Power, the State and Global Politics After the Great Freeze: Towards a New Articulation?

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INTRODUCTION

In the social sciences, scholarly disciplines can be prompted to re-evaluate the analytical traction of their central concepts by abrupt changes in how the object of their scholarship is organized. The disciplines of International Relations (IR) and International Political Economy (IPE) have long faced such pressure. For example, some see the interwar years and the Great Depression as the precursor not only to the empirical development of American hegemony, but also as a key spur to the emergence of realism as a central method of apprehending power (Carr, 1946; Schmidt, 1998; Cox, 2000). Several decades later, scholars took the breakdown of the Bretton Woods system as a prompt both to re-evaluate the utility of realism as a theoretical lens for IR and IPE, and as a signal that the post-war structure of the global political economy was itself entering a period of 'after hegemony', to use the title of a significant text from that era (Keohane and Nye, 1977; Keohane, 1984). This last debate over American decline of power was seemingly resolved in the closing years of the 20th century, amid the aftermath of the end of the Cold War, the collapse of the Soviet Union and the re-assertion of American power (Cox, 2001). The uni-polar era had arrived even as governance was becoming increasingly globalized (Scholte, 2000; Ikenberry, Mastanduno and Wohlforth, 2009).

The financial crisis of 2007-2009 has brought this paradoxical resolution into question. The central features of the crisis include both domestic and international dynamics: regulatory failure among leading

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financial powers (most critically the United States (U.S.) but others as well); financial innovation among banks, investment banks and non-bank financial institutions that built up significant systemic risk; macro-economic imbalances at the global level that included trade and capital account disequilibria alongside currency misalignments; inappropriate monetary policies; high sovereign debt loads; and ultimately massive institutional failure. I have elsewhere labelled this crisis the Great Freeze, because one of its principal consequences was a steady constriction of credit markets from the summer of 2007 that ultimately resulted in a near total blockage–or flash freeze–after Lehman Brothers went bust in September 2008 (Germain, 2010). The twelve months following this spectacular bankruptcy saw the harshest contraction of global economic activity since the worst days of the Great Depression. Indeed, 2009 is the only year since 1945 that the global economy as a whole has been in recession (IMF, 2009).

This article uses this crisis as the occasion to explore the changing global articulation of power. Power in IR and IPE is usually viewed in relational terms, as the ability to effect change in actor's behaviour, where actor A gets actor B to do what it might not otherwise would (Baldwin, 2002; Schmidt, 2005). Power here is understood as the capacity–derived most often from control over material capabilities that translate into instruments of pressure–of one actor to influence (directly or indirectly) the decisions of another actor. In contrast, I deploy an understanding of power that is more structural in orientation, derived from the work of Susan Strange, who argues that it is the structural determinants of power that are more important to understand than the relational determinants (Strange, 1988b). On this basis, Strange disagreed with those who, in the mid-1980s, viewed the global political economy to be entering a period marked by American decline (Strange, 1987).

The argument I advance below takes it cue from her framework to argue that the new global articulation of power suggested by the Great Freeze is both highly fluid and relatively opaque or ambiguous. This is so because even as some key structural determinants of power have become hollowed out, other elements remain intact while yet more have yet to emerge fully. The result will be a period of struggle waged around and through the principal organizational pillars of the global political economy for control over the very foundations of political order. The outcome of this struggle will not be resolved any time soon.

POWER, THE STATE AND GLOBAL POLITICS

The idea that we can measure power in global politics has long been attractive to scholars, even as they have acknowledged the immense difficulties of the task (Knorr, 1975; Kirshner, 1995; Hardt and Negri, 2000; Andrews, 2006). Here I wish to follow the British IPE scholar Susan Strange in asking how changes in the structural determinants of power help us to understand select contemporary trends. Strange developed her understanding of power against prevailing views, largely American in origin, that saw in the 1980s a sharp and steep decline in the ability of the U.S. to shape the international economic order. At the time, IR and IPE scholars were concerned primarily with the ability of the U.S. to compel its long-time allies to follow American preferences and accommodate themselves to American interests as they had for much of the Bretton Woods period. From across the theoretical spectrum, this was most often articulated as the erosion of international regimes, whose main cause was a decline in American power (Block ,1977; Gilpin, 1981; Krasner, 1983).

In contrast, Strange argued that such measurements of American power were at the very least inaccurate, and at worst entirely misleading (Strange, 1983; 1987). She noted that even as the share of American gross domestic product (GDP) in relation to global GDP had declined, the control of American corporations over key international markets remained high and was even (in certain industries such as services) growing. For Strange, the key question was not the weight of the American economy in the global economy, but the control exerted by American corporations and lawmakers over global markets (Strange, 1988; cf Nizan and Bichler, 2009). Here she pointed out that this control was not under threat from global competition; in fact, global competition was defined and shaped inexorably by the demands, preferences and resources of American corporations. In short, the structure of global competition was determined (or controlled) by American interests, even if these interests were themselves no longer expressly related to the territorial borders of the U.S. She sometimes styled these interests in the form of a 'Transnational' or 'American' empire' (Strange, 1988b; 1989). It was this structural capacity to control the global economic agenda which counted in the power sweepstakes, not where widgets were actually produced. And such power at its heart was constituted by a complicated amalgam of public and private authority.

At one level, for Strange, the global articulation of power in the 1980s was constituted by an iron triangle of inordinate (American) military power, an inter-state system that refracted and radiated America's governmental power throughout its most important elements, and the dominance of an ideational framework that privileged American principles and ideals. Here Strange disagreed with two of the strongest proponents of the argument that America was no longer ascendant. From a realist perspective, Robert Gilpin argued that American power, measured as its ability to compel its allies to make contributions to the *Pax Americana*, was in terminal decline (Gilpin, 1981). And from a critical historical materialist perspective, Robert Cox argued that the U.S. was no longer able to direct a hegemonic structure of world order (Cox, 1987). Both Gilpin and Cox, albeit for quite different reasons, pointed to the inability of the U.S. to fashion consensus or accommodate its allies' needs as part of the negotiations necessary to maintain a benevolent (from an American point of view) global economic system. For them, a neo-liberal (or hyper-liberal, to use the term initially coined by Cox) world signalled the end of American dominance.

Strange had a different answer to the question of American decline, relying instead on a careful distinction between relational and structural power. Relational power was of course above all about the U.S. being able to coerce or compel its allies and competitors to undertake particular courses of action. Here she acknowledged that this form of power waxed and waned with global economic circumstances, and was entirely dependent upon very specific and particular contexts. On this reading, from the early 1970s until the late 1980s it did appear that U.S. relational power was in retreat. The instrumental capacity of the U.S. to exert its willpower seemed to have eroded, or at the very least to be under severe stress.[2]

However, what was significant for Strange's counter-intuitive analysis was the capacity of some states to set the rules by which others would have to play the 'great power' game. In other words, for Strange the key to understanding who actually 'had' power lay not in determining who could prevail in specific decisions, but who could set the rules by which such decisions were made in the first place (Strange, 1988b). In her estimation at the time, it was still American political leaders who had it within their grasp to provide such leadership. Even though not all decisions went America's way, they were made under American rules that reflected American interests. This social fact also called attention to the global reach of American domestic political conflicts, which had a disproportionate impact on international regulatory developments. Beyond

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[2] For Strange, however, this decline in relational power was predominantly caused by U.S. domestic politics, by an inability on the part of the American political system to organize itself effectively so as to project and use its (structural) power appropriately (Strange, 1987).

this, there were also some decisions that were simply not taken because the U.S. in effect blocked the way; such 'non-decisions' as she called them were also the product of American structural power (Strange, 1986).

In Strange's view, this ability to set the rules derived from several sources, some public or state-centred and some centred more in the operation of the (capitalist) economic system. The American state still maintained a considerable military edge over its closest rivals, which was bolstered by the continued reluctance of European states to devote adequate resources to defending themselves. But equally importantly, American corporations continued to dominate transnational production systems, which were a principal source of high value profits. The superior innovative capacities of these firms, bolstered by state-sponsored military research, bestowed onto certain segments of America's 'private' economy an unalloyed competitive advantage. As well, American ideas about how to organize economic activity (and its associated set of political values and ideals) complemented these advantages, and held a global appeal. And finally, and for her critically, the U.S. (through its government, its markets and its private institutions) had a lock-grip over the organization and operation of the world's monetary and financial system (Strange, 1987; 1988; cf May, 1996). For Strange, all that was required for America to actually exercise its structural power was a willingness to act politically in a manner congruent with its underlying power capacities.[3]

This understanding of power ties together the capacity of the state with the operation of private institutions and the inter-state system to provide for Strange a structural reading that suggests where power actually resides in the global political economy. Because power is about the capacity to decide agendas, it is not directly related to the ability of A to compel B to undertake a particular course of action; rather, it is related to the context of agency, which has two levels: (1) the capacity of A to convince B that its menu of choice involves X, Y and Z and nothing else; and (2) the capacity of A to influence this menu of choice either directly, through its own ability to compel the acceptance of the menu, or indirectly, because the majority of the elements of the menu remain in a dependent relationship to A. This kind of power, which she called structural power, belonged as a property to the U.S. throughout the period of supposed American decline.

To highlight the exercise of such power, Strange (1988b) considered the example of the international debt crisis of the early 1980s, when several countries ran into significant debt repayment problems. Instruc-

3 By the end of her life, Strange had finally concluded that the U.S. was in fact unwilling to act in a manner congruent with its own 'structural' interests (Strange, 1998).

tively for her, only those countries with close ties to the U.S. were able to work towards a resolution that involved creditors booking losses on their assets within the framework of an overall IMF-sanctioned debt recovery scheme. Crucially, it was the U.S. which was able to dictate these rules of engagement, and it was these rules which all indebted countries had to follow if they wanted debt relief on a multilateral scale. American power here was omnipresent but structural, reflecting its pole position within the inter-state system rather than a calculated exploitation of its own instrumental power.

Strange's view of structural power–and indeed power in general–is not of course without problems, many of which are connected to her idiosyncratic view of theory in IR and IPE. Some of these are noted in a volume dedicated to engaging with the corpus and legacy of her work (Lawton, Rosenau and Verdun, 2000). We could, for example, take her to task for developing taxonomies rather than theoretical insights (Cohen, 2000); for not working through the tension in her work between materialism and idealism (Guzzini, 2000); for failing to overcome the *de facto* analytical barriers between economics and politics (Cutler, 2000); and for refusing to socialize adequately her fundamentally empiricist reading of knowledge, ideology and ultimately power itself (Tooze, 2000). What these critiques of Strange's view on power suggest is that she offers an insightful but yet truncated conception of power, which only partially connects the foundations of power to the way in which it is exercised. Most importantly, Strange seems oddly reluctant to reflect theoretically on her insights, and determined to restrict her theoretical reflections to the terrain of empirical falsification. This is perhaps due to her ambiguous acceptance of the place of positivism within the social sciences, and to her ultimate unwillingness to modify its evidence-based evaluative precepts (May, 1996; Palan, 1999; Cutler, 2000; Tooze, 2000).

Even with these caveats, however, her conception of structural power offers a useful framework to consider how the global articulation of power has been affected by the Great Freeze. This is because it directs our attention to two key developments: (1) the changing role of the state in regulating financial markets; and (2) the rise of emerging market economies and their new role in setting the agenda of global economic decision-making. On both counts, what emerges from such a consideration is a recognition that established patterns of decision-making are unravelling, even if new patterns have yet to be firmly established. Each development will be reviewed below.

POWER AND THE STATE: FINANCIAL REGULATION

The key authorities involved in global financial regulation are American and European officials together with their counterparts in international regulatory institutions. This should not be surprising, as historically these states sit astride the world's deepest and most liquid financial markets. What is noteworthy from the perspective of considering the effects of the Great Freeze is to observe how systematically these states are moving forward to intervene more forcefully in the operation of financial markets under their jurisdiction. States are renewing their authority to set the agenda of global finance.

In the U.S., two major directions of change are developing: in the organization and logic of supervision; and in the range and extent of supervision. Each of these regulatory changes will increase the degree of state intervention in its financial system, and thereby encourage other states to intervene more forcefully in their financial systems. The first major change concerns the organization of financial supervision and in particular the question of whether such supervision should be sectoral or unified in scope and scale. While the U.S. may be an extreme case with its plethora of financial regulatory bodies, the logic of sectoral supervision has a considerable historical record (Russell, 2008).[4] The Great Freeze has brought into sharp relief how problematic such a fragmented regulatory apparatus is when set within the context of an integrated set of financial markets.

Here the Great Freeze has unquestionably tipped the balance in favour of a more strongly unified supervisory framework. In the U.S., the Obama Administration's efforts to recalibrate U.S. financial regulation have resulted in the passage of the Dodd-Frank bill, which among other things identifies the Federal Reserve Board (Fed) as the principal overseer of systemic risk. A combined council of regulators will further close many of the remaining gaps within the U.S. system. Equally important are new powers given to regulators to wind-up insolvent firms, and to compel banks to limit or restrict their proprietary treading units under the so-called Volcker Rule. This rule prescribes how banks are to capitalize their special investment vehicles, and how much they are allowed

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4 Financial markets have historically been differentiated by the kinds of instruments that comprise them and their institutional makeup. Regulation has evolved in line with how these markets operate and what kinds of products they generate. This has traditionally been understood in terms of key pillars, most importantly banking, equities, insurance and pensions. Almost everywhere each pillar has spawned its own regulatory apparatus, together with a few more recent developments such as organized futures markets. See Germain (2010) and Porter (2005) for an historical account.

to invest in hedge funds and private equity firms. Together with the vetting powers which the new Consumer Protection Agency will have for financial instruments, the Dodd-Frank bill will push the government to cast a much heavier footprint over the organization and operation of the American financial system.[5]

A heavier footprint is also taking shape in Europe, where British and E.U. authorities are moving to give the state a much stronger presence within their respective financial systems. In the U.K., a major reorganization of financial supervision has been undertaken to strip the Financial Services Authority of its supervisory role and to relocate it within the Bank of England.[6] This has been further supported by the recommendations made by an independent commission struck by the new British government to examine how to strengthen the British financial system in light of the Great Freeze (*Economist* 2011: April 16th–22nd). This commission–known as the Vickers' Commission–has recommended that British banks organize themselves to insulate or ring fence their domestic U.K. retail arms from their investment and commercial banking operations. In other words, the (British) state looks set to intervene more forcefully in how financial institutions active in the U.K. are actually run. Similar albeit weaker trajectories are underway in the E.U.[7]

Of course, none of these developments have yet to be fully implemented as of the time of writing of this manuscript, and there are some who doubt that their impact will be as argued here. Such scepti-

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5 Other provisions in the 'Wall Street Reform and Consumer Protection Act' include bringing all major financial institutions–whether bank or non-bank–within the purview of federal regulation, more closely regulating derivatives trading and hedge funds, limiting the proprietary trading prerogatives of banks, and providing the federal government with a more clearly specified way of closing down insolvent financial institutions. See http://www.opencongress.org/bill/111-h4173/show (accessed August 6th, 2010).

6 Among the proposals published by the British government in July 2010 were to return both macro- and micro- prudential supervisory responsibilities to the Bank of England, and to create a new consumer protection agency to absorb the institutional responsibilities of the Financial Services Authority (which will effectively be gutted). These proposals arise out of the Turner Review–the official enquiry into how the UK's supervisory arrangements failed to contain the fallout from the Great Freeze–as well as the political preferences of the Conservative and Liberal-Democrat partners in the new coalition government. See http://www.fsa.gov.uk/pubs/other/turner_review.pdf (accessed May 04, 2009) and http://www.hm-treasury.gov.uk/consult_financial_regulation.htm (accessed August 06, 2010).

7 The E.U. struck a high-level committee to examine the crisis and how to respond to it, chaired by Jacques de Larosière, a former Managing Director of the IMF who also played a leading role in preparing the E.U. for monetary union. In addition to proposing E.U.-wide risk and supervisory councils, this panel recommended reviewing accounting standards and Basel II (especially its capital adequacy requirements), tighter regulation of derivatives trading and the shadow banking system, and the harmonization of deposit insurance schemes on an E.U.-wide basis. See http://ec.europa.eu/internal_market/finances/docs/de_larosiere_report_en.pdf (accessed on July 29, 2009).

cism however should be treated with caution, for two reasons. First, across Europe and the U.S., banks have been recapitalized and are being forced to hold much more capital in relation to their lending and proprietary operations than prior to 2008. Swiss banks, for example, are being compelled by their government to hold nearly 20% capital buffers whereas prior to 2008 they were capitalized at nearer to 7%.[8] The British and Dutch governments are arguing strenuously with the E.U. that they should be allowed to impose higher capital requirements than the new Basel III rules. Here, minimum Tier 1 capital ratios are being raised from a pre-crisis requirement of 4% to at least 7%, with a further tranche of easily accessible capital at 3%. Furthermore, somewhere between 20 and 30 globally-active financial institutions are about to be categorized by the Basel Committee on Banking Supervision as ‘Systemically Important Financial Institutions’, or SIFIs, which will need to hold extra capital buffers above and beyond normal operating guidelines of between 1.5-2.5%, due to their perceived systemic importance. No one should doubt that increased capital ratios, which influence how much banks can lend, are on the way, and that these will have an impact on banking operations. It is through the mechanism of increased capital ratios that major banks are having their activities more closely supervised, and similar consequences are in train for other regulatory developments.[9]

The second reason why sceptics should be cautious relates to the politics of financial regulation. For much of the post-war period, financial regulation in the rich economies has been debated and conducted in a kind of segregated, insulated bubble, removed for the most part from popular (and democratic) pressures (Helleiner, 1994; Strange, 1998; Porter, 2005; Wood, 2005; Germain, 2010). This is no longer the case. From the Tea Party phenomenon in the U.S. to the role played by populist and nationalist political parties in Scandinavia in addressing the 2010-2011 European debt crisis to the refusal of Icelandic voters to sanction an IMF bailout, financial supervision and the politics of finance have moved to centre stage in national politics. And while this development has yet to fully play itself out, all indications are that the relatively insulated nature of financial politics has for the moment become impossible to maintain (Thirkwell-White, 2009).

8 See http://online.wsj.com/article/SB10001424052748704631504575531222507779044.html (accessed October 15, 2010).

9 A summary of the Basel III can be found at http://www.bis.org/press/p100912.htm (accessed October 15, 2010).

And yet a word of caution is in order. The state that is at the centre of this reassertion of authority is not itself entirely distinct from private authority. In all three jurisdictions examined here, private financial institutions have over the 1990s won a strengthened degree of involvement in the debate over how the financial system should be regulated. In the U.S. this is because of the porous and fragmented nature of the American political system, which has long been open to lobbying efforts from private firms. In the U.K. this is because of the historic ties between the City, the Exchequer and the Bank of England, and the single-minded determination of successive governments to maintain London's role as a leading international financial centre. And in the E.U., although the influence of the private sector is not as strong as in the U.S. or U.K., it has grown over the years due to the sheer increase in the weight of financial affairs in the overall economy of Europe, as well as the organizational efforts of Europe's leading banks to lobby on their own behalf in Brussels (Underhill and Zhang, 2008; King and Sinclair, 2003). Geoffrey Underhill (2000) is surely correct to note that there is a growing *condominium* between state and market in today's global political economy.

Here, it is helpful to follow Susan Strange's understanding of the intimate relationship between public and private forms of authority, as she recognizes that this relationship is part of a continuum whose balance changes over time. In her last major publication, she argued that markets and private authority had outrun state authority to the point where only an almost complete collapse of confidence in the capacity of private authority to effectively organize global finance could catalyze state authorities to reassert their traditional grip on financial systems (Strange, 1998, p. 190). This collapse came upon us in 2008, when it fell to public authorities alone to stem the tide, which was estimated by one respected analyst to cost nearly US$14 trillion (Haldane and Alessandri, 2009). So, while the precise nature of the new balance between public and private authority has yet to be stabilized, there should be no questions about the direction of change: in each of the world's major financial markets, the role of the state is being up-scaled, with the result that state authority is being re-articulated to exert more structural power over how financial markets are organized. We may say that the agenda-setting capacity of the state has been re-asserted over financial markets, even if this reassertion is uneven and subject to private sector push-back.

POWER AND THE STATE SYSTEM: EMERGING MARKET ECONOMIES AND THE BALANCE OF POWER

Many scholars and commentators have observed that global politics, understood primarily through the lens of the inter-state system, has been in a period of transformation (e.g. Jacques, 2009; Halliday, 2009). On the debit side of this ledger is the weakening grip of western powers, symbolized by the economic troubles of the U.S. On the credit side of this ledger are the emerging market economies, symbolized most importantly by the rise of the BRIC countries but including other non-G7 countries whose economies and international profiles have been growing rapidly. For these countries the early years of the 21st century have at last brought dynamic economic growth and public sector reform that has enabled them to acquire the material vestiges of real power: their economies have hummed; their trade has skyrocketed; their companies have gone global; their reserves have been bolstered; and their armies have become better equipped. In short, enough emerging market and other non-G-7 economies have grown in relation to the historically-powerful countries that talk of a new and emerging international balance of power is warranted.

Following from our earlier analysis, however, we can ask whether scholars are not committing the same analytical error that Strange reprimanded her peers for making over two decades ago? A critical example is the accumulation of international reserves by the BRIC countries, which is often considered a key barometer of the growing power of emerging market economies. For Strange, this would be a clear example of how structural power works, because the stockpiling of foreign currency reserves denominated in U.S. dollars confirms three important features of American structural power: (1) America still has the world's confidence as the pre-eminent provider of global liquidity; (2) there are at this time no serious rivals to accumulating and using U.S. dollars as an international reserve currency, even if those accumulating such reserves complain about the injustice of it; and (3) whereas BRIC and other countries have to *earn* their liquidity (which are what such reserves represent), America can simply *create* its liquidity. It is hard to think of a better indicator of structural power than this, what Strange (1987, p. 569) in her own time called *super-exorbitant privilege*.

Nevertheless, since 2009 Chinese officials (often but not always supported by other BRIC countries) have stepped up calls for the development of a non-dollar-denominated international reserve currency unit. What would be needed for such a development to occur? On the government side, it would require holders of large dollar-denominated reserves to make their own currencies completely convertible in order to allow for their use abroad as trade and investment vehicles. In other words, emerging market economies such as China, Russia, India and Brazil need to liberalize their current and capital accounts to the point where others will have the necessary confidence to diversify into these currencies and use them as genuine reserve currencies. As these governments tighten their hold on undesired movements of capital into and out of their economies (as indeed many emerging market economies are doing), such a possibility seems more remote today than at any time in the past twenty years.[10] Indeed, one only has to look back to the experience of Japan during the 1980s and its antipathy towards internationalizing the yen to understand the deep political forces that constrain governments which otherwise might challenge existing reserve currencies.[11]

But on the private or market side of the equation the forces supporting the continuing use of the U.S. dollar are equally powerful. Private firms and market actors demand not just that governments relinquish control over currencies in order that they may be used for purposes dictated by the interests of private accumulation, but also that there be ample liquidity in order that the temporary use of a currency (as a store of value, for example) does not become a permanent and unwanted long-term investment. For this condition to obtain, governments need to adopt a *liberal* view of their currencies, most importantly by freeing their use abroad and by abjuring their use as a developmental tool. There also needs to be an adequate supply of the currency in question. Absent suitable liberalization and an ample supply, private firms and markets will not have the confidence to use a currency (or facilitate its use), and will therefore minimize how they employ it.

10 Over the past two years, countries including China, South Korea, Singapore, Brazil and Turkey have joined Russia and India to implement controls on the inflow of capital as an important tool in the battle to protect their economies from currency appreciation and, to a lesser extent, over-heating. These controls are now supported by the IMF, which has shifted its long-standing blanket opposition to capital controls. See for example http://www.nytimes.com/2010/11/11/business/global/11capital.html?_r=1&ref=business (accessed December 5, 2010).

11 The basic problem faced by a country possessing an international reserve currency is that it loses its ability to hold onto direct control of its exchange rate, and thereby the ability to use its currency as a developmental tool. By its very nature an international reserve currency is widely dispersed and intensely traded, and this compromises the ability of its issuing government to control its value. Of course, there are significant advantages to the issuer of an international reserve currency, most importantly the ability to fund its government's activities cheaply because of the international demand for its government bonds (which are the chief component of international reserves). To most developing and emerging market countries, however, the benefits of issuing a reserve currency are far outweighed by the disadvantages, hence their reluctance to allow their currency to act as such.

And this is where we are in 2011 with respect to the future of the American dollar as an international reserve currency. Many countries (and not just BRIC countries) are uncomfortable with the international role of the U.S. dollar. By making it cheap for the U.S. to fund its budgetary and current account deficits (what economists often call *seigniorage*), using the dollar as the international reserve currency retards the adjustment process the U.S. needs to undertake to bring its trade, current and capital accounts into a more sustainable balance. It also prolongs the vulnerability other countries experience with respect to having to follow or react to America's monetary policies. Yet, the world is not rushing out to adopt the rouble or the rupee or the yuan as reserve currencies, simply because they cannot. And neither can they freely use the pound sterling, Japanese yen, Swiss franc or, most significantly, the euro. There are simply not enough of the former to be thrust into this role, while the political mismatch between the issuance of euro-denominated debt and who controls its value ultimately means that an enormous question mark hangs over precisely how robust an international role the euro can play. By default, the dollar will be required for use as an international reserve currency until well into the middle decades of the 21st century.[12]

So, the accumulation of a mountain of U.S. dollar-denominated reserve assets by BRIC and other countries such as Japan does not *prima facie* indicate the decline of American power. In relational terms, to return to Susan Strange's argument, it may indeed appear that the U.S. now has serious rivals to its monetary power. However, in structural terms, its challengers are hobbled by the framework of practices that have developed over the past decades that have been entirely cantered on American interests and needs. The U.S. has held a firm grasp on monetary and financial power since 1945, and this has allowed it to build up

12 The problems of the euro zone in 2010-11 have clarified how significant the political mismatch is in Europe, possibly dealing a fatal blow to a global role for the euro. Two developments could conceivably undermine the future role of the U.S. dollar. One development might be a genuine budgetary (and therefore political) crisis in the U.S., involving both default and devaluation. If this happens all bets are off. The August 2011 downgrade U.S. debt by Standard and Poor's sets up an interesting confrontation between the U.S. government and American credit rating agencies in this respect, but it is difficult to see quite what the practical outcome of this move will be, since a large part of these agencies' role in the global financial system derives in part from their explicit (American) government sanctioned role in rating government and private debt (Sinclair 2005). Moreover, it is difficult to identify America's budgetary woes as a 'debt' problem when in fact its effective tax rate is less than 25% of GDP, well below the OECD average of 35%. The other development might be the development of SDRs into a kind of proper international reserve currency. Even if this were to happen it would still not address the needs of private firms and market actors for an internationally-tradable currency, which an SDR is most manifestly not. International reserve currencies need to be accepted and used by both public and private agents; this accounts for how difficult they are to establish as well as why they take so long to fade.

an historic reservoir of influence and power that will not be easily dislodged.[13] Yet, the balance of economic power has not been entirely static over the post-war era, and even though American firms and indeed the American government together constitute a significant element of the world's monetary and financial system, they are not as ubiquitous an element as they once were. The U.S. has been to a certain extent decentred from the structure of financial governance over the past decade and a half, so that even though it is still an immensely powerful actor it must now negotiate the framework of this structure with other actors and their concerns (Germain, 2010). It is this political fact which marks out the salience of current governance developments, where the interaction of international political relations with the demands of regulatory change are generating a set of issues whose importance is both novel and potentially long-lasting.

STRUCTURAL POWER AND POLITICAL ORDER

Two important sets of long-term structural consequences have been set in motion. One set of consequences revolves around the role of the state in the global financial system. As states–in both the developed and developing economies–move to re-calibrate how they intervene in the organization and operation of financial systems, their centrality within the globalized structure of financial governance will grow. The nation-state is not simply important here because it is the instrument through which all regulation actually gets implemented. Even more critically, it is the only institution which can generate financial regulation that is appropriate and suitable for its own economy. Emerging market economies–and the BRIC countries in particular–will here take their cue from what the U.S. and E.U. states actually do to impose tighter regulations on financial institutions; a slightly less globalized financial system is most likely to be the outcome. This is so because higher capital requirements, more capital controls and more tightly circumscribed operating environments will inevitably generate a global financial system less hospitable

13 Many of the themes canvassed in the above paragraphs can be found also in a recent volume on the future of the U.S. dollar (Helleiner and Kirshner, 2009). Interestingly, the experts in that volume agree to disagree on the future of the dollar.

to what I elsewhere describe as *deep globalization*.[14] This does not mean that globalization as we know it is coming to an end, merely that there will be less of it going forward. We will move from a highly globalized world to a world in which the pull of the nation-state away from deep globalization is more clearly felt.

Intersecting with the strengthening of the state is the second set of consequences, namely the refashioning of the inter-state balance of power. We have seen how this works in terms of the role of the U.S. dollar as an international reserve currency: its role is being eroded and brought into question, yet with no alternative in sight. In other words, one of the critical foundations of political order for the global political economy is entering a period of intense uncertainty. We have not witnessed such a situation since the inter-war period. Strange might have observed here that the structural power of the U.S. is changing only very slowly, while its instrumental power to shape decisions directly is increasingly haphazard, reflecting the volatility of circumstances (including significantly an increasingly unstable domestic political landscape). What is especially important at the current moment, however, is that the global economic decision-making agenda does not yet appear to have ceded substantial power to emerging market economies, despite for example their accumulation of enormous reserves of U.S. dollars. Structural power remains asymmetrically concentrated in American institutions and subject to American rules.

How much longer will this remain so? If we return to Strange's conceptual formulation of structural power, we can recall that it relied on American military dominance, the continuing dominance of American ideals and values, and the place of American financial institutions, markets and government in the global financial system. If these fundamental elements of the global political order become further constrained or even undermined, then those adopting Strange's position would have to concede that the structural power of the U.S. is weakening. What is the status of these elements of global political order?

The U.S. continues to outspend the rest of the world combined on defence, and it continues to be the only state with the military capacity

14 Deep globalization here refers to the intensity of liberalization efforts which have driven economic growth since the end of the Bretton Woods era in the early 1980s. Globalization– understood as increasing levels of economic integration among major economies together with the emergence of a global political consensus organized around neo-liberal principles– has been sustained by the global reach of liberalization, and it is precisely this which is coming unstuck as a consequence of the Great Freeze. This theme is explored below and in some detail in Germain (2010: ch. 6).

to fight a two-front war. Yet, its military might is no longer unrivalled, and the build up of military assets by China could be viewed by some as a significant challenge. But it must be acknowledged that the only potential military rival to the U.S. is China, and so long as European states continue to rely disproportionally on American security via NATO it is unlikely that the military dominance of the U.S. will collapse any time soon. While the idea of a uni-polar moment may be overstating the case, we are in many respects well short of a genuine multi-polar inter-state system (Ikenberry, Mastanduno and Wohlfarth, 2009).

What should be of more concern to scholars of global power is the condition of American values and ideals, which support in so many ways the entrenched American-centred global economic agenda. Here it is interesting that one of the consequences of the Great Freeze has been the severe questioning of liberalization as the default ideational template for global capitalism. There are still no serious alternatives to organizing the global economy along capitalist lines. What has changed, however, is the degree to which capitalism needs to be organized along liberal (or neo-liberal) lines. Here liberalization as an ethos is now subject to two important charges: (1) it is unsustainable as a form of economic regulation; and (2) that state-organized capitalism is in fact more stable than liberal capitalism. And while neither of these charges are categorical or themselves without controversy, they have undermined the persuasive power of liberalization's ideologues to spread their gospel. From Europe to Asia to Latin America and Africa, liberalism is in retreat, and this has undermined the ideational supports for the operationalization of American structural power.

Finally, the Great Freeze began in the U.S. financial system, even if it was aided and abetted by global forces and dynamics. Has it also challenged the centrality of the American financial system to the global financial system? This question is difficult to assess at this moment in time. On one hand, even with the carnage wreaked by the Great Freeze, American financial markets remain the deepest and most liquid in the world. And while American banks and financial institutions no longer remain the world's largest by many ratios, they continue to be among the most profitable and innovative, and equally important they continue to provide unparalleled access for foreigners to American capital markets. Their centrality to the organization and operation of the global financial system will not soon disappear. And because both U.S. markets and financial institutions remain key components of the global financial system, so too does the American government. Its image and halo may be tarnished and dented, but it continues to possess a definite and considerable weight in how the global financial system runs.

This sets up an interesting scholarly debate between those, like myself, who now emphasize the extent of change in the landscape of global political economy, and those who remain impressed by the continuity of capitalist relations as the key factor that explains current trajectories. At one level this is a debate about the relative weight to assign to competing explanatory variables: are we focusing on state versus class; public versus private; or global versus national? At another level it is about the grounds of adjudication: does more regulatory control also mean that state authorities are somehow in ascendancy, when in fact the dividing line between public and private authority may be impossible to identify? And at still another level, it is about the means used to understand and verify the categories we are using: do we appeal to 'evidence' or 'theory' ('beliefs'?) when it comes to establishing the fundamental basis of our arguments? There are no easy or clear answers to these questions; thus such debates will long maintain their traction.

Yet here again it is worthwhile to return to the work of Susan Strange, for she offers at the very least a way of negotiating some of the hurdles thrown up by these debates. For Strange, who understood that there were several ways of apprehending all important events, the question of the significance of current changes would need to be addressed within the context of *cui bono*, or for whose advantage? This context almost always provides a clear causal chain to follow, even if the measurement of 'advantage' can be a bit messy. In the case of changes to financial regulation, it appears that the biggest beneficiaries of higher capital requirements, increased capital controls and less liberalization are states in general and major developed states in particular, because it is they who will have to spend less to bail out their financial institutions if regulatory reforms are successful. Of course, private financial institutions should also benefit from these reforms, but the weight of advantage lies with states. Similarly, the unevenness of the changes outlined above regarding the inter-state balance of power, while not directly challenging the structural power of the U.S., certainly begin to undermine the ideational core of that power. Over time, this will have the effect of eroding from within the dominant position of the U.S. in the global political economy.

It is for these reasons that I can argue that the global articulation of power within the global political economy is entering a period of uncertainty as established patterns of power erode and new patterns emerge unevenly. There is no question that the relational power of the U.S. is eroding: firms from emerging market economies are challenging American firms in some areas, while the ability of the U.S. state to dictate its preferences onto a pliant world no longer holds. At the same time, the agenda setting ability of American authorities, both public and private, has not entirely deteriorated, and in some areas remains substantial. This is what continues to generate America's continuing structural power. The interesting aspect of this situation, from the perspective of scholars of IR and IPE, will be how it plays out over the medium term, when the economic and security capabilities of the U.S. seem to be moving in opposite directions. The prediction I would make in late 2011 is that as nation-states reassert their authority over their financial systems and intervene to blunt the advance of globalization, the entire fabric of the global political economy is becoming rebalanced, ushering in a new inter-state balance of power and a new era in the history of global politics that is no longer centrally defined by the hegemonic position of the U.S.

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