

THE FUTURE OF THE AMERICAN EMPIRE

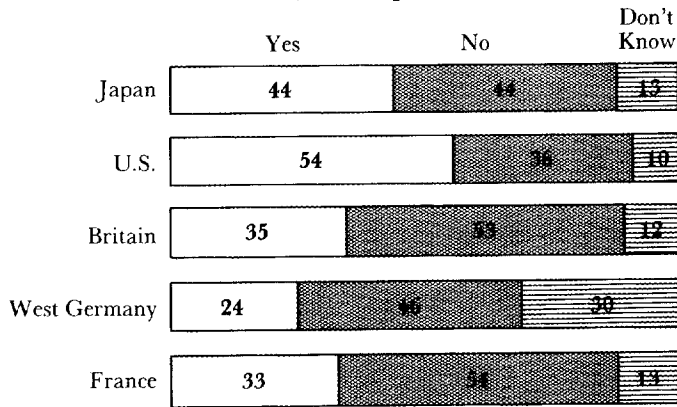
by Susan Strange

Make no mistake. Questions about American decline—true or untrue, avoidable or inevitable—which have been much in the public eye this last couple of years, are not just the subject of an academic debate, a kind of intellectual jousting match of absorbing interest to the protagonists but of only passing interest to the spectators. In my opinion, it is much more than that. This is one of the comparatively rare occasions on which the perceived outcome of an academic debate actually has some significance and impact outside the classroom and beyond the pages of professional journals. At the end of the day the apparent victor in the argument, and the broad conclusions that the spectators draw, will crucially affect decisions in the real world. It cannot help but affect the policy choices made in the future by people in business, banking and government, in the United States and in other countries around the world.

Personal, corporate and party policy-making decisions will vary according to the perceived outcome—whether the conviction becomes general that the United States is a superpower already in decline and destined to decline still further; or whether the view gains ground that the decline has been exaggerated and misunderstood and can be halted or reversed; or whether yet another interpretation takes hold, that there has not really been a decline at all, only a change in the basis of American power, as when a person shifts weight from one foot to another. Because perceptions of the debate will affect strategic choices by decision makers, and because those decisions will in turn affect the lives of ordinary people who have never even heard of any of the professors engaged in the debate, it seems to me a matter of such importance that it justifies return to a subject on which I have already written.¹

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1. Susan Strange, "The Persistent Myth of Lost Hegemony," *International Organization* 41, no. 4 (Autumn 1987): 551–573. Also see Susan Strange, "Still an Extraordinary Power: America's Role in a Global Monetary System," in Raymond E. Lombra and Willard E. Witte, eds., *Political Economy of International and Domestic Monetary Relations* (Ames, IA: Iowa State University Press, 1982), pp. 73–103.

Table 1
Is U.S. Power Declining?
(Public Opinion Poll)



Source: *Daily Yomiuri*, 18 June 1987.

At the time of writing, it looks as though the “school of decline”² as it has been called has thus far got the best of the intellectual joust. Although a few voices of dissent have been heard in America, and though opinion outside the United States is still far from convinced that American power is declining, the challenges that have been made to the major propositions of this school have not registered much of a dent (see Table 1). But the tournament is far from over and the verdict of the present and coming generation of students in the social sciences, and especially in international relations, has still to be given.

To that end, it may help first to disentangle the three major propositions of the school of decline. These are:

- American power, once predominant, is now less than it was, and, that it is (or soon will be) matched or exceeded by that of others.
- Such declines of great powers are normal and explicable and are to be anticipated, especially when such states are committed to heavy military spending.
- When such states do decline in power, one likely consequence is political instability and economic disorder in the international system.

2. Peter Schmeisser, “Taking Stock: Is America in Decline?” *The New York Times Magazine* (17 April 1988): 24.

Though distinctly separate, all three propositions are interrelated and thus often conflated in one argument. When that is done, the implications are strongly deterministic. For if indeed it is true that American power has declined, and if it is also true that such a decline is normal, even unavoidable, then the resulting disorder in the international system is also, in large degree preordained. This suggests that there is little that can be done about it. We have therefore to plan on uncertainty, anarchy, conflict and misrule and to behave accordingly. This is a counsel of despair not to be taken too lightly.

For readers to clarify their own thinking, therefore, the three propositions must first be considered separately, together with the refuting counter propositions, for it is not logically necessary to accept or reject all three. For example, the theme of Robert Keohane's *After Hegemony*,³ and of much current literature by international economists, is that although American power has declined and although this has led to the erosion of international regimes, there is still a substitute for American hegemony to be found in international cooperation and the coordination of monetary and fiscal policies. Thus, accepting the first proposition does not necessarily mean accepting the third.

By laying out the main grounds on which I think each of the three propositions can be legitimately questioned, a different conclusion becomes possible. It is based on the analysis of structural power in international political economy which I have developed at greater length elsewhere.⁴ It leads to the conclusion that although there are current weaknesses in the American Empire, they are not irreparable and they are much less important than its continuing structural power. However, a necessary condition for the needed reforms is the development of a political will to change. And that will not come until it is more widely recognized that the school of decline has grossly overdone its Cassandra act.

To be fair, however, it has to be said that it is the simplifications and vulgarizations by the media and the politicians of what the gloomy academics have actually said that have been grossly overdone. Paul Kennedy, for example, in his epilogue quotes Bismarck to abjure determinism and to insist that the governments of states 'travelling on the stream of Time' may still 'steer with more or less experience.'⁵ And although in public appearances he has sometimes weakened and

3. Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton, NJ: Princeton University Press, 1984).

4. Susan Strange, *States and Markets* (New York: Basil Blackwell, 1988).

5. Paul Kennedy, *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000* (New York: Random House, 1987), p. 540.

pontificated confidently about international affairs, in his book he carefully plays the role of the nonpartisan historian, merely presenting his large body of data to the political scientists “concerned with the larger patterns of war and change in the international order” for them to analyze.⁶ Time and again, when the reader looks more closely at the small print, there is found to be more common ground between the school of decline and its opponents (like myself) than would at first appear. For instance, I am in entire agreement with David Calleo that it is important for good European–American relations and for the security of the European frontier that the Europeans should assume greater responsibility for their own defense.⁷ At the same time, I do not think this is made necessary by the declining ability of the United States to pay the costs, nor that it would necessarily result in such large savings on the U.S. defense budget. Rather, it is desirable because they can well afford it and because their present dependence on the Americans robs them of an independent voice on other matters of common concern.

Where I think we are all in agreement is on the critical nature of the present end-of-century decade. We share a common perception that mankind—and more particularly the governments it acknowledges as possessing the authority to make decisions—is standing at a fork in the road, at the end of a long stretch of comparative order and stability, and facing momentous choices in the way ahead. That is why there is shared concern to understand where we are now and how we got there and to seek in the lessons of history some guidance for future action. In the last resort, it may well be that this common concern is more significant than the differences of interpretation to which I now turn.

American Power

Paul Kennedy, in common with the rest of the decline school, starts from the age-old premise that “to be a great power demands a flourishing economic base.”⁸ Following Adam Smith the liberal, and

6. *Ibid.*, p. 536.

7. David P. Calleo, *Beyond American Hegemony: The Future of the Western Alliance* (New York: Basic Books, 1987). See also David P. Calleo, *The Imperious Economy* (Cambridge, MA: Harvard University Press, 1982).

8. Robert Gilpin, *The Political Economy of International Relations* (Princeton, NJ: Princeton University Press, 1987). See also Mancur Olson, *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities* (New Haven, CT: Yale University Press, 1982) and Robert O. Keohane, ed., *Neorealism and Its Critics* (New York: Columbia University Press, 1986).

Friedrich List the mercantilist, this is then interpreted to mean an economic base of manufacturing industry located within the territorial boundaries of the state. It is this interpretation of “a flourishing economic base” that is obsolete and therefore open to doubt. Smith and List are both long dead. More recent changes, noted by Peter Drucker,⁹ among others, in the character of the world economy throw doubt on whether it is manufacturing that is now most important in developing the sinews of war; and, whether it is location within the boundaries of the territory that matters most.

My contention (which should surely be sustained by the champions of American service industries) is that 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. Secondly, I contend that the location of productive capacity is far less important than 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. Is it more desirable that Americans should wear blue collars and mind the machines or that they should wear white collars and design, direct and finance the whole operation?

That is why all the figures so commonly trotted out about the U.S. share of world manufacturing capacity, or the declining U.S. share of world exports of manufactures are so misleading—*because they are territorially based*. Worse, they are irrelevant. What matters is the share of world output—of primary products, minerals and food and manufactured goods and services—that is under the direction of the executives of U.S. companies. That share can be U.S.-directed even if the enterprise directly responsible is only half owned by an American parent, and even, in some cases of technological dependence, where it is not owned at all but where the license to produce is granted or refused by people in the United States. The largest stock of foreign direct investments is still held by U.S. corporations—even though the figures are neither precise, complete nor comprehensive. The fact that the current outflow from Japan is greater than that from the United States merely means that the gap is narrowing. But the Japanese still have a long way to go to rival the extent of U.S. corporate operations in Europe, Latin America, Australasia, the Middle East and Africa, the assets of which are often valued at their historical prices not at their current values.

9. Peter F. Drucker, “The Changed World Economy,” *Foreign Affairs* 64, no. 4 (Spring 1986): 768–791.

U.S.-controlled enterprise outside the territorial United States is still growing very fast in new fields of technology like software services, biotechnology, medical products, data retrieval, environmental management or new basic materials. IBM is still unrivaled in its field and has stayed so by strategic agility in overcoming its rivals and imitators. Genentech is still the world's biggest biotechnology corporation and Cray Research is the largest producer of supercomputers. What these leading American companies have in common is that more of their output is produced outside the territorial United States than is produced inside it. For example, an estimate of middle-sized U.S. companies associated within the American Business Conference found that 80 percent of their revenues in 1986 came from production overseas, only 20 percent from exporting from the United States.¹⁰ Two conclusions were drawn from their success. One was that Jean-Jacques Servan Schreiber had been quite wrong in seeing the "American Challenge" to the rest of the world as coming from the giant corporations like ITT or General Electric.¹¹ Today, the challenge is more likely to come from relatively new and smaller American enterprises. The other conclusion was that trade figures are not the best measure of competitiveness and that it would be better to judge by corporate world market shares.¹²

In these terms, Japanese companies just now beginning to shift production to America, Europe and mainland Asia are only following the American lead—and the trade figures so eagerly (and wrongly) watched for indications of competitiveness will soon begin to show it.

At this point some people will object that when production moves away from the territory of the United States, the authority of the U.S. government is diminished. At the same time, the same people sometimes complain against the "invasion" of the United States by Japanese companies, as if "selling off the farm" is diminishing the authority of the United States government. Clearly, both cannot be right. Rather, both perceptions seem to me to be wrong. What is happening is that the American Empire is spilling out beyond the frontier and that the very insubstantial nature of frontiers where production is concerned just shows the consolidation of an entirely new kind of nonterritorial empire.

10. *Winning in the World Market* (Washington, DC: American Business Conference, 1987), p. 24.

11. Jean-Jacques Servan Schreiber, *Le Defi Americain* (Paris: Denoel, 1967).

12. "A Portrait of America's New Competitiveness," *The Economist* (4-10 June 1988): 57-58.

It is that nonterritorial empire that is really the “flourishing economic base” of U.S. power, not the goods and services produced within the United States. One obvious indication of this fact is that foreign central banks last year spent roughly \$140 billion supporting the exchange value of the dollar.¹³ Another is that Japanese and other foreign investors financed the lion’s share of the U.S. government’s budget deficit by buying U.S. government securities and investing in the United States. An empire that can command such resources hardly seems to be losing power. The fact that the United States is still the largest and richest (and mostly open) market for goods and services under one political authority means that all successful foreign companies will want to produce and sell there and will deem it prudent also to produce there, not simply to avoid protectionist barriers but in order to be close to the customers. And the worldwide reach of U.S.–controlled enterprises also means that the capacity of the United States to exercise extraterritorial influence and authority is also greater than that of any other government. If only for security reasons, the ability of Washington to tell U.S. companies in Japan what to do or not to do is immeasurably greater than the ability of Tokyo to tell Japanese companies in the United States what to do.

This points to another major fallacy in the decline school’s logic—its inattention to matters of security. The U.S. lead in the ability to make and deliver the means of nuclear destruction is the complement to its lead in influencing, through past investments overseas, the nature, modes and purposes of modern industrial production. Here, too, the gap may be narrowing as South Africa, Israel, India and others claim nuclear capability. Yet there is still no comparison between the military power of the United States to confer, deny or threaten the security of others with that of minor non-Communist states. That military power is now based far less on the capacity to manufacture nuclear weapons than on the capacity to recruit scientists, American or foreign, to keep ahead in design and invention, both offensive and defensive.

Historical Parallels

The decline school so far has succeeded in promoting the idea that history teaches that it is “normal” for great states and empires to

13. Bank for International Settlements, *58th Annual Report* (Basle: Bank for International Settlements, 1988), pp. 187–189. See also news brief on Swiss National Bank President Pierre Languetin’s statement, *Journal of Commerce* (22 February 1988): 7A.

decline, especially when they become militarily overextended;¹⁴ or else when they become socially and politically sclerotic, risk-averse and resistant to change¹⁵ or when they overindulge in foreign investment;¹⁶ and for any or all of these reasons when they lose preeminence in agricultural and industrial production, or in trade and military capability.¹⁷ In almost all this American literature on the rise and fall of empires, great attention and weight is characteristically (and for reasons of language and culture, perhaps understandably) given to the British experience. But the trouble with history, as the first great realist writer on international relations, E.H. Carr, rightly observed, is that it is necessarily selective—and that the historian selects facts as a fish shop selects fish, choosing some and discarding or overlooking others.¹⁸ In this debate, the historical analogy between Britain and America is particularly weak; and the other examples selected for consideration show a strong tendency to concentrate on the empires whose decline after the peaking of their power was more or less steady and never reversed.

First, it is not too difficult to show that what Britain and America have had in common—such as a tendency to invest heavily overseas—is much less important than all the differences that mark their experience. Britain's economic decline, beginning around the 1880s, was the result of a neglect of the then advanced technologies—notably in chemicals and engineering. This neglect reflected the weakness and low status of manufacturing industry in British politics and society—a social disdain such as American industry has never had to contend with. Even more important was the effect of two long debilitating wars on the British economy, by comparison with which the American experience of Vietnam was a flea bite. It is arguable that the British economy, dependent as it was on financial power, would not have suffered so great a setback if the whole international financial system on which it lived and prospered had not been twice destroyed—first in the Great War and then in the Second World War. The interwar period was too short—and policies were also ill-chosen—to allow a reversal of this British decline.

14. Kennedy, Calleo (1987).

15. Olson (1982).

16. Robert Gilpin, *U.S. Power and the Multinational Corporation* (New York: Basic Books, 1975) and Gilpin (1987).

17. Immanuel Wallerstein, *The Modern World System* (New York: Academic Press, 1974) and Immanuel Wallerstein, *The Capitalist World Economy* (New York: Cambridge University Press, 1979).

18. Edward Hallett Carr, *On History* (London: Macmillan, 1938).

Finally, there is the great difference between a small offshore island running a large territorial empire and a great continental power managing (or sometimes mismanaging) a large nonterritorial empire. The island state made the fatal mistake after the Second World War of relying on sheltered colonial and sterling area markets—with disastrous effects on the competitiveness of its export industries and even some of its old, established multinationals. The continental power's confidence in its ability to dominate an open world economy, plus the strong commitment to antitrust policies at home, has created no such weakening crutches for its major transnational corporations.

Secondly, any historical study of empires of the past fails to reveal any standard or uniform pattern of rise and fall. They are like trees. Some grow fast and fall suddenly without warning. Others grow slowly and decay very gradually, even making astonishing recoveries from shock or injury. One author, Michael Doyle, who has shared less in the media attention perhaps because his work lent itself less readily to deterministic interpretations, drew an important conclusion from an analytical survey of empires that included those of the ancient world as well as the later European ones. It is worth quoting:

The historical alternatives had divided between persistence, which necessitated imperial development in both the metropole and the periphery, and decline and fall. Persistence in an extensive empire required that the metropole cross the Augustan threshold to imperial bureaucracy, and perhaps became in effect an equal political partner with the metropole.¹⁹

In plainer language, what I interpret this to mean is that the empires that lasted longest were those that managed to build a political system suited to the administration of the empire out of one suited to managing the core. In addition, those empires that survived managed to blur the distinction between the ruling groups of the core and the participating allies and associates of the periphery. This is a notion closely related to Gramscian concepts of hegemony and explanations of the persistent strength of capitalist political economies.²⁰

Michael Doyle's attention to the Roman Empire, which was much longer-lived than any of the nineteenth century European empires, is important for the debate. This is so partly because there have been so many conflicting interpretations of its decline, from Edward Gibbon and Thomas Macaulay to Joseph Schumpeter and

19. Michael Doyle, *Empires* (Ithaca, NY: Cornell University Press, 1986), p. 353.

20. Robert W. Cox, *Production, Power and World Order* (New York: Columbia University Press, 1987).

Max Weber, and partly because most historians seem to agree that it passed through periods of regeneration and reform before it finally broke up in disorder. Michael Mann, for instance, recently identified one such period of reform and regeneration in the twenty years after the accession of Septimus Severus in AD 193:

Severus began withdrawing crack legions from the frontiers to mobile reserve positions, replacing them at the frontier with a settler militia. This was a more defensive, less confident posture. It also cost more, and so he attempted financial reform, abolishing tax farming and the tax exemption of Rome and Italy.²¹

This comment by a sociologist is interesting because it focuses on two important elements of power in imperial states: relations with key groups in the periphery, and the fiscal system by which unavoidable imperial expenditures are financed. When we consider the future of the American Empire, we find that these two issues are once again crucial to the outcome between Doyle's two alternatives—persistence or decline. Mann describes the Roman Empire as a “legionary empire,” indicating that the role and character of the legions were important in explaining Roman power.

I would argue that America's “legions,” in the integrated financial and production economy of today's world, are not military but economic. They are the corporate enterprises on which the military depends—as President Dwight Eisenhower foresaw in talking about the military-industrial complex. The American Empire in sociological terms therefore could be described as a “corporation empire” in which the culture and interests of the corporations are sustained by an imperial bureaucracy. But this bureaucracy, largely set up after the Second World War, was not simply a national American one based in Washington, D.C. A large and important part of it was and is multinational and works through the major international economic organizations such as the International Monetary Fund (IMF), the World Bank, the Organization for Economic Cooperation and Development (OECD) in Paris and the General Agreement on Tariffs and Trade (GATT) in Geneva.

The other feature of the Roman Empire that I believe is relevant to the current debate is that citizenship was not a matter of domicile, and that there were gradations of civil and political rights and responsibilities, ranging from slaves to senators, which did not depend

21. Michael Mann, *The Sources of Social Power, Volume One* (New York: Cambridge University Press, 1986).

on what we, today, understand by “nationality,” indicated by possession or nonpossession of a passport. If we can once escape the corset-like intellectual constraints of the conventional study of international relations and liberate our minds to ask new questions we begin to see new things about America’s nonterritorial empire. Here, too, citizenship is becoming much more complex and graded than it used to be. The managers of U.S. corporations, in Brazil, for example, may hold Brazilian and not U.S. passports. But they are free to come and go with indefinite visas into the United States and they often exercise considerable delegated power in the running of U.S.-directed enterprises vital to the Brazilian economy. Participation in the cultural empire depends not on passports but on competence in the American language and in many cases participation in U.S.-based professional organizations—like the International Studies Association for example. Similarly, participation in America’s financial empire depends on the possession and use of U.S. dollars and dollar-denominated assets and the ability to compete with U.S. banks and in U.S. financial markets.

Rather like a chrysalis in the metamorphosis from caterpillar to butterfly, the American Empire today combines features of a national-exclusive past with features of a transnational-extensive future. In military matters, it is still narrowly exclusive—though where advanced technology is concerned, even that is changing. Certainly, in financial and cultural matters, the distinction between first-class, passport-holding citizens and second-class, non-passport-holding participants is increasingly blurred. The peripheral allies have been unconsciously recruited into the American Empire.

This is why it is important for the current debate not to think that the mine of imperial histories has been finally and totally exhausted by Paul Kennedy, Mancur Olson and company. The variety of forms in which empires of the past have handled the personal identity question (citizenship), the territorial limit-of-authority question and the ideological conformity question calls for a lot more careful scholarly work. For instance, not so much has been done on the Austro-Hungarian empire of the nineteenth century, which lasted surprisingly long considering its backward economy. A comparison of the Napoleonic empire, which was militarily based and heavily hegemonic, with the Venetian empire so beloved of John Ruskin might be instructive. For while the one was ideological and comparatively short-lived, the Serenissima, being commercially based, was from the first strikingly nonideological and permissive in its dealing with Islamic infidels—and like the late Hapsburg empire surprisingly long-lived. One obvious feature of the American Empire, like that of Venice, has been that

despite the political rhetoric on the subject of liberty, democracy and free trade, its governments have been remarkably unfussy on all three counts in their choice of allies and associates.

Power and Systemic Disorder

The third proposition of the decline school has been the one under longest discussion among scholars in international relations. Over most of the past decade, the lead in these discussions has been taken by specialists in the study of international organizations (for example, Joseph Nye, Robert Keohane, John Ruggie and Ernst Haas). It seems to me that they share a wishful reluctance to admit that international organizations, when they are not simply adaptive mechanisms through which states respond to technical change, are either the strategic instruments of national policies and interests, or else merely symbolic gestures toward a desired but unattainable world government. This reluctance to admit the inherent limitations of international organizations leads them subconsciously to the conclusion that it must be hegemonic decline that is the cause of economic instability and disorder and the coincident erosion of earlier international regimes.

This is a proposition that does not stand up well either to the record of recent international economic history or to structural analysis of power in the international political economy. I do not want to repeat myself, but *Casino Capitalism* was an attempt to show two things (among others): there were more ways than one of interpreting recent developments in the international monetary and financial system; and, these developments of the last fifteen years or so could be traced to a series of crucial (and mostly permissive) decisions by governments. Hence, the precarious and unstable state of the global financial structure—which has already been dramatically demonstrated once and probably will be so again—was no fortuitous accident of fate or history.²²

Since that book was written, I find confirmation that it was not a decline of American power but rather a series of American managerial decisions of dubious wisdom that accounts quite adequately for financial and monetary disorder, without any need to adduce the decline of American hegemonic power. Not only is this the theme of David

22. Susan Strange, *Casino Capitalism* (New York: Basil Blackwell, 1986).

Calleo's *The Imperious Economy*,²³ it is also to be found buried in the text of Robert Gilpin's chapters on international money and finance:

Beginning with the Vietnam war and continuing into the Reagan Administration, the United States had become more of a "predatory hegemon" to use John Conybeare's terms (1985), less willing to subordinate its own interests to those of its allies; instead it tended more and more to exploit its hegemonic status for its own narrowly defined purposes.²⁴

Gilpin repeats the point twenty pages later, adding: "Most of the troubles of the world economy in the 1980s have been caused by this shift in American policy."²⁵

It will not escape careful students of this important text that Gilpin's historical analysis, and the use of the word "mismanagement" with reference to American domestic and foreign financial policy, fundamentally contradicts his concluding thesis that a stable and prosperous world economy in the future calls for an American-Japanese condominium because of lost American hegemony.²⁶

Similarly, *States and Markets* extends the definition of international political economy beyond the conventional politics of international economic relations to ask more basic who-gets-what questions.²⁷ In that volume I find that a structural analysis of the basic issues in any political economy, when applied to the world system, strongly suggests that on balance American structural power may actually have increased in recent decades. It has done so through four interlocking structures. These structures concern the power conferred by the ability to offer, withhold or threaten security (the security structure); the ability to offer, withhold or demand credit (the financial structure); the ability to determine the locus, mode and content of wealth-creating activity (the production structure); and, not least, the ability to influence ideas and beliefs and therefore the kind of knowledge socially prized and sought after, and to control (and, through language, to influence) access to and communication of that knowledge (the knowledge structure).

Such a structural analysis suggests the existence under predominant American power and influence of an empire the likes of which the world has never seen before, a nonterritorial empire, whose only

23. Calleo (1982).

24. Gilpin (1987), p. 345.

25. *Ibid.*, p. 365.

26. *Ibid.*, p. 339.

27. Strange (1988).

borders are the frontiers of the socialist great powers and their allies. It is not, in fact, such an eccentric idea. Two former U.S. secretaries of state recently wrote:

Far into the future, the United States will have the world's largest and most innovative economy, and will remain a nuclear superpower, a cultural and intellectual leader, a model democracy and a society that provides exceptionally well for its citizens.²⁸

What, Then, Must Be Done?

The power Henry Kissinger and Cyrus Vance describe is structural power. The objectives they advocate for the guidance of the next president lie not only in the field of foreign policy but in the political changes they judge necessary for the better management of the world economy and, consequently, for the creation of a more secure base for long-term U.S. national interests. Specifically, they mention a more efficient, trustful and well-defined relationship between the Congress and the White House, and a clearer definition, and limitation, of the role of the media in shaping U.S. policies at home and abroad. Such recommendations may suggest to the historian a transition to an Augustan system relying more on a career bureaucracy and less on the vagaries of party politics. The same point has been cogently made by Paul Volcker, speaking as chairman of the National Commission on the Public Service.²⁹

Curiously, perhaps, rather similar conclusions are to be found in the recent study by a Japanese journalist/scholar, Yoichi Funabashi, of international efforts at exchange rate management and policy coordination between the United States, Japan and the European Community (EC).³⁰ He suggests a greater and more responsible role in policy-making for the major committees in both houses of Congress—in other words, a more structured and formalized process of bipartisan decision making on crucial issues of trade and finance.

It seems that those individuals whose past professional experience in government or as informed observers best qualify them to judge do not share the enthusiasm for “international policy coordination” that

28. Henry Kissinger and Cyrus Vance, “Bipartisan Objectives for American Foreign Policy,” *Foreign Affairs* 66, no. 5 (Summer 1988): 899-921.

29. Paul Volcker, *Public Service: The Quiet Crisis* (Washington, DC: American Enterprise Institute, 1988).

30. Yoichi Funabashi, *Managing the Dollar: From the Plaza to the Louvre* (Washington, DC: Institute for International Economics, 1988).

has recently overwhelmed so many professional economists and some publicists. Summit meetings without long and careful preparation by officials, and Group of Seven market interventions without visible changes in economic management are not the answer. At this critical juncture in world affairs, the United States as hegemonic power has, as usual, to take the lead.

In the past two years or so, the Japanese have been conducting among themselves a lively and sometimes quite heated debate on their "identity," i.e., their role in the international political economy. According to Chalmers Johnson and others, despite some discussion of the possibilities of "Pax Nipponica" replacing Pax Americana (just as that in turn replaced Pax Britannica), such an outcome is not seen by most Japanese as lying within the realm of practical politics, if only because of the exclusivity of Japanese culture and the difficulties others have with the Japanese language.³¹ Nor, because of the disordered and unstable state of world trade and finance, is muddling through on the basis of the status quo a very practical or desirable alternative.³² A third option, "Pax Consortis" (the Japanese term for international policy coordination) has turned out to be more difficult to achieve than it sounds; "many meetings but little Pax," in Johnson's words.³³ Interest is, therefore, growing in the possibilities and nature of a joint U.S.–Japan hegemony. It does not mean splitting the world economy into three economic blocs, as in the 1930s. The economies of North America, Japan and Europe are far too closely intertwined with one another today to allow that. Nor, in the considered opinion of several influential elder statesmen in Japan, does it mean an equal balance of power between the United States and Japan. Naohiro Amaya, a former vice-minister at the Ministry of International Trade and Industry (MITI), for instance, calls it a "Pax Ameripponica," but adds that "if it were a company the United States would be president and Japan vice-president."³⁴ He does not think the opposite is possible.

What this implies, it seems to me, is that reforms should be set in motion that would create between the United States and Japan—now the world's major creditor and banker—the same sort of symbiotic

31. Chalmers Johnson, "The End of American Hegemony and the Future of Japanese–American Relations," unpublished manuscript (Cambridge, UK: 1988).

32. Theodore Geiger, *The Future of the International System* (Boston, MA: Allen & Unwin, 1988).

33. Chalmers Johnson (1988).

34. Naohiro Amaya, "America in Decline?" *Look Japan* (May 1988): 6.

relationship between senior and junior partner that the Americans developed with the British before, during and after the Second World War. Leadership—a term Charles Kindleberger, who started the whole hegemonic stability debate, has always used in preference to hegemony—rests with America.³⁵ But there has to be something more in it than there is now for Japan. And Americans have to make more strenuous efforts than they have made so far to tackle the dilemma of their two deficits—the budget deficit and the trade deficit. Unless they look as if they mean to do so, the sustaining flow of capital out of Japan into the United States is going to look precarious, inducing uncertainty and continuing volatility in exchange rates and interest rates. The markets will react accordingly. Consequently, not only must fat be cut out of the U.S. defense budget—at home as well as in Europe and the Middle East—something must also be done to encourage savings in place of the unremitting consumerism characteristic of the United States and some parts of its nonterritorial empire. Long-term assets underwritten in a basket of currencies and tax concessions for small savers are the sorts of policy instruments that need examination.

“New Deals” are needed internationally and not just nationally as in the 1930s. A New Deal with Japan would give better long-term assurance of financial support for the expenses of empire in return for more generous power sharing in organizations like the IMF, the World Bank, the OECD and the regional development banks in Asia and Latin America. A New Deal with Europe would exchange increased financial responsibility for the costs of NATO for “Europeanization” (Calleo’s term) of its command structure and some role, even if a minor consultative one, in arms control negotiations with the Soviet Union when they affect Europe. A New Deal for Latin America—in some ways the most solid part of the American empire—would take up the Japanese proposal, brushed too contemptuously aside at the Toronto summit, for a long-term solution of its chronic debt problems, in return perhaps for some commitments to liberalize trade and secure investments.³⁶

35. See, for example, Charles P. Kindleberger, “Systems of International Economic Organization,” in David P. Calleo, ed., *Money and the Coming World Order* (New York: New York University Press, 1977), pp. 15–39.

36. Since writing the above, I have found much concurrence of view in the Cuomo Commission’s thoughtful report, *A New American Formula for a Strong Economy*. This stresses the interdependence of successful national economic regeneration with purposeful American policy initiatives on international trade and finance. See Cuomo Commission on Trade and Competitiveness, *The Cuomo Commission Report: A New American Formula for a Strong Economy* (New York: Touchstone/Simon & Schuster, 1988).

New Deals, however, do not drop like manna from heaven. They do not come about without political vision and inspiration, or without hard intellectual effort to find the sustaining optimal bargain. Optimal bargains are those that last because they go some way to satisfy the needs and aspirations of the governed as well as those of the governors. Only then can the power of those in charge of empires (as of states, local party machines or labor unions) be sustained over the long run. The next four years will show not only Americans but the rest of us who live and work in the American Empire whether the defeatist gloom of the school of decline can be dissipated. They will show whether the necessary vision can still be found in the White House for a series of global New Deals and whether the necessary intellectual effort to design and negotiate them will be generated not only in the bureaucracies, national and international, but in the universities and research institutes of all our countries.