modern and efficient model for economic and social development (Whitley, 2009). The days of uncertainty and anxiety about economic growth had long vanished from the official discourse. The irregular cycles of

[27] Situation in which both the inflation rate and the unemployment rate are persistently high.

alternation of recessions and expansions that have traditionally been associated with capitalism seemed to have been finally tamed (Krugman, 2009: 9). Long-term economic growth was no longer a mystery to the contemporary financial wizards. There reigned an unfettered optimism in the market´s ability to correct any imbalances that could arise (Alexandre et al, 2009; Krugman, 2009).

During this period the term neoliberalism came into the limelight in diverse economic and political forums. Although subject to numerous contradictory interpretations, neoliberalism came to embody the US post-Cold War world view (Datz, 2009; Gamble, 2009; Hunt, 2007). The most widely accepted usage of neoliberalism is associated with its economic dimension. Contrary to the postwar "organized capitalism", neoliberalism tends to indulge the role of the market over any other force, specifically by proclaiming:

> that the economic market should form the core institution or ordering/organizing mechanism of modern-capitalist societies, and that both domestic and international politics are - and should be – increasingly concerned not only with helping markets to work freely (and therefore, in theory, efficiently) but also with making markets work well through pro-competitive regulation, preventing and/or compensating for market failure, etc. In this sense, neoliberalism, like classical liberalism before it, is essentially a normative/prescriptive doctrine and discourse, a framework for formulating and implementing public policy at both the international and domestic levels. Unlike classical liberalism, however, it is not assumed that markets necessarily work in an efficient, spontaneous and automatic – self-regulating – manner unless they are strongly embedded in pro-market rules, institutions and politics. (Cerny, 2008: 10)

Neoliberalism mirrored the confidence and the optimism of the times. It contrasted drastically with the relativism and skepticism of postmodern thought. It proclaimed universal values and celebrated truth, objectivity, and progress (Gamble, 2009). It exploited globalization to prosper and consolidate its reign as the model for successful development and was simultaneously its primary catalyst. By defining globalization as "the informal ideology of the US political and business elite" (Brzezinski, 2004: 142) it was implicit that neoliberalism was the dominant philosophy underlying US foreign policy.

The Washington Consensus[28] was the hallmark of the global dissemination of US- style neoliberalism (Cerny, 2008; Hunt, 2007; Sheppard and Leitner, 2010). The Washington Consensus identified a set of economic policy reforms that should be implemented by emerging economies in order to surpass their financial difficulties and economic frailty (Williamson, 2002). In general, the economic remedy included a reduction of government deficits, liberalization and deregulation of international trade and cross border investments and the pursuit of export led growth. By leveraging their financial authority through the global financial institutions, the US was able to press developing states into restructuring their economies in ways more conciliatory to its own interests – i.e., apply neoliberal policy reforms.

The 1997 Asian financial crisis called into question many of the assumptions underlying the Washington Consensus and international financial institutions began to rearticulate some of their policies prescriptions. However, this newly established Post-Washington Consensus maintains the developmental outlook that legitimizes and depoliticizes US-led neoliberalism. Despite some adjustments, “the post-Washington consensus entailed a novel package of policy measures and substituted a discourse of governance and poverty reduction for that of structural adjustment and privatization associated with its predecessor” (Sheppard and Leitner, 2010: 188).

Although there is some discussion as to the main tenets of contemporary neoliberal policy, Philip Cerny (2008) has concisely identified four core dimensions of the neoliberal consensus:

1. Reduction of barriers to trade and capital flows;
2. Reform of national finances, specifically controlling inflation;
3. Implementation of a competition state and regulatory state;
4. Reinventing governance through the complex interaction of private and public sector institutions.

[28] The term was initially put forward by John Williamson in the late 1980s in order to describe what would be regarded in Washington – i.e., both the political Washington of Congress and senior members of the administration and the technocratic Washington of the international financial institutions, the economic agencies of the US government, the Federal Reserve Board, and the think tanks, etc. - as constituting a desirable set of economic policy reforms for emerging countries facing economic crisis.

The implementation of the neoliberal paradigm has not occurred without facing challenges. Numerous financial crisis[29] associated with the severe social disruptions verified in a multitude of countries have led to an increase in the opposition to neoliberalism. Unemployment, impoverishment, social exclusion, environmental degradation, and cultural subalternization have all contributed to an augmentation of the contention to the neoliberal model in emerging as well as developed countries. In much of the developing world neoliberal policy came to be looked upon with suspicion. Renowned essayist Lewis Lapham (1990: 308) mordantly stated that "If I were the President of a Third World nation still prosperous enough to keep an airport open, I would be far more frightened by a well-dressed gentleman bringing loans from the IMF or Citibank than by a bearded guerrilla muttering threats of revolution". However, while the neoliberal version of capitalism had come to receive a great deal of censure, it was conventionally wisdom that the overall benefits to the global population as a whole compensated for any faults (Beinart, 2010; Friedman, 2000; Krugman, 2009).

The contemporary financial crisis has revitalized the assault on neoliberalism and especially the efficacy of US leadership. The crisis that originated in 2007 shattered the economic model that had looked so successful. It undermined the viability of the US-led neoliberal model of capitalism, in particular its confidence on the financial services industry as a key instrument of promoting economic growth, and the appeal of emulating its essential features (Altman, 2009; Alexandre et al, 2009; Gamble, 2009; 2010; Whitley, 2009). After almost a decade of foreign policies which diminished US credibility, respect, and authority as the leader of the liberal order (Ikenberry, 2008; 2009), the current financial and economic calamity seem to have dealt the *coup de grace* to the legitimacy of US leadership of the global system.

This rationale is quite simple to understand. While the US will certainly continue to be a global economic, military, and cultural power in the years to come, the financial crisis has demolished one of the most significant, if not *the* most vital, dimensions of US global power – the power of ideals. After the Cold War, Ronald Reagan (1992) had ascribed the uniqueness of US power to its ideals[30], specifically those based on the "faith in the ideals of democracy, of free men and free markets". America's international allure derived precisely from its political and economic model,

[29] Some of the more well known crises are the 1987 Wall Street crash, the 1989-91 Savings and Loans bankruptcies, the 1990 Japanese stock and housing crashes, the 1994-95 Mexican debt crisis, the 1997 Asian currency crisis, the 1998 Russian debt crisis, the 2000 dot-com bust, the 2001-02 crisis in Argentina.

[30] More precisely, for Reagan the US was "an empire of ideals".

which sponsored an open, rule-based system of institutionalized cooperation. The crisis has certainly tainted the authority of this model.

Furthermore, the financial crisis has undermined the US-led neoliberal agenda at exactly the same time as other competing models are rising, namely China's authoritarian capitalism (Beinart, 2010). Therefore, the current financial and economic crisis has intensified the debate about the alternatives to neoliberal capitalism (Whitley, 2009: 11; Xinbo, 2010). In fact, at the 2009 World Economic Forum Annual meeting, the Chinese Premier was unmistakably critical in identifying the source of the crisis:

> inappropriate macroeconomic policies of some economies and their unsustainable model of development characterized by prolonged low savings and high consumption; excessive expansion of financial institutions in blind pursuit of profit; lack of self-discipline among financial institutions and rating agencies and the ensuing distortion of risk information and asset pricing; and the failure of financial supervision and regulation to keep up with financial innovations, which allowed the risks of financial derivatives to build and spread. (Jiabao, 2009)

While never referring explicitly to the US, Wen Jiabao's vilification was evident to all. In the same forum, Vladimir Putin pulled no punches when declaring:

> …just a year ago, American delegates speaking from this rostrum emphasized the US economy's fundamental stability and its cloudless prospects. Today, investment banks, the pride of Wall Street, have virtually ceased to exist. In just 12 months, they have posted losses exceeding the profits they made in the last 25 years. (Putin, 2009)

While there is considerable skepticism as to the replacement of the neoliberal project by some alternative grand political and economic design in the near future – be it the Beijing Consensus[31] or some other model of development – the crisis initiated in 2007 has certainly disfigured the contemporary US model of capitalism.

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[31] The Beijing Consensus is a model of development presented by economist Joshua Cooper Ramo (2004) that believes a country from the South can take up a predominant place in global politics, namely through

First of all, the crisis revealed the frailty of the financial system. The unwavering confidence in the system has virtually vanished and with it so has one of the underlying elements of its successful functioning (Alexandre et al, 2009; Gamble, 2010). To recover some of the initial assurance, the unfettered reign of the market and deregulation[32] will certainly be tempered (Alexandre et al, 2009; Whitley, 2009). Moreover, financial innovations will unquestionably be looked upon with greater suspicion and will not shoulder the bulk of future economic growth. Investors will be apprehensive in gambling on opaque products in which the risk is not fully understood.

Equally important, state intervention in the economy is once again deemed acceptable. The search for greater financial and economic security will inevitably lead states to strengthen their political control over the markets. After numerous years preaching that government interference was a capital sin, "state steering of economic development, regulation of markets, and support for particular firms and industries will be widely viewed as legitimate and desirable, albeit in 'market friendly' ways" (Whitley, 2009: 19). An illustration of this newly invigorated state intervention was the recent injection of liquidity into capital markets and the nationalization of private debts by the US Government.

On the other hand, State intervention may also signal a shift away from the global to the national level, mainly through a possible increase in protectionism (Wolf, 2009). Recent reports have alerted to the genuine danger of a growth in protectionist policies. This is strengthened by the alleged decline of US power since "there is no substitute leader to forge international cooperation to contain protectionism, open markets and strengthen multilateral rules" (Sally, 2010: 5).

Despite the difficulties encountered there is, however, little doubt that capitalism is capable of adapting and reinventing itself (Datz, 2009; Ikenberry, 2009). Countless academics and economists insist that there is no serious alternative to capitalism (Gamble, 2010; 2009; Ikenberry, 2010; Krugman, 2009, Subacchi, 2010). Even neoliberalism can innovate and adjust itself to such a callous period (Cerny, 2008). Despite acknowledging profound political changes, the conviction is quite simple and straightforward:

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harnessing the creative power of innovation, adopting sustainability and equality as fundamental criteria of development, and promoting self-determination in dealing with hegemonic – i.e., Western – powers.

[32] Deregulation – i.e., the scrapping of many regulatory safeguards – was a key feature of economic growth initiated in the 1980s and deepened in the 1990s. A prime example was abandonment of the Glass-Steagall Act in 1999.

> After such a major setback as the 2008 crash it is likely that there will be a lengthy period of restructuring, and a series of aftershocks, political upheavals and some major shifts in power. What is different about this crisis compared to earlier ones is that there is no obvious alternative to the current order of the capitalist world. There are no major external challengers now that China and even Russia are embedded within it, and few domestic challengers either. There is little ideological polarisation as occurred in both the 1930s and 1970s. This has led some to doubt that this is truly a crisis at all, on the grounds that for there to be a crisis there needs to be not just the breakdown of one paradigm but the articulation of an alternative. There is no sign of a replacement for neo-liberalism in the way that neo-liberalism emerged as a replacement for Keynesianism in the 1970s. Aspects of neo-liberalism may have been discredited, but there are as yet few signs of a paradigm shift in the priorities of public policy. (Gamble, 2010: 12)

While capitalists may slumber soundly, confident that their economic system is assured by so many distinguished thinkers, US officials cannot afford such comfort. The absence of a convincing ideological threat might certainly uphold the liberal order in the foreseeable future, but US leadership of the order will certainly be open to discussion. As Ikenberry (2010; 2009) has astutely avowed, what is questioned today is not so much the liberal order itself, but rather the American governance of the order. The contestation of US leadership reflects the contemporary global balance of power between states. Although in no way responsible for the new global power arrangement, the contemporary financial crisis drew attention to the shift that has been occurring in the relative positions of some of the leading powers on the world stage. This shift has been tacitly acknowledged by the US which has tried to better accommodate the rising powers in the international financial institutions. More specifically, the Obama Administration recognized the G20 as the new permanent forum for international economic cooperation at the Pittsburgh summit of September 2009. Furthermore, the Administration also conceded to reforming the IMF board, granting a greater representation to emerging countries in the management of the economic global governance (Subacchi, 2010).

Ultimately, this reallocation of power in the global sphere signals a shift away from the unipolar system in which the US was the apex (Altman, 2009; Subacchi, 2010; Wolf, 2009; Xinbo, 2010). Calls for a more plural international system have been a standard trait of international politics since the end of the Cold War. The financial crisis strengthened this claim by revealing the vulnerability of US power. In Davos, Vladimir Putin (2009) brought the issue once again to the forefront of the international political debate by demanding that "a system based on cooperation between several major centers must replace the obsolete unipolar world concept".

Although many are certainly celebrating the demise of the system built on US hegemony (Kennedy, 2009), others lie tearful in the apparent imperial debris. Regardless of sentiment, US power and leadership should not be leniently dismissed. The demise of the unipolar system can present the US with an opportunity to renew its international political authority and restore its global legitimacy.

Requiem for Unipolarity

The debate concerning the end of the unipolar system is not novel. In fact, the dispute over unipolarity has been brewing since the end of the Cold War (Kagan, 1998; Krauthammer, 2003; Kupchan, 1998; Layne, 2006; Wohlforth, 1996). The central contestation has centered essentially on the durability of the system. While some dismissed the notion of a unipolar system altogether (Mearsheimer, 2007) others had declared its death throe even before the turn of century (Huntington, 1999).

However, a wide assortment of American scholars and commentators argued that the US unipolar system was genuine and booming. Accordingly, the US emerged from the Cold War possessing such capabilities that it did not allow for any state or group of states to counterbalance it. In contrast with the postwar system, Wohlforth (1996: 36) argued that "today there is no other power whose reaction greatly influences US action across multiple theaters". And until any such state or states could counterbalance the US the system would continue to be unipolar. Unipolarity was therefore "the foundation of US hegemony" (Layne, 2006: 37). US hegemony was due primarily to two factors (Layne, 2006). The first was the global supremacy of US military and economic power which had no match in any other state or grouping of states. Secondly, since the passing of the Soviet Union no other great power had emerged to contest US primacy. These features were reinforced by a policy that sought to perpetuate US dominance, turning hegemony into a self-perpetuating phenomenon (Huntington, 1999; Jervis, 2005; Wohlforth, 1996).

In view of that, many analysts predicted that US unipolarity would endure well into the first half of the 21st century (Kagan, 1988; Krauthammer, 2003; Wohlforth, 1996). According to several accounts, it was not only the asymmetry of power that would protract US hegemony, but also the nature of that power. The US was unlike any hegemon of the past. It was, above all, a benevolent hegemon. Contrary to the hegemons of the past, the US exercise of power replicates its democratic form of government (Kagan, 1998). Whereas this conduct was not entirely altruistic, the US historical experience had provided them with an inherently unique insight that their power and influence would be enhanced by consenting greater freedom of action to its allies.

This allegedly exceptional character of US hegemony was beneficial to the general international environment. The enthusiasts of benevolent hegemony argued that by way of its extraordinary power and nature the US can convince other states to accept its primacy and cooperate with them. Especially significant is the fact that the US functions as a provider of system-wide public goods, such as access to the global markets, enforcement of the rules governing the international political and economic system, and international security (Layne, 2006).

Regardless of the benign nature of US hegemony, it was also claimed that unipolarity was prone to peace. Wohlforth (1997) claimed the advantage of power the US had over the all other states abolished the traditional logic of hegemonic rivalry over the leadership of the international system. Any attempt to challenge US power would be useless and could simply provoke the focused hostility of the US. Moreover, the unipolar nature of the system would curtail any security competition among the other great powers, contributing this way to a more stable international order. The more the US intervened internationally, the greater the stability of the system. By intervening and enforcing order the US negates any attempt for other states to struggle and compete for power and security.

US hegemony led many states to follow a policy of band-wagoning. Rather than contest the unipolar order, accommodation to US power has been the policy of choice of many for many states and regimes. Nevertheless, other states have opposed US power through a wide variety of strategies (Walt, 2005). One of the more subtle forms of opposition to US power is “soft balancing”. By employing nonmilitary means of power, states have exploited diplomacy, international institutions, and international law to try to hamper and delegitimize US ambitions (Layne, 2006; Walt, 2005). The combined stratagem by France, Russia, and China to thwart the US from obtaining a UN Security Council resolution for the invasion of Iraq is a paradigmatic case of soft balancing.

Other forms of balancing US power look to constrain US primacy by binding it to international institutions. This is frequently attempted in economic affairs, where the US cannot monopolize power and has to follow established rules (Walt, 2005). Due to its reliance on an open international trading order, the US cannot jeopardize its prosperity by infringing the rules and provisions that regulate the international economic system. Layne (2006) has stated that many states use this type of "economic prebalancing" as an approach many states have adopted to constrain US power until they have closed the economic and technological gap between them and the US and can allow them to explore more hard balancing strategies in the future.

While less frequent, many states have tried to counter US power through balancing the US by way of hard power. Mobilizing military resources, either through the development of conventional military capabilities, promoting terrorist strategies, or obtaining weapons of mass destruction, has been tried in the past to try to exploit the weaknesses of the US (Walt, 2005). The success of this approach had been questionable at best and has usually led to a more aggressive and unreserved US reaction. More often than not, opposition to US hegemony is accomplished by balking – i.e., simply not acquiescing to US demands. Examples of balking are recurrent in international politics and can be verified in allies and opponents of the US – e.g., the Israeli persistence in building settlements despite US demands for suspension of current and future projects; continued Russian assistance in the development of Iranian nuclear program; refusal of states to stop harboring terrorist or criminal networks in their territory.

To a great extent, the opposition to US global policy is a direct consequence of its hegemonic power (Ikenberry, 2010; Layne, 2006; Mearsheimer, 2011; Walt, 2005). As Samuel Huntington (1999: 40) pointed out over a decade ago, "in acting as if this were a unipolar world, the United States is also becoming increasingly alone in the world". Whereas the US has always pursued its national interest independently of others intentions and concerns (Kagan, 2009; Sestanovich, 2005), global resentment of US power has been increasingly manifesting itself throughout the last decade. In fact, while unipolarity was an object of political dispute since the end of the Cold War, "post-9/11 US unilateralism has produced the first crisis of unipolarity" (Krauthammer, 2003: 10). The George W. Bush Administration's aggressive endeavor in quest of security ultimately disenfranchised many states around the world, particularly

America's traditional allies. The policies followed after September 11, 2001 confirmed the claims that the US was not a status quo power (Jervis, 2005; Layne, 2006; Sestanovich, 2005; Walt, 2005). On the contrary, the US used its hegemonic power to enhance its position vis-à-vis other states and raised uncertainty about US commitment to international rules and institutions.

A US policy bent on maintaining global predominance, especially through unilateral and aggressive means, could only strengthen discontent. The perils implicit in such a course were common knowledge to realist thinkers. Henry Kissinger had adverted to such a situation over half a century ago when examining the post-Napoleonic peace:

> Could a power achieve all its wishes, it would strive for absolute security, a world-order free from the consciousness of foreign danger and where all problems have the manageability of domestic issues. But since absolute security for one power means absolute insecurity for all others, it is never obtainable as part of a "legitimate" settlement, and can be achieved only through conquest. For this reason an international settlement which is accepted and not imposed will always appear *somewhat* unjust to any one of its components. Paradoxically, the generality of this dissatisfaction is a condition of stability, because were any one power *totally* satisfied, all others would be *totally* dissatisfied and a revolutionary situation would ensue. The foundation of a stable order is the *relative* security – and therefore the *relative* insecurity – of its members. Its stability reflects, not the absence of unsatisfied claims, but the absence of a grievance of such magnitude that redress will be sought in overturning that settlement rather than through an adjustment within its framework. (Kissinger, 1999: 144-145)

Kissinger´s views reflect the logic underlying both hegemonic theory and balance-of-power theory. Both theories foretell a short lived era for unipolar systems. Whether due to challengers who are unsatisfied with the relative power distribution in the international system or to the natural tendency for states to balance each other, the durability of unipolarity is hard to corroborate.

While the international order is not on the verge of a revolutionary transformation, the economic crisis has enabled the further erosion of US unipolar hegemony. The ascension of a group of states to a status of global power has been acknowledged for some time. According to Zakaria (2008b: 2) "the rise of the rest" signals the third great power shift of the modern era and the induction of the "post-American world". In this new system, the US will remain the major power in the global system. However, it will be incessantly challenged as the new powers look to expand their own power on the global stage. The growing economic power of countries such as China, India, and Russia will certainly clash with US interests. Many commentators have indicated that China has gained the most from the present crisis (Altman, 2009; Garrett, 2010; Xinbo, 2010).With its rapidly growing economy and huge reserves of capital, China showcases the reported shift of power from the West to the East. The announcement of a new "Asia-Pacific Century" implies a "fundamental restructuring of the global hierarchical system itself" (Doyle, 2009: xii). According to several accounts China is the "bearer and driver of the new world, with which it enjoys an increasingly hegemonic relationship" (Jacques, 2009: 11).

There is no doubt that the financial and economic crisis has stirred the global balance in the world economy. The relative position of the leading powers – e.g., UE, China, Russia, India, and Brazil – has been altered. This adjustment enabled "moves by different states to change some of the rules to their advantage and to have their new political and economic weight acknowledged" (Gamble, 2010: 11).

Nevertheless, it is still premature to declare the end of US hegemony. The US will continue to have considerable sources of power. US military might will remain dominant for the decades to come. Notwithstanding its nuclear capability, the current dimension and technological innovation of US weapons systems will guarantee US conventional military superiority over any of its potential rivals in the foreseeable future (da Vinha, 2008; 2009). Even with decreasing budgets, efficient US security and defense spending is viable in the future considering that expenditures as a percentage of the GDP have persisted below the Cold War average (Jervis, 2005; Zakaria, 2008a).

Similarly, in economic terms, the US will continue to be a force to be reckoned with. Whatever the financial and economic crisis might currently imply for the US, its economy has the capacity to respond adequately to the challenges. Labor flexibility and innovation are pointed out as key factors for the renewed growth of the US economy (Nye Jr., 2010; Subacchi, 2010). Also, the ability to attract foreign investment is also important for the recovery of the US economy. Granting that the financial crisis has hindered the appeal of the US market, empirical evidence suggests that "foreign investors will choose to purchase US portfolio investments in order to benefit from what are, compared to many other countries, a highly developed, liquid, and efficient financial market, good standards of corporate governance and strong political and regulatory institutions" (Subacchi, 2010: 268). This tendency will be reinforced by the maintenance of the dollar as the key currency in the international monetary system for the years to come, giving the US the flexibility that comes with issuing its debt in its own currency. Equally important, the US can also count on a highly vibrant civil society, with great innovative initiative, along with the leading centers of learning and research in the world to reinvigorate its economy (Nye Jr., 2010; Zakaria, 2008a). The US leads in many of the major technological segments, is essentially involved in the added value activities in manufacturing, and is highly integrated in the service and knowledge economy.

Accordingly, while conceding that international system is in flux due to the rise of new powers and the consolidation of older ones, the US will maintain a significant degree of global power and preponderance. To begin with, while there is considerable agreement in the opposition to US primacy, there is no consensus about what should replace it. Furthermore, no state is yet in a position to overtake the US in any dimension - military, political, or economic – in the ensuing years. Notwithstanding the considerable rate of growth of many of the emerging states, serious economic and political challenges must still be resolved (Edelman, 2010; Krugman, 2011; Mankoff, 2010; Nye Jr., 2010; Overholt, 2010).

Political reform also raises many uncertainties in China and Russia. The rise of a more demanding urban middle class will certainly imply greater pressure for political participation in China (Nye Jr., 2010). How the Chinese government can reconcile this phenomenon with its centralized form of rule is a crucial element for the future of China. As is the way in which China will respond to the emerging threats that loom in the not so distant future. As a more active player in global politics China will certainly face new threats and challenges which will require a more committed response – e.g., international terrorism, foreign instability and state failure abroad, overtly anti-Chinese regimes (Ratner, 2011). Russia will certainly face similar challenges as its power status is enhanced (Katz, 2007).

As a result, caution is advised to those who are so boldly forecasting the latest configuration of power in the international system. Yet no matter what arrangement the international system assumes in the post-crisis period – uni-multipolar (Huntington, 1999), bipolar (Waltz, 1970), multipolar (balanced or unbalanced) (Mearsheimer, 2007), interpolar[33] (Grevi, 2009), nonpolar[34] (Haass, 2008) – the US will have to rethink the way it exercises its power for it will not have the margin of action – both in terms of material and moral power – that it had in the past. Make no mistake, the US will not back away from its long-established foreign policy objectives. It will continue to be committed to a policy set simultaneously on the belief of abstract universal principles embedded in the nation's founding documents and the ambition for material power and prosperity. As Kagan (2009: 29) has so bluntly clarified, “this tendency toward expansion, this belief in the possibility of transformation, this ‘messianic’ impulse, far from being aberrant, is a dominant strain in the American character”. Envisaging a strategy that can accommodate this temperament without antagonizing the rising powers to the point of them fiercely opposing US intent is the main test for policy-makers.

Should, however, the global configuration of power change more drastically than anticipated, the US can still benefit by pursuing a prudent foreign policy orientation. As a matter of fact, Huntington’s (1999: 40) suggestion that “the United States could find life as a major power in a multipolar world less demanding, less contentious, and more rewarding than it was as the world’s only superpower” is truer today than in the past. To begin with, the US can profit significantly from other powers increased participation in the global affairs. There are many issues that can foster increased cooperation between the US and other powers (see Hachigian and Sutphen, 2008). Some of the most obvious are counterterrorism, nuclear proliferation, international criminality, global epidemics, and climate change. By sharing international responsibilities the US can alleviate the overwhelming burden that came with being the global hegemon. It will also require other states to assume greater responsibilities at the international level and commit to stern and prolific policies. For numerous years many states have avoided paying their dues as great powers. Wielding global power comes with a cost that most states have been reluctant to accept in the past. Time has come for them to put their money where their mouth is.

Similarly, a more plural allocation of power can provide the US with an occasional breather. US hegemony created a condition in which the US had to be constantly vigilant of global affairs. Since the end of the Cold War any significant global or regional crisis has led to the compulsory solicitation of US involvement and

[33] A multipolar system in which the interdependence between the large powers assumes a key role in resolving the major global challenges.
[34] A world dominated not by one or two or even several states but rather by dozens of actors possessing and exercising various kinds of power.

subsequent resolution of the problem. This has contributed to an apparently hyperkinetic posture by the US which could never be successful since being a hegemon does not entail full control over international events. Therefore, besides the requirement for the new global powers to act more reliably, their participation can free the US from having to commit itself to the resolution of each and every emergency. The prospect for greater discretion in US international involvement is certainly reminiscent of Gracian's (1992) wise counsel of moderating one's brilliance in order to receive greater appreciation.

Even if cooperation is not the norm in the future of international relations, the US can still benefit from the situation. Ultimately, the US could assume the role of an offshore balancer, transferring the burden of maintaining a stable regional order to other states (Layne, 2002; Mearsheimer, 2011; Walt, 2005). In this way, the US would rely on regional actors to maintain the regional balance of power. The US would still be prepared to deploy its power against explicit threats to its national interests, but it would only get involved when absolutely required. As Mearsheimer (2011: 32) has made clear "America would still carry a big stick with offshore balancing but would wield it much more discreetly than it does now". This would evidently imply a reconsideration of the national interest, re-evaluating which regions are of real strategic importance for the US.

Any apprehension at the rise of an anti-US coalition could also be alleviated. With a more discrete conduct the US would not attract the world's animosity. On the contrary, the US could exploit local tensions as states struggle to impose regional hegemony. The Cold War confirms the good track record the US has employing this strategy as it skillfully took advantage of the antagonism between the Soviet Union and China. This strategy may once again work for the US since the rising global powers have historical animosities, border disputes, and present-day disagreements with each other that can be taken advantage of.

Concerns about the stability of such a plural system are certainly reasonable. However, due in large part to the costs of an all-out conflict between the great powers (Mueller, 2001), it is more logical to expect that an increase in the number of great powers will enhance the number of potential dyads in the system (Deutsch and Singer, 1964). As a result, the US can benefit from by cooperating with different states in accordance with the diverse issues at hand. Since different states assess political conditions differently, the US can, according to its interests, establish different agreements with different countries, without having to be permanently enchained to any state or groups of states. Ultimately, though it is doubtful that the world will be divided between democracies and authoritarian regimes in the near future as Kagan (2008) suggests, the US could still use its liberal democratic credits as a banner for which countries facing pressure from autocrats can rally around. This could possibly allow the US to advance once again what Lundestad (1986) entitled an “empire by invitation”.

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