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This Time It's Real: The End of Unipolarity and the *Pax Americana*

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Before the Great Recession's foreshocks in fall 2007, most American security studies scholars believed that unipolarity—and perforce American hegemony—would be enduring features of international politics far into the future. However, in the Great Recession's aftermath, it is apparent that much has changed since 2007. Predictions of continuing unipolarity have been superseded by premonitions of American decline and geopolitical transformation. The Great Recession has had a two-fold impact. First, it highlighted the shift of global wealth—and power—from West to East, a trend illustrated by China's breathtakingly rapid rise to great power status. Second, it has raised doubts about the robustness of US primacy's economic and financial underpinnings. This article argues that the Aunipolar moment is over, and the *Pax Americana*—the era of American ascendancy in international politics that began in 1945—is fast winding down. This article challenges the conventional wisdom among International Relations/Security Studies scholars on three counts. First, it shows that contrary to the claims of unipolar stability theorists, the distribution of power in the international system no longer is unipolar. Second, this article revisits the 1980s' debate about American decline and demonstrates that the Great Recession has vindicated the so-called declinists of that decade. Finally, this article takes on the Ainstitutional lock-in argument, which holds that by strengthening the *Pax Americana's* legacy institutions, the United States can perpetuate the essential elements of the international order it constructed following World War II even as the material foundations of American primacy erode.

Before the Great Recession's foreshocks in the fall of 2007, most American security studies scholars believed that unipolarity—and perforce American hegemony—would be enduring features of international politics far into the future. Judging from some important recently published books and articles, many of them still do, the Great Recession notwithstanding (Brooks and Wohlforth 2008; Zakaria 2008; Special Issue on Unipolarity 2009; Norrlof 2010).[1] Leading American policymakers, too, cling to the belief that US hegemony is robust. In August 2010, for example, Secretary of State Hillary Clinton proclaimed a ''new American moment'' that will lay the ''foundations for lasting American leadership for decades to come'' (quoted in Kessler 2010). Even those who grudgingly concede that US hegemony will end—sometime in the distant future—contend that the post–World War II *Pax Americana* will endure even if American primacy does not (Ikenberry 2001, 2011; Brooks and Wohlforth 2008).

In the Great Recession's aftermath, it is apparent that much has changed since 2007. Predictions of continuing unipolarity have been superseded by premonitions of American decline and geopolitical transformation. The Great Recession has had a two-fold impact. First, it highlighted the shift of global wealth—and power—from West to East, a trend illustrated by China's breathtakingly rapid rise to great-power status. Second, it has raised doubts about the robustness of the economic and financial underpinnings of the United States' primacy.

In this article, I argue that the ''unipolar moment'' is over, and the *Pax Americana*—the era of American ascendancy in international politics that began in 1945—is fast winding down. I challenge the conventional wisdom among International Relations/security studies scholars on three counts. First, I show that, contrary to the claims of unipolar stability theorists, the distribution of power in the international system no longer is unipolar. Second, I revisit the 1980s' debate about American decline and demonstrate that the Great Recession has vindicated the so-called declinists of that decade. Finally, I take on the ''institutional lock-in'' argument, which holds that by strengthening the *Pax Americana's* legacy institutions, the United States can perpetuate the essential elements of the international order it constructed following World War II even as the material foundations of American primacy erode.

This article unfolds as follows. First, I discuss the competing claims made since the early 1990s by balance-of-power theorists and proponents of unipolar stability about how long the post–Cold War unipolar distribution of power in the international system would last. Second, I look at how the rise of China has undercut the claims of unipolar stability theory. Third, I look at the economic and fiscal drivers of American decline. Fourth, I ask whether the *Pax Americana* can outlive the US hegemony on which it was based.

[1] Notwithstanding his book's deceptive title, Zakaria's actual argument is that the United States will remain the ''pivotal power'' in international politics for a long time because there is ''still a strong market for American power, for both geopolitical and economic reasons. But even more centrally, there remains a strong ideological demand for it'' (Zakaria 2008:234).

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The Post–Cold War Debate about Unipolarity

The Soviet Union's implosion transformed the bipolar Cold War international system into a unipolar system in which the United States—as senior US officials never tired of pointing out—was the ''sole remaining superpower.'' Unipolarity objectively described the post–Cold War distribution of power in the international system. At the same time, preserving the United States' hegemonic role in a unipolar world has been the overriding grand strategic objective of every post-Cold War administration from George H. W. Bush's to Barack Obama's. Since the Cold War's end, US security studies scholars have been preoccupied by unipolarity and have debated its implications. This debate has focused on two key questions: ''How long will unipolarity last?'' and ''Is the maintenance of hegemony a wise grand strategy for the United States?''

In the immediate aftermath of the Cold War, a few scholars—notably Christopher Layne and Kenneth Waltz—argued that unipolarity would be a short-lived transitional phase from bipolarity to multipolarity (Layne 1993; Waltz 1993). Unipolarity, they argued, would spur the emergence of new great powers to act as counterweights to US hegemony. These unipolar pessimists also questioned the wisdom of making the preservation of US dominance in a unipolar world the overriding goal of the United States' post-Cold War grand strategy. Pointing to a long historical record, they argued that failure is the fate of hegemons. The hegemonic bids of the Habsburgs (under Charles V and Philip II), France (under Louis XIV and Napoleon), and Germany (under Wilhelm II and Adolph Hitler) were all defeated by the resistance of countervailing alliances, and by the consequences of their own strategic overextension. In a unipolar world, the unipolar pessimists argued, the United States would not be immune from this pattern of hegemonic failure. However, from the Soviet Union's collapse until the Great Recession, unipolar pessimism was a distinctly minority view among security studies scholars and US policymakers, and the conventional wisdom has been that unipolarity and US hegemony will last for a very long time.

Unipolar optimists have maintained, and still do, that the United States will buck the historical trend of hegemonic failure for two reasons. First, they say, the magnitude of US power precludes other states from balancing against its hegemony. Simply put, unipolar optimists assert that the military and economic power gap between the United States and its nearest rivals is insurmountable, so wide that no state can hope to close it (Wohlforth 1999, 2002). Second, they argue that because US hegemony is ''benevolent,'' there is no reason why other states would want to balance against the United States. The argument for US benevolence has three prongs. One is that other states have strong incentives to align with American power because they derive important security and economic benefits from US hegemony (Brooks and Wohlforth 2002, 2008). The second, essentially a balance-of-threat argument, is that by practicing self-restraint, demonstrating sensitivity for others' interests, and acting through multilateral institutions, the United States can allay others' fears that it will use its hegemonic power for self-aggrandizing purposes (Mastanduno 1997; Walt 1997, 2005). The third prong is that the United States' ''soft power''—the attractiveness of its ideology and culture—draws others into its orbit (Nye 2002).

From the Unipolar Moment to the Unipolar Exit

Some twenty years after the Cold War's end, it now is evident that both the 1980s declinists and the unipolar pessimists were right after all. The Unipolar Era has ended and the Unipolar Exit has begun. The Great Recession has underscored the reality of US decline, and only ''denialists'' can now bury their heads in the sand and maintain otherwise. To be sure, the Great Recession itself is not the *cause* either of American decline or the shift in global power, both of which are the culmination of decades-long processes driven by the big, impersonal forces of history. However, it is fair to say the Great Recession has both accelerated the causal forces driving these trends and magnified their impact.

There are two drivers of American decline, one external and one domestic. The external driver of US decline is the emergence of new great powers in world politics and the unprecedented shift in the center of global economic power from the Euro-Atlantic area to Asia. In this respect, the relative decline of the United States and the end of unipolarity are linked inextricably: the rise of new great powers—especially China—is in itself the most tangible evidence of the erosion of the United States' power. China's rise signals unipolarity's end. Domestically, the driver of change is the relative—and in some ways absolute—decline in America's economic power, the looming fiscal crisis confronting the United States, and increasing doubts about the dollar's long-term hold on reserve currency status.

Unipolarity's demise marks the end of era of the post-World War II *Pax Americana*. When World War II ended, the United States, by virtue of its overwhelming military and economic supremacy, was incontestably the most powerful actor in the international system. Indeed, 1945 was the United States' *first* unipolar moment. The United States used its commanding, hegemonic position to construct the postwar international order—the *Pax Americana*—which endured for more than six decades. During the Cold War, the *Pax Americana* reflected the fact that outside the Soviet sphere, the United States was the preponderant power in the three regions of the world it cared most about: Western Europe, East Asia, and the Persian Gulf. The *Pax Americana* rested on the foundational pillars of US military dominance and economic leadership and was buttressed by two supporting pillars: America's ideological appeal (''soft power'') and the framework of international institutions that the United States built after 1945.

Following the Cold War's end, the United States used its second unipolar moment to consolidate the *Pax Americana* by expanding both its geopolitical and ideological ambitions. In the Great Recession's aftermath, however, the economic foundation of the *Pax Americana* has crumbled, and its ideational and institutional pillars have been weakened. Although the United States remains preeminent militarily, the rise of new great powers like China, coupled with US fiscal and economic constraints, means that over the next decade or two the United States' military dominance will be challenged. The decline of American power means the end of US dominance in world politics and a transition to a new constellation of world power. Without the ''hard'' power (military and economic) upon which it was built, the *Pax Americana* is doomed to wither in the early twenty-first century. Indeed, because of China's great-power emergence, and the United States' own domestic economic weaknesses, it already is withering.

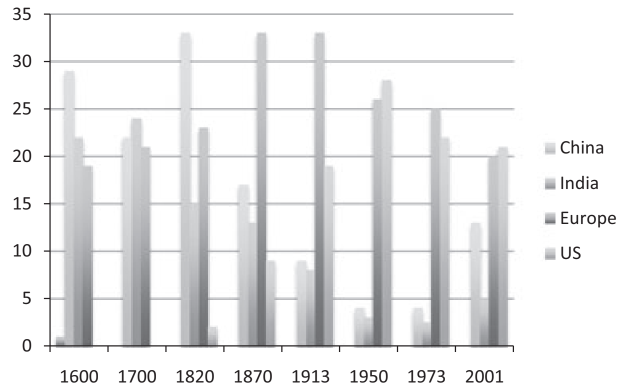

Fig 1. GDP: United States, Europe, China and India from 1600–2001. Data from: Angus Maddison, The World Economy Historical Statistics Historical Share of World GDP

The External Driver of American Decline: The Rise of New Great Powers

American decline is part of a broader trend in international politics: the shift of economic power away from the Euro-Atlantic core to rising great and regional powers (what economists sometimes refer to as the ''emerging market'' nations). Among the former are China, India, and Russia. The latter category includes Indonesia, Turkey, South Korea, Brazil, and South Africa. In a May 2011 report, the World Bank predicted that six countries—China, India, Brazil, Russia, Indonesia, and South Korea—will account for one-half of the world's economic growth between 2011 and 2025 (Politi 2011; Rich 2011). In some respects, of course, this emergence of new great powers is less about rise than restoration. As Figure 1 indicates, in 1700 China and India were the world's two largest economies. From their perspective—especially Beijing's—they are merely regaining what they view as their natural, or rightful, place in the hierarchy of great powers.

The ascent of new great powers is the strongest evidence of unipolarity's end. The two most important indicators of whether new great powers are rising are relative growth rates and shares of world GDP (Gilpin 1981; Kennedy 1987). The evidence that the international system is rapidly becoming multipolar—and that, consequently, America's relative power is declining—is now impossible to deny, and China is Exhibit A for the shift in the world's center of economic and geopolitical gravity. China illustrates how, since the Cold War's end, potential great powers have been positioning themselves to challenge the United States.

To spur its economic growth, for some three decades (beginning with Deng Xiaoping's economic reforms) China took a low profile in international politics and avoided confrontation with the United States and its regional neighbors. To spur its modernization as well, China integrated itself in the American-led world order. China's self-described ''peaceful rise'' followed the script written by Deng Xiaoping: ''Lie low. Hide your capabilities. Bide your time.'' The fact that China joined the international economic order did not mean its long-term intentions were benign. Beijing's long-term goal was not simply to get rich. It was also to become wealthy enough to acquire the military capabilities it needs to compete with the United States for regional hegemony in East Asia.[2] The Great Recession caused a dramatic shift in Beijing's perceptions of the international balance of power. China now sees the United States in decline while simultaneously viewing itself as having risen to great-power status. China's newly gained self-confidence was evident in its 2010 foreign policy muscle-flexing.

Objective indicators confirm the reality of China's rise, and the United States' corresponding relative decline. In 2010, China displaced the United States as the world's leading manufacturing nation—a crown the United States had held for a century. The International Monetary Fund forecasts that China's share of world GDP (15%) will draw nearly even with the United States (18%) by 2014 (see Figure 2). This is especially impressive given that China's share of world GDP was only 2% in 1980 and as recently as 1995 was only 6%. Moreover, China is on course to overtake the United States as the world's largest economy. While analysts disagree on the date

[2] Under unipolarity, China bandwagoned with the United States to reap the gains of economic growth. Its long-term aim, however, was to convert its economic gains into the military capabilities that would allow Beijing to contest American preponderance. McGill University political scientist Mark Brawley captures the essence of this strategic logic: ''Since economic ties can deliver benefits to both parties, the weaker power might hope to survive in the short-run by allying with the hegemonic power, but add to its current economic base as well. If current economic gains can be converted to military power in the future, the bandwagoning state might improve its power potential so that it could reassert its autonomy at some point in the future'' (Brawley 2004:110–111).

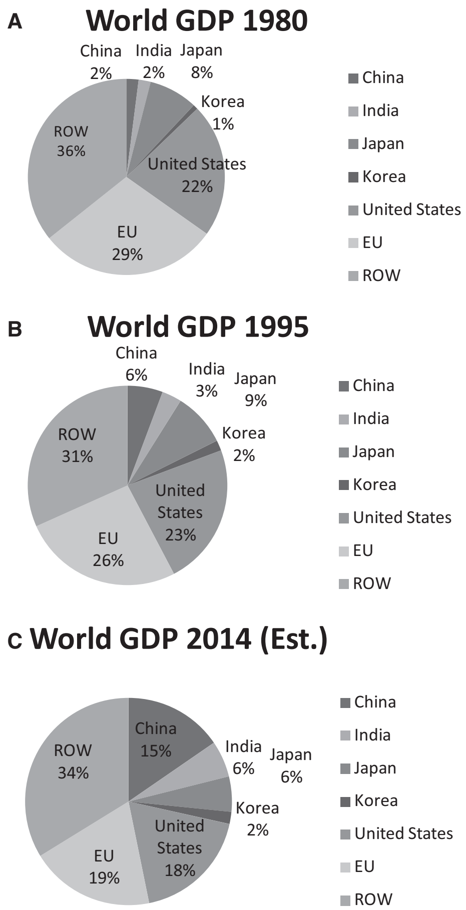

FIG 2. Shares of World GDP, 1989–2014. From IMF Data, World GDP (in PPP), as Percentage of Total (ROW: Rest of the World)

when this will happen, the most recent projections by leading economic forecasters have advanced the date dramatically over what was being estimated just a few years ago. For example, in 2003 Goldman Sachs predicted that China would surpass the United States as the world's largest economy in 2041, and in 2008, it advanced the date to 2028 (Wilson and Purushothaman 2003; O'Neill 2008). However, the most recent forecasts are now that China will pass the United States much sooner than 2028. The Economist Intelligence Unit (2009) predicts China will become the world's largest economy in 2021; Pricewaterhouse-Coopers (2010) says 2020, and the *Economist* magazine says 2019 (World's Biggest Economy 2010) (see Figure 3).[3] More strikingly, according to a 2011 International Monetary Fund study, in terms of purchasing power parity (PPP), China will overhaul the United States in 2016. In fact, economist Arvin Subramanian of the Peterson Institute for International Economics has calculated, also using PPP, that China is *already*

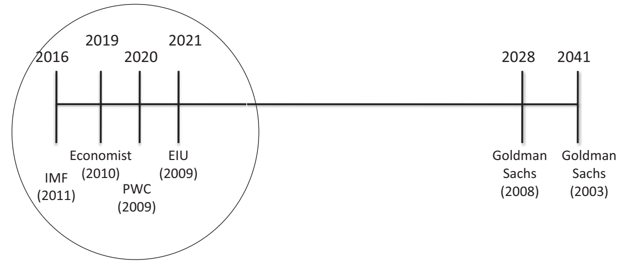

FIG 3. When Will China's GDP Surpass the United States'?

the world's largest economy (Subramanian 2011).[4] What could be clearer proof of the United States' relative decline than the fact that China will soon leapfrog the United States and become the world's largest economy, if indeed it has not already done so?

That China is poised to displace the United States as the world's largest economy has more than economic significance. It is significant geopolitically. The pattern of great-power rise is well established.

First, China's claims of ''peaceful rise'' notwithstanding, the emergence of new great powers in the international system has invariably been destabilizing geopolitically. The near-simultaneous emergence of the United States, Germany, and Japan as great powers in the later nineteenth and early twentieth centuries triggered two world wars (Layne 1993). Second, as rising great powers become wealthier, their political ambitions increase and they convert their newfound economic muscle into the military clout (Zakaria 1998). Already, China is engaged in an impressive military modernization and buildup. While China has not yet caught up to the United States' sophisticated military technology, it clearly is narrowing the US advantage. Third, rising powers invariably seek to dominate the regions in which they are situated (Mearsheimer 2001). This means that China and the United States are on a collision course in East Asia—the region where the United States has been the incumbent hegemon since 1945, and which an increasingly powerful and assertive China sees as its own backyard. Fourth, as they rise, new great powers acquire economic and political interests abroad, and they seek to acquire the power projection capabilities to defend those interests (Zakaria 1998).

Revisiting the 1980s' Debate on American Decline: The ''Declinists'' Were Right

Of course, this is not the first time that the United States has been gripped by fear of decline.[5] In the

[3] China does *not* need to sustain double-digit growth rates to overtake the United States in overall GDP later in this decade. For example, the *Economist*'s forecast is based on the assumption that between 2011 and 2019, China's economy will grow at an average annual rate of 7.5% and the United States' average annual growth rate will be 2.5% (World's Biggest Economy, 2010). Many economic analysts are predicting China's growth in 2011 and 2012 will slow to an annual rate of 8.5% (Barboza, 2011).

[4] On the Peterson Institute for International Economics website, Subramanian explains his methodology in ''Is China Already Number One? New GDP Estimates.'' Available at http://www.iie.com/realtime/?p=1935.

[5] Writing in Huntington (1988a,b) argued that the debate about US decline triggered by Paul Kennedy's *The Rise and Fall of the Great Powers* (and other 1980s declinists) was actually the ''fifth wave'' of declinism experienced by the United States since the 1950s (Huntington 1988a). Echoing Huntington, James Fallows (2010) recently observed that recurring fears of national decline are deeply imbedded in American political and social culture.

1980s, Paul Kennedy's *The Rise and Fall of the Great Powers* triggered an intense but brief debate about whether America's power was in relative decline (Kennedy 1987). In arguing that the United States was experiencing the relative decline of its economic power, Kennedy was not alone. Other prominent scholars making this case included Chace (1981), Calleo (1982), Gilpin (1987), and Huntington (1988b). *The Rise and Fall of the Great Powers* resonated because it dovetailed with popular fears that the United States, enervated by the costs of the Cold War, was being surpassed economically by Japan and West Germany. While Kennedy's thesis struck a chord with the public, the US foreign policy elite lashed out at the notion that the United States was declining. Two leading establishment scholars, Harvard professors Samuel P. Huntington and Joseph S. Nye, Jr., went so far as to label Kennedy and the others as ''declinists''—a subtle twist of the English language implying that they were advocates of US decline rather than dispassionate analysts of what they regarded as worrisome trends in the United States' great-power trajectory (Nye 1991; Huntington 1988a).[6]

Contrary to the way their argument was portrayed by many of their critics, the 1980s declinists did not claim either that the United States already had declined steeply, or that it soon would undergo a rapid, catastrophic decline. Rather, they pointed to domestic and economic drivers that were in play and which, *over time*, would cause American economic power to decline relatively and produce a shift in global distribution of power. The declinists contended that the United States was afflicted by a slow—''termite''—decline caused by fundamental structural weaknesses in the American economy.[7] Kennedy himself was explicitly looking ahead to the effects this termite decline would have on United States' world role in the early twenty-first century. As he wrote, ''The task facing American statesman over the *next decades*. .. is to recognize that broad trends are *under way,* and that there is a need to 'manage' affairs so that the *relative* erosion of the United States' position takes place slowly and smoothly, and is not accelerated by policies which bring merely short-term advantage but longer-term disadvantage'' (Kennedy 1987:534; my emphasis).

When one goes back and re-reads what the 1980s declinists pinpointed as the drivers of American decline, their analyses look farsighted because the same drivers of economic decline are at the center of debate today: too much consumption and not enough savings; persistent trade and current account deficits; chronic federal budget deficits and a mounting national debt; and de-industrialization. Over time, 1980s declinists said, the United States' goals of geopolitical dominance and economic prosperity would collide. Today, their warnings seem eerily prescient. Robert Gilpin's 1987 description of America's economic and grand strategic plight could just as easily describe the United States after the Great Recession:

> With a decreased rate of economic growth and a low rate of national savings, the United States was living and defending commitments far beyond its means. In order to bring its commitments and power back into balance once again, the United States would one day have to cut back further on its overseas commitments, reduce the American standard of living, or decrease domestic productive investment even more than it already had. In the meantime, American hegemony was threatened by a potentially devastating fiscal crisis. (Gilpin 1987:347–348)

In the Great Recession's wake—doubly so since it is far from clear that either the United States or global economies are out of the woods—the United States now is facing the dilemmas that Gilpin and the other declinists warned about.

Counterfactual questions—''What would have happened if?''—are difficult to answer. Nevertheless, it is useful to ask where the United States might be today had the warnings of the ''declinists'' been heeded. Perhaps the United States would have taken corrective economic and fiscal steps two decades ago that would have ameliorated the crisis in which it now finds itself. However, the debate about US decline ended abruptly when, in short order, the United States' main geopolitical and economic rivals—the Soviet Union and Japan, respectively—experienced dramatic reversals of fortune. The Soviet Union unraveled, and in the early 1990s Japan's economic bubble burst, plunging it into a cycle of deflation and low growth from which, two decades later, it has yet to recover. Seemingly overnight the threats to the United States' military and economic supremacy were removed from the international chessboard. The 1990s subsequently witnessed a euphoric American triumphalism that wiped away any thoughts of US decline. On the contrary, the ''unipolar moment'' and the ''end of history''—along with the emergence of the so-called Washington consensus—seemed to confirm that both America's power and its ideology were unchallengeable in the post-Cold War world (Fukuyama 1989; Krauthammer 1990–1991). The Great Recession has put paid to such fantasies and put the spotlight on the domestic drivers of American decline.

Domestic Drivers of American Decline: Debt, Deficits, and the Dollar's Uncertain Future

China's rise is one powerful indicator of America's relative decline. The United States' mounting economic

[6] Huntington's views on decline were inconsistent. In ''Coping with the Lippmann Gap,'' Huntington (1988b) explicitly acknowledged that ''the relative decline of U.S. power vis-a-vis other countries'' was real. Half a year later, however, in ''The U.S.—Decline or Renewal'' Huntington's (1988a) views were quite different. He attributed the US budget and trade deficits of the 1980s to the Reagan administration's policies, and predicted that these would be brought under control relatively soon.

[7] The concept of ''termite decline'' was suggested to me by Ted Galen Carpenter, the Cato Institute's Vice President for Foreign and Defense Policy Studies.

and fiscal problems—evidenced in summer 2011 by the debt ceiling debacle and Standard & Poors' downgrading of US Treasury bonds—are another. There are two closely interconnected aspects of the United States' domestic difficulties that merit special attention: the spiraling US national debt and deepening doubts about the dollar's future role as the international economy's reserve currency. Between now and 2025, the looming debt and dollar crises almost certainly will compel the United States to retrench strategically, and to begin scaling back its overseas military commitments.

The causes of the looming US fiscal crisis are complex. For understanding, a good starting point is the late political scientist Arnold Wolfers' observation that modern great powers must be *both* national security states and welfare states (Wolfers 1952). States must provide both guns—the military capabilities needed to defend and advance their external interests—and butter, ensuring prosperity and supplying needed public goods (education, health care, pensions). Since World War II, the United States has pretty much been able to avoid making difficult ''guns or butter'' decisions precisely because of its hegemonic role in the international economy. The dollar's role as the international system's reserve currency allows the United States to live beyond its means in ways that other nations cannot. As long as others believe that the United States will repay its debts, and that uncontrollable inflation will not dilute the dollar's value, the United States can finance its external ambitions (''guns'') and domestic social and economic programs (''butter'') by borrowing money from foreigners. As Figure 4 shows, this is what the United States has had to do since the early 1980s when it started running a chronic current account deficit. As Figure 5 illustrates, the majority of US government debt is owed to foreign, not domestic, investors, and China is the United States government's largest creditor.

Following the Great Recession, it has become increasingly apparent that unless dramatic measures to reign-in federal spending are implemented, by the end of this decade there will be serious questions about the United States' ability to repay its debts and control inflation.[8] The causes of mounting US indebtedness are many. One is the Great Recession, which caused the Obama administration and the Federal Reserve to inject a massive amount of dollars into the economy, in the form of stimulus spending, bail-outs, and ''quantitative easing,'' to avert a replay of the Great Depression of the 1930s. A longer-term cause is the mounting costs of entitlement programs like Medicare, Social Security, and Medicaid—costs which will escalate because of the aging of the ''Baby Boomer'' generation. Another factor is the cost of wars in Iraq and Afghanistan, which have been financed by borrowing from abroad rather than raising taxes to pay for them. These wars have been expensive. Joseph Stiglitz, the Nobel laureate in economics, and his coauthor Linda Bilmess have calculated that the ultimate direct and indirect costs of the Iraq war will amount to $3 trillion (Stiglitz and Bilmiss 2008). No similar study has as yet been done of the Afghanistan war's costs. However, the United States currently is expending about $110–120 billion annually to fight there, and fiscal considerations played a major role in the Obama administration's decision to begin drawing down US forces in Afghanistan (Woodward 2010; Cooper 2011).

Because of the combined costs of federal government expenditures—on stimulus, defense, Iraq and Afghanistan, and entitlements—in 2009 the Congressional Budget Office forecast that the United States will run unsustainable annual budget deficits of $1 trillion or more until at least the end of this decade, and observed that, ''Even if the recovery occurs as projected and the stimulus bill is allowed to expire, the country will face the highest debt/GDP ratio in 50 years and an increasingly urgent and unsustainable fiscal problem'' (CBO 2009:13). In a subsequent 2010 report, the CBO noted that if the United States stays on its current fiscal trajectory, the ratio of US government debt to GDP will be 100% by 2020 (CBO 2010). Economists regard a 100% debt-to-GDP ratio as critical indicator that a state will default on its financial obligations. In an even less sanguine 2011 analysis, the International Monetary Fund forecast that the United States will hit the 100% debt-to-GDP ratio in 2016 (IMF 2011). If these estimates are correct, over the next decade the growing US national debt—and the budget deficits that fuel it—could imperil the dollar by undermining foreign investors' confidence in the United States' ability to repay its debts and keep inflation in check. This is important because, for the foreseeable future, the United States will depend on capital inflows from abroad both to finance its deficit spending and private consumption and to maintain the dollar's position as the international economic system's reserve currency.

America's geopolitical preeminence hinges on the dollar's reserve currency role. If the dollar loses that status, US hegemony will literally be unaffordable. The dollar's reserve currency status has, in effect, been a very special kind of ''credit card.'' It is special because the United States does not have to earn the money to pay its bills. Rather, when the bills come due, the United States borrows funds from abroad and/or prints money to pay them. The United States can get away with this and live beyond its means, spending with little restraint on maintaining its military dominance, preserving costly domestic entitlements, and indulging in conspicuous private consumption, as long as foreigners are willing to lend it money (primarily by purchasing Treasury bonds). Without the use of the ''credit card''

[8] In a June 2011 report, the CBO warned of the possibility of a ''sudden credit event'' triggered by foreign investors' loss of confidence in the United States' fiscal probity. In such an event foreign investors would stop purchasing Treasury bonds, which would force the United States to borrow at exorbitant rates of interest (Associated Press 2011).

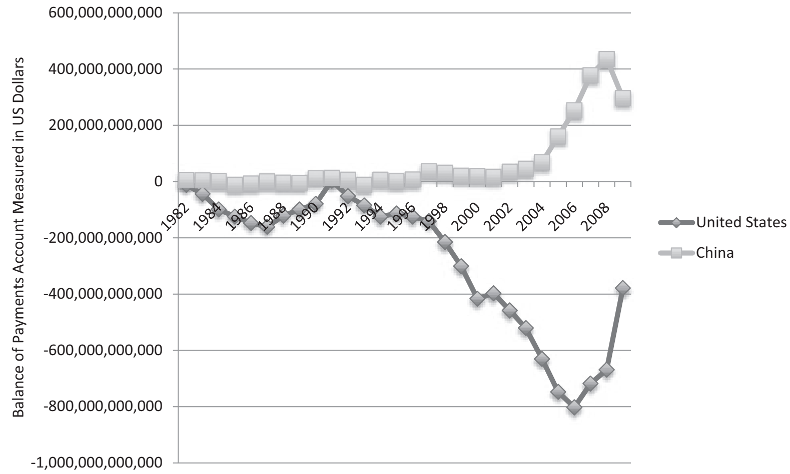

Fig 4. Balance of Payments for the
United States and China, 1982–2008. From IMF and World Bank

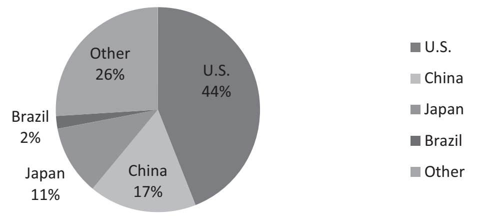

Fig 5. Ownership of US Government Debt. Data Taken from May 2011 *Time* Magazine Article

provided by the dollar's reserve currency status, the United States would have to pay for its extravagant external and internal ambitions by raising taxes and interest rates, and by consuming less and saving more; or, tightening its belt and dramatically reducing its military and domestic expenditures. In other words, the United States would have to learn to live within its means.[9] As a leading expert on international economic affairs observed just before the Great Recession kicked in, the dollar's vulnerability ''presents potentially significant and underappreciated restraints upon contemporary American political and military predominance'' (Kirshner 2008).

Although doubts about the dollar's long-term health predated the Great Recession, the events of 2007–2009 have amplified them in two key respects (Helleiner 2008; Kirshner 2008). First, the other big players in the international economy now are either geopolitical rivals like China or ambiguous ''allies'' like Europe, which has its own ambitions and no longer requires US protection from the now-vanished Soviet threat. Second, the dollar faces an uncertain future because of concerns that its value will diminish over time. Indeed, China, which has vast holdings of American assets (more than $2 trillion), is worried that America's fiscal incontinence will leave Beijing holding the bag with huge amounts of depreciated dollars. China's vote of no confidence in the dollar's future is reflected in its calls to create a new reserve currency to replace the dollar, the renminbi's gradual ''internationalization,'' and in the lectures China's leaders regularly deliver telling Washington to get its fiscal house in order. Alarm bells about the dollar's uncertain status now are ringing. In April 2011, Standard & Poor's warned that in the coming years there is a one-in-three chance that the United States' triple A credit rating could be reduced if Washington fails to solve the fiscal crisis—and in August 2011 S& P did downgrade the US credit rating to AA. In June 2011, the IMF said that unless the United States enacts a credible plan to reign in its annual deficits and accumulating national debt, it could face a sovereign risk crisis in the next several years. In a May 2011 report, the World Bank declared that the dollar probably will lose its status as the primary reserve currency by 2025 (World Bank 2011).

In the coming years, the United States will have to defend the dollar by reassuring foreign lenders (read: China) both that there will be no runaway inflation and that it can pay its debts. This will require some combination of budget cuts, entitlements reductions, tax increases, and interest-rate hikes. Because exclusive reliance on the last two options could choke off growth, there will be strong pressure to slash the federal budget in order to hold down taxes and interest rates. It will be almost impossible to make meaningful cuts in federal

[9] American budget and trade deficits have not been a serious problem heretofore, because US creditors have believed that the United States is able to repay its debts. There are signs that this confidence may be gradually eroding. If, for economic or, conceivably, *geopolitical* reasons, others are no longer willing to finance American indebtedness, Washington's choices will be stark: significant dollar devaluation to increase US exports (which will cause inflation, and lower living standards), or raising interest rates sharply to attract foreign capital inflows (which will shrink domestic investment, choke off growth, and worsen America's long-term economic problems). Given the de-industrialization of the US economy over the past three decades, it is questionable whether, even with a dramatically depreciated dollar, the United States could export enough to make a major dent in its foreign debt (Gilpin 1987).

Total Spending, 2010

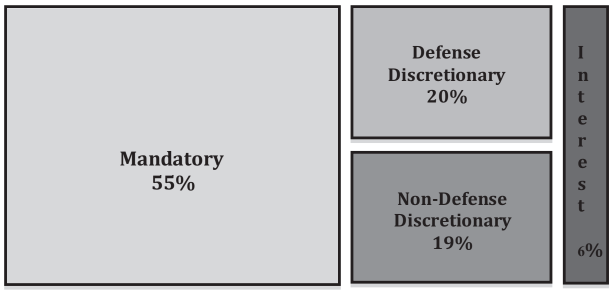

FIG 6. From CBO Website, 2011

spending without deep reductions in defense expenditures (and entitlements), because, as Figure 6 shows, that is where the money is.

With US defense spending currently at such high levels, domestic political pressures to make steep cuts in defense spending are bound to increase. As the Cornell international political economist Jonathan Kirshner puts it, the absolute size of US defense expenditures is ''more likely to be decisive in the future when the U.S. is under pressure to make real choices about taxes and spending. When borrowing becomes more difficult, and adjustment more difficult to postpone, choices must be made between raising taxes, cutting non-defense spending, and cutting defense spending'' (Kirshner 2008:431). In the spring of 2011, the Obama administration proposed to cut US defense spending by $400 million over eleven years. But that is a drop in the bucket, and cuts of a much larger magnitude almost certainly will be needed.[10] Big defense cuts mean that during the next ten to fifteen years, the United States will be compelled to scale back its overseas military commitments. This will have two consequences. First, as the United States spends less on defense, China (and other new great powers) will be able to close the military power gap with the United States. Second, the United States' ability to act as a regional stabilizer and a guardian of the global commons will diminish. In this respect, America's fiscal crisis and the dollar's uncertain future are important drivers of American decline.

The End of the Pax Americana

US decline has profound implications for the future of international politics. Hegemonic stability theory holds that an open international economic system requires a single hegemonic power to perform critical military and economic tasks. Militarily, the hegemon is responsible for stabilizing key regions and for guarding the global commons (Posen 2003). Economically, the hegemon provides public goods by opening its domestic market to other states, supplying liquidity for the global economy, and providing a reserve currency (Kindelberger 1973; Gilpin 1975). As US power continues to decline over the next ten to fifteen years, the United States will be progressively unable to discharge these hegemonic tasks.

The United States still wields preponderant military power. However, as discussed above, in the next ten to fifteen years the looming fiscal crisis will compel Washington to retrench strategically. As the United States' military power diminishes, its ability to command the commons and act as a hegemonic stabilizer will be compromised. The end of the United States' role as a military hegemon is still over horizon. However, the Great Recession has made it evident that the United States no longer is an economic hegemon.

An economic hegemon is supposed to solve global economic crises, not cause them. However, it was the freezing-up of the US financial system triggered by the sub-prime mortgage crisis that plunged the world into economic crisis. The hegemon is supposed to be the lender of last resort in the international economy. The United States, however, has become the borrower of first resort—the world's largest debtor. When the global economy falters, the economic hegemon is supposed to take responsibility for kick-starting recovery by purchasing other nations' goods. From World War II's end until the Great Recession, the international economy looked to the United States as the locomotive of global economic growth. As the world's largest market since 1945, America's willingness to consume foreign goods has been the firewall against global economic downturns.

This is not what happened during the Great Recession, however. The US economy proved too infirm to lead the global economy back to health. Others—notably a rising China—had to step up to the plate to do so. The United States' inability to galvanize global recovery demonstrates that in key respects it no longer is capable of acting as an economic hegemon. Indeed, President Barak Obama conceded as much at the April 2009 G-20 meeting in London, where he acknowledged the United States is no longer able to be the world's consumer of last resort, and that the world needs to look to China (and India and other emerging market states) to be the motors of global recovery. Other recent examples of how relative decline and loss of economic hegemony have eroded Washington's ''agenda setting'' capacity in international economic management include the US failure to achieve global economic re-balancing by compelling China to revalue the renminbi, and its defeat in the 2009–2010 ''austerity versus stimulus'' debate with Europe.

After Unipolarity: Can the Post-1945 International Order Be Preserved?

What effect will China's rise—and unipolarity's concomitant end—and the United States' internal economic and fiscal troubles have on the *Pax*

[10] Over an eleven-year period, the Obama proposal would result in annual cuts averaging about $37 billion. The United States spent nearly $550 billion on defense in FY 2011, so the proposed Obama cuts would be well under 10% of that amount.

Americana? Not much, according to prominent scholars such as Ikenberry (2001, 2011), Zakaria (2008), and Brooks and Wohlforth (2008). They have argued that the United States can cushion itself against any future loss of hegemony by acting now to ''lock in'' the *Pax Americana's* essential features—its institutions, rules, and norms—so that they outlive unipolarity.[11] As Ikenberry puts it, the United States should act today to put in place an institutional framework ''that will safeguard our interests in future decades when we will not be a unipolar power'' (Ikenberry 2011:348). This is not a persuasive argument.

First, there is a critical linkage between a great power's military and economic standing, on the one hand, and its prestige and soft power, on the other. The ebbing of the United States' hegemony raises the question of whether it has the authority to take the lead in reforming the post-1945 international order. The *Pax Americana* projected the United States' liberal ideology abroad, and asserted its universality as the only model for political, economic, and social development. Today, however, the American model of free market, liberal democracy—which came to be known in the 1990s as the Washington consensus—is being challenged by an alternative model, the Beijing consensus (Halper 2010). Moreover, the Great Recession discredited America's liberal model. Consequently, it is questionable whether the United States retains the credibility and legitimacy to spearhead the revamping of the international order. As *Financial Times* columnist Martin Wolf says, ''The collapse of the western financial system, while China's flourishes, marks a humiliating end to the 'unipolar moment.' As western policy makers struggle, their credibility lies broken. Who still trusts the teachers?'' (Wolf 2009).

The second reason a US lock-in strategy is unlikely to succeed is because the United States does not have the necessary economic clout to revitalize the international order. Ikenberry defines the task of securing lock-in as ''renewing and rebuilding the architecture of global governance and cooperation to allow the United States to marshal resources and tackle problems along a wide an shifting spectrum of possibilities'' (Ikenberry 2011:353) To do this, the United States will need to take the lead in providing public goods: security, economic leadership, and a nation building program of virtually global dimension to combat the ''socioeconomic backwardness and failure that generate regional and international instability and conflict'' (Ikenberry 2011:354, 359). At the zenith of its military and economic power after World War II, the United States had the material capacity to furnish the international system with public goods. In the Great Recession's aftermath, however, a financially strapped United States increasingly will be unable to be a big time provider of public goods to the international order.[12]

The third reason the post-World War II international order cannot be locked in is the rise of China (and other emerging great and regional powers). The lock-in argument is marred by a glaring weakness: if they perceive that the United States is declining, the incentive for China and other emerging powers is to wait a decade or two and reshape the international system themselves in a way that reflects their own interests, norms, and values (Jacques 2009). China and the United States have fundamental differences on what the rules of international order should be on such key issues as sovereignty, non-interference in states' internal affairs, and the ''responsibility to protect.'' While China has integrated itself in the liberal order to propel its economic growth, it is converting wealth into hard power to challenge American geopolitical dominance. And although China is working ''within the system'' to transform the post-1945 international order, it also is laying the foundations—through embryonic institutions like the BRICs and the Shanghai Cooperation Organization—for constructing an alternative world order that, over the next twenty years or so, could displace the *Pax Americana*. As Martin Jacques has observed, China is operating ''both within and outside the existing international system while at the same time, in effect, sponsoring a new China-centric international system which will exist alongside the present system and probably slowly begin to usurp it'' (Jacques 2009:362).

Great power politics is about power. Rules and institutions do not exist in vacuum. Rather, they reflect the distribution of power in the international system. In international politics, who rules makes the rules. The post-World War II international order is an *American* order that privileges the United States' interests. Even the discourse of ''liberal order'' cannot conceal this fact. This is why the notion that China can be constrained by integrating into the post-1945 international order lacks credulity. For US scholars and policymakers alike, China's successful integration hinges on Beijing's willingness to accept the Pax Americana's institutions, rules, and norms. In other words, China must accept playing second fiddle to the United States.

Revealingly, Ikenberry makes clear this expectation when he says that the deal the United States should

[11] Ikenberry argues that for a dominant power engaged in the business of building an international order, institutions are a means of legitimating its position. Institutions reassure other states that the hegemon will exercise its preponderant power with restraint in exchange for the acceptance by other states to ''agreed upon principles and institutional processes that ensure a durable and predictable postwar order'' (Ikenberry 2001:53). For the hegemon, using institutions to secure others' voluntary consent to the international order is also a form of power conservation because it reduces the need to exercise its power coercively. More important, by constructing an institutionalized, rules-based international order, the hegemon can ''lock in favorable arrangements that continue beyond the zenith of its power'' (Ikenberry 2001:54).

[12] To be fair, Ikenberry envisions a revitalized international order in which other states will share with the United States the burden of providing public goods. There is scant reason to believe others will step up to the plate, however. Even the United States' closest partners in NATO Europe are dramatically slashing their defense budgets. They have not contributed much of substance in Afghanistan and are struggling to subdue a fifth-rate opponent in Libya.

propose to China is for Washington ''to accommodate a rising China by offering it status and position within the regional order in return for Beijing's acceptance and accommodation of Washington's core interests, which include remaining a dominant security provider within East Asia'' (Ikenberry 2011:356). It is easy to see why the United States would want to cut such a deal but it is hard to see what's in it for China. American hegemony is waning and China is ascending, and there is zero reason for China to accept this bargain because it aims to be the hegemon in its own region. The unfolding Sino-American rivalry in East Asia can be seen as an example of Dodge City syndrome (in American Western movies, one gunslinger says to the other: ''This town ain't big enough for both of us'') or as a geopolitical example of Newtonian physics (two hegemons cannot occupy the same region at the same time). From either perspective, the dangers should be obvious: unless the United States is willing to accept China's ascendancy in East (and Southeast) Asia, Washington and Beijing are on a collision course.

Conclusion

The Cold War's end stifled the burgeoning late 1980s' debate about America's relative decline while triggering a new debate about unipolarity. In the Great Recession's aftermath, a verdict on those debates now can be rendered. First, it turns out the declinists were right after all. The United States' power has declined relatively. By 2014, the US share of global GDP will shrink to 18%, which is well below the ''normal'' post–World War II share of 22% to 25% (Nye 1991, 2011). Just as the 1980s declinists predicted, chronic budget and current account deficits, overconsumption, undersaving, and deindustrialization have exacted their toll on the American economy.

Judgment also now can be rendered on the debate between balance of power realists and unipolar stability theorists. As balance of power realists predicted, one new great power already has emerged to act as a counterweight to American power, with others waiting in the wings. In contrast to unipolar stability theorists who said unipolarity would extend well into the twenty-first century, balance of power realists predicted that unipolarity would come to an end around 2010. Instead of looking at the trend lines fueling China's rise and America's decline, unipolar stability theorists were wrong because they relied on static measures of national power and failed to grasp the velocity of China's rise. If, indeed, it has not already done so, sometime this decade—perhaps as early as 2016—China's GDP will surpass the United States'. No longer is China an emerging great power; it is a ''risen'' one. The debate about unipolarity is over. The balance of power realists have won.

The distribution of power in international political system is shifting dramatically. The US grand strategy must respond to the emerging constellation of power. Yet, US policymakers and many security studies scholars are in thrall to a peculiar form of denialism. First, they believe the world still is unipolar even in the face of overwhelming evidence that it is not. Second, they believe that even if unipolarity were to end, there would be no real consequences for the United States because it will still be the ''pivotal'' power in international politics, and the essential features of the ''liberal order''—the *Pax Americana*—will remain in place even though no longer buttressed by the US economic and military power that have undergirded it since its inception after World War II. This is myopic. Hegemonic decline always has consequences. As the twenty-first century's second decade begins, history and multipolarity are staging a comeback. The world figures to become a much more turbulent place geopolitically than it was during the era of the *Pax Americana*. Accepting the reality of the Unipolar Exit—coming to grips with its own decline and the end of unipolarity symbolized by China's rise—will be the United States' central grand strategic preoccupation during the next ten to fifteen years.

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