Chapter-II Notions of Hegemony and U.S Power
This chapter is primarily a continuation of our search of the interventionary behavior of dominant hegemonic powers over weak states. It focuses mainly on United States role in Africa during the seventies and eighties. Analysing U.S. role during this period is by no means an easy task, for, as a dominant power within the capitalist world United States was facing a serious crisis of credibility as a nation both on economic as well as foreign policy fronts. Addressing any foreign policy issue without the knowledge of the state of American economy during this period would seriously impair a holistic assessment of any given situation. In view of this, we can proceed to appraise the U.S. power with reference to the overall performance of its economy. Our understanding will be informed by a few important scholarly writings in this domain.

The United States power in the seventies and eighties has been perceived differently by different perspectives. For instance, scholars like Robert Gilpin who belongs to the realist tradition have seen American hegemony on the decline. Some Marxist scholars like James Petras and world system scholars like Wallerstein have also attested this prognosis of Gilpin. However, scholars like Stephen Gill working within the Gramscian tradition have visualised the ascent of American hegemony in the world capitalist economy despite momentary setbacks as witnessed during 1970s and 80s. Susan Strange, a liberal eclectic scholar is of the view that, although U.S. has relatively declined viv-a-vis Western Europe and Japan, it has sustained structural dominance over the international system.
In view of these varying assessments of American hegemony, the present chapter has been organised as follows. First, it would highlight the perspectives of Robert Gilpin, Robert Keohane, Immanuel Wallerstein, James Petras etc; that underline the U.S. hegemonic decline thesis followed by the perspectives of Susan Strange and Stephen Gill that provide a counterpoint to the notion of U.S. hegemonic decline.

Robert Gilpin and the American hegemonic decline thesis

Robert Gilpin belongs to the realist tradition of scholars like E.H. Carr and Hans Morgenthau who understood inter-state relations as inherently conflictual. It is a Hobbesian state of nature where states are perpetually struggling to safeguard their existence in an anarchic world system i.e. lacking a higher authority to enforce norms of inter-state behaviour. For the Realists, the salient features of the international system are (1) the existence of sovereign nation-states who have no higher authority than themselves, (2) the fundamentally competitive nature of relations between nation states, although there is a possibility of cooperation in the pursuit of national interests, (3) the primary motivations of nation-states in such an anarchic system are the quest for power and material well-being (Security).

The economic variant of Realism is mercantilism, which emphasizes the interventionist role of the state in the economy. This involves national policy of self-sufficiency in terms of strategic commodities and minerals, which reduces dependence on other nations. If this is not possible, it should endeavour to obtain guaranteed access to crucial technologies
and commodities for domestic industry. This is the state sponsored economic development through international trade. Realism and mercantilism coincide in that strong national economies are necessary to support the military establishments required to protect national sovereignty.\(^1\) Gilpin in trying to understand international political economy in his book "The Political Economy of International Relations" argues that "a hegemon is necessary to the existence of a liberal international economy. Whether such an economy is conceived as a collective good or a private good shared by a particular group of states, historical experience suggests that, in the absence of a dominant liberal power, international economic cooperation has been extremely difficult to attain or sustain and conflict has been the norm".\(^2\)

Gilpin argues that, the hegemonic powers use their preponderance of economic and military capabilities to construct and maintain liberal regimes, regulating international trade and monetary affairs. The United States in the Post Second World War era erected an elaborate network of Political military and economic institutions and regimes such as the NATO and the Bretton woods agreement which led to the establishment of the International Monetary Fund (IMF), the World Bank etc., which integrated Western Europe, Japan and the non-communist third world into a liberal international economy which gave maximum scope for the expansion of economic forces, particularly those centered in the United States. All this was made possible by the predominant position it had in the world economy during the 1940s and 1950s. Most of the European nations and Japan relied mostly on the United States for rebuilding their war shattered economies. Large infusions of aid and exports of primary products and manufactured goods by the
U.S. put the West European economies back on their feet. At the same time, perception of a growing threat from the Soviet Union and their inability to defend themselves made them dependent on U.S. military protection. These entire factors formed a U.S led liberal international economy.

The United States was able to maintain economic integration and political coordination by its willingness to bear a disproportionately large share of costs. The U.S did this by providing massive economic assistance, which averaged 1 - 3 per cent a year of U.S. Gross National Product (GNP) during 1950s. From 1945 to 1970, the U.S. provided in total more than $134 billion in direct economic aid and defense support assistance, mostly in the form of grants, to 130 nations. The U.S. also took upon itself the risk of nuclear destruction vis-a-vis the Soviet Union. The military expenditures from the mid-1950s to the mid 1960s - that is, after the Korean war and before the build up for the Vietnam war - averaged nearly 9 per cent a year of U.S. GNP, while its European allies spent less than half as much of their G.N.P.s. Finally, the U.S fostered international economic integration by keeping its economy fairly open by reducing restrictions on import and exports compared to any other member of the system. The U.S. was the largest market on the planet during 1950s. Its GNP was about half of world GNP and the proportion was still more than a third in 1970; U.S. imports were nearly 16 per cent of total world import during 1950 and around 14 per cent during 1970. Thus, the U.S. by giving access to its market on favourable terms helped in a steady growth of world economy especially the West European and Japanese economics which witnessed high growth rates during 1950s and 1960s.
Gilpin believes that "the U.S has been motivated more by enlightened self-interest and security objectives. The U.S has assumed leadership responsibilities because it has been in its economic, political and even ideological interest to do so or at least it has believed this to be the case. To secure long-term interests the U.S. has been willing to pay the short-term and additional costs of supporting the international economic and political system".  

However, by the 1970s American economic dominance began to wane. This was mainly due to some structural transformations that took place in global economy. Firstly, the Bretton Woods system as monetary institution brokedown when president Nixon in August 1971 broke a commitment on the part of the USA to exchange gold for dollars at a fixed rate. This rupture, together with a move to floating exchange rates in 1973, led to a quick deregulation of international monetary affairs. Secondly, the U.S. lost control over the energy market when the OPEC steeply raised its oil prices in 1973. Thirdly, the emergence of new competitors such as Japan and the Southeast Asian threshold nations with spectacular growth rates began to eat into the international as well as domestic market share. This was also a period of transition from a dominant economy to an interdependent economy.

The American economy during 1970s and 80s witnessed dramatic decline in growth rate from around 3% annually in the post-war years to an incredible low of .8% in the 1970s.  
Between 1953-1954 and 1979-1980, imports as a share of GNP more than doubled from
4.3% to 10.6%. Between 1980 to 1984, there was a further rise of imports from 11.4% to 15.3%. America during this period was running a deficit trade balance with almost all the countries it was trading with. By 1985, the American trade deficit was $150 billion and $50 billion of that was with Japan. The surplus trade balance of $20 billion it has with the Western Europe in 1980 also turned into a $15 billion deficit by 1984. As trade deficits and economic unemployment rose, the U.S started exploiting its hegemonic position by pursuing protectionist policies leading to inflationary forces and global economic instability. In Conybeare's phrase, the U.S has become "a predatory hegemon". In this context Gilpin believes that "the tendency toward breakdown or fragmentation of the system greatly increases with the relative decline of the hegemon." He is also very pessimistic about the possibilities for rational co-operation amongst the major capitalist states and their ability to manage the world economy. Thus Gilpin attempted to give a broad picture of the relative American economic decline which has also its impact on the overall hegemony it wields in the political and military domains.

Robert Keohane and after Hegemony

Robert Keohane, one of the originators of the transnationalism approach in his book "After Hegemony" published in 1984, essentially argued the decline of American hegemony since the mid 1960s. Keohane seems to believe the U.S will never be able to regain its hegemonic position in the near future and any cooperation that underlies interaction between states has to be a non-hegemonic cooperation. This is a crucial
argument in the sense that, it contradicts the Realist claim that great hegemonic powers are necessary for maintaining order in the system.

Keohane, however, knew that non-hegemonic cooperation is difficult since independent states tend to behave in a selfish manner than work towards a common good. But he also believed that, "Though there is persistence of discord, world politics is not a state of war and states do have complementary interests, which make certain forms of cooperation potentially beneficial". The international regimes erected in the Post-world War-II phase such as the oil regime etc., gain salience during periods of hegemonic decline since they create a favourable climate for cooperation than would otherwise exist. Keohane argues that.... "the network of international regimes bequeathed to contemporary international political economy by American hegemony provides a valuable foundation for constructing post-hegemonic patterns of cooperation, which can be used by policy makers interested in achieving their objectives through multilateral action".

Wallerstein and the crisis of the capitalist world economy

Wallerstein's world system approach is an attempt to chart the course of capitalist development as a 'world system' since the sixteenth century. He argues that in the late Middle Ages in West Europe the crisis of feudalism led to the new system of capitalism by which the elite restored their ability to extract surplus value, "the new system consolidated itself in Europe (by about 1650) and went on from there to take over the
world, in the process eliminating all alternative modes of social organisation and establishing a single division of labour throughout the globe for the first time in human history". The world system is a stratified, functionally interrelated global market containing three levels: the core, the semi-periphery and the periphery. As these three levels came under the influence of international trade and later colonialism, they began to specialise in certain economic activities - the core in capitalist agriculture and industry, the periphery in single crop agriculture or mining for export. The semi-periphery has a dualistic economy, exporting raw materials to the core as well as manufactured goods to the periphery. As specialization advanced, disparities developed in exchange relations between the core and the peripheral states resulting in an outflow of surplus from the periphery to the core. This outflow left the periphery in a weakened condition, retarding the state development there and ultimately leading periphery nations into economic and political dependence. "It is the operations of the world market forces which accentuate the differences, institutionalise them, and make them impossible to surmount over the long run." 

However, any given state has the possibility of shifting across the spatial hierarchy which is constant depending upon the type of economic activity that is being carried i.e. whether its activity resembles core-like or periphery like. But what makes a production process core-like or periphery-like is the degree to which it incorporates labour-value, is technologically driven and is highly profitable and all these characteristics shift overtime for any given product because of "product cycles". In such a situation no product can be seen as inherently core-like or periphery like but each has that characteristic for a given
time. Nevertheless, there are always some products, which are core-like, and others, which are periphery-like at any given, time.

Wallerstein argues that, although there is a possibility of upward and downward movement within the world system, a basic structure of extreme inequality persists. This is maintained by either 'formal' i.e. military power or 'informal' means as with the indirect application of market power. It is here, the centrality of class alliances between the transnational bourgeoisie of the core states and the comprador elements within the elite of the peripheral and semi-peripheral states come into focus in maintaining the core's economic dominance.

Apart from the premises of world system theory mentioned above Wallerstein in his recent article\textsuperscript{14} undertook the task of surveying the major development in the world system since 1945 and also forecast the short term (upto 2000) and middle term future (2000 - 2050) of world capitalist economy. The study is also an attempt to understand the world economic cycles of expansion and contraction in terms of Kondratieff Cycles. Here Wallerstein takes the example of the U.S as a hegemonic power undergoing economic decline, which corresponds to the 'B' phase of the Kondratieff cycle. It can also be seen as a study to probe the linkage between the economic cycles and hegemonic positions.\textsuperscript{15}

In the last two centuries i.e., from the beginning of industrialisation - economists have observed several statistical time series which have shown rising and declining movements
of world economy which could be interpreted as waves with a period of about 40 years. In economic literature the Russian economist N.D.Kondratiev is generally credited with the discovery of the long waves and the cycles are named after him. The Kondratieff cycle consists of two phases - phase -A and phase - B. The phase-A is one of economic growth and expansion. This is also period of relative monopolies in few leading products for which the rate of profit is high.\(^{17}\) The phase-B is marked by economic stagnation and loss of profits. The relative monopoly situation occurring in the A-Phase is eroded with the entry of a number of competitors in the world market. "The Kondratieff B-phase has also the general characteristics of relatively high world wide unemployment of wageworkers; acute politicized competition among core-countries for the tighter world market; increased economic suffering in many sectors and (at least as important) a sense in many sectors that they are suffering by comparison with the previous A-period; increased world concentration of capital; geographical relocation of production processes; and a search for product innovations.\(^{18}\)

Wallerstein argues that U.S. hegemony coincides with the A-phase of the Kondratieff cycle starting from 1945 to 1967. This was a period of unprecedented economic growth and productivity and the U.S became the unquestioned leader in the realms of military superiority, political leadership and cultural influence. But this growth phase-A proved to be shortlived and since 1967/73 the world-economy witnessed the onset of phase-B of the Kondratieff cycle. The period of economic stagnation starting from 1973 has also been a period of declining U.S hegemony. The erosion of American competitiveness in production and the catching up of its western allies and Japan seriously undermined
American political and economic leadership. Thus Wallerstein argues that Americans lost its hegemonic status during 70s and it is not likely to regain it in the near future.

James Petras : U.S. hegemony under Siege

James Petras belongs to the neo-Marxist tradition subscribing to the class analysis approach. He believes that the 'class analysis in world-historic perspective' is better equipped to deal with the issues of modern world. Petras argues "that the key units of analysis are the state (including the imperial state) and class relations - particularly the process of class formation and its impact on capital accumulation and regional and world markets". He contends that, apart from the world market, the classes too have a role in shaping the dynamics of capital accumulation. The institutions, struggles and collective consciousness impact the world market conditions mediated by the state as much as they are affected by the world market. This mutual impact shapes the political choices in the modern world.

In his recent book "U.S. Hegemony under Siege: Class, Politics and Development in Latin-America" Petras contextualizes the decline of U.S. hegemony in a broad analysis of the shift in political and economic structures within the U.S and the centrality of violence as a consequence of these shifts.

The basic premises which help in understanding the hegemonic decline of the U.S according to Petras are the structural shifts that took place in the economic and political
spheres. The primacy of the productive capital, which ushered in an era of stupendous economic growth and prosperity until the 1960s was replaced by the finance capital. This involved less capital being invested in productive activities in relation to the financial transactions, which took on the nature of speculation on a worldwide scale. This growth in speculative financial activities has structurally transformed the domestic economy into one where, in the felicitous terms of Paul Sweezy and Harry Magdoff, 'making money' has become relatively much more important than 'making goods'. The productivity edge that the U.S. maintained until 1960s vis-a-vis the West European and Japanese economies began to decline with this structural shift. In 1950, the U.S.A. produced 40% and western Europe/Japan less than 22% of world's goods and services. By 1980, these figures were reversed to 23 per cent and 39 per cent respectively. Between 1960 and 1980, the U.S. share of world trade declined from 16 per cent to 11 per cent, with the worsening competitive position most marked in manufacturing (market share down from 26 per cent to 18 per cent). These figures give a dramatic picture of the decline of U.S. economy, especially in the manufacturing sectors.

The structural shift in the economy is only matched in the realm of politics with the arrival of a new breed of politicians with a penchant for military adventurism (Ollie North); the ideologue and political gangster as the most influential policy maker on Latin American Affairs (Elliot Abrams); and others lumpen intellectuals inside or linked to the State (Jeane Kirkpatrick, Fred Ikle, Richard Perle, Patrick Buchanan, Vernon Walters and so on). Petras portrays these lumpen intellectuals as shaping U.S. foreign policy into a military doctrine devoid of any clear-cut economic interests. This change in foreign
policy behaviour is seen to compensate for the loss of hegemonic power in economic, diplomatic and political spheres. The U.S attitude towards the third world reflects the militarization of its foreign policy. Beginning in the late 70s and escalating into the 1980s, third world witnessed a spate of American interventions.\textsuperscript{21} The military strategy in the third world was not directed merely at defending existing client regimes through the supply of repressive equipment but to overthrowing existing regimes through violent action directly with U.S. forces (Grenada, Libya, Panama) or through wars of attrition using surrogates (Nicaragua, Mozambique, Angola).\textsuperscript{22} The militarist foreign policy has the backing of neo-conservative ideologues and the government bureaucracy, which cooperated and cohabited with the political modern world mercenaries, adventurers, death-squad hitmen, and narco-traffickers). The corporate groups acquiesced to this situation since they no longer had any economic states in these parts of the third world. The militarization of foreign policy instead of reversing the hegemonic decline exacerbated it.

Petras in focussing his attention on the role of the U.S. imperial state in the decline of its hegemonic position argues that the imbalance between the internal components of the imperial state i.e. between military/ideological on the one hand and economic on the others had serious consequences for its overall position in the capitalist world economy. This imbalance came about in the process of stemming the revolutionary upheavals across the third world in countries like Vietnam, Central America, Southern Africa, Middle East, South Asia etc. During this phase the military/ideological components were given precedence over the economic components. This is contrast to the
West European and Japanese economies which stressed more on the economic component during the 70s and 80s resulting in their competitiveness and steep economic growth during the time when the U.S. was waging wars in the third world and pursuing cold war with the Soviet Union. Petras also believed that hegemonic status of any state is not determined by the ties between the core and the periphery or conflict between the U.S. and the third world but by relations and competition between the major capitalist countries. The third world played the role only to the extent of displacing the dominance of one imperial power and facilitating competitiveness among capitalist powers.

As the crisis of hegemony deepened in the 1970s, the U.S. in order to restore its lost power tried the strategy of detente. Detente was an attempt to reach agreement with the Soviet Union to accept the status quo regarding the spheres of influence and the arms race. It was also an attempt at cutting down the military expenditures and activities in order to restore the lost equilibrium between the imperial state and the capital. The U.S. hope of restraining the Soviet Union through detente however was belied and the Soviet overtures toward revolutionary third world countries ironically escalated the military spending by the U.S. dashing all-American calculations. Failure of detente has once again brought disequilibrium between the ideological and military components and the economic components resulting in military adventurism during the Reagan's presidency in 1980s. Petras argues that, "the interaction between productive capital and the economic agencies of the state, are central to the creation of global hegemonic powers". The rise and decline of U.S. Global hegemony between 1950 and the 1980s according to petras is
the subordination of the military-ideological to economic agencies of the imperial state and vice-versa.

**Susan Strange and the structural strength of American hegemony**

Susan Strange is a liberal eclectic scholar who does not subscribe to the view that U.S. hegemony is on the decline. The central argument of her book *States and Markets: An Introduction to International Political Economy* is that, power exercised in a world system is of two kinds - relational power and structural power. Relational power according to strange "is the power of A to get to B to do something they would not otherwise do". Structural power on the otherhand sets the framework within which A, B, and all the others act. It is the power of designing international regimes and norms that govern international economic relations. The actors - whether states, individuals, corporations having structural power often need not exercise power directly over others because the frameworks for action tend to produce results favourable to them without a direct use of their relational power. Structural power, thus is generally more important than relational power.

Structural power according to Susan Strange is to be found in four separate distinguishable but related primary structures. They are the security structure i.e. the military-political component; production, finance and knowledge. Subordinate to these primary structures are a larger number of 'aspects of political economy that are in some sense structures'. Susan Strange discusses four of these: transport, trade, energy and
welfare. This view of political economy differs from the Marxist or neo-Marxist view of structural power, which lays great stress on only one of her four structures i.e., the structure of production. Her image of structural model is a 'four-faceted triangular pyramid or tetrahedron'. Each touches the other three and is held in place by them. Each facet represents one of the four structures through which power is exercised on particular relationships. This structural model does not privilege any one structure against another like the Marxist models. Strange contends that "there is a sense in which each facet security, production, finance and knowledge plus beliefs is basis for the others. But to represent the others as resting permanently on any one more than on the others suggests that one is dominant. This is not necessarily or always so".29

Thus, states or any international actors possessing these structural attributes of threatening or preserving people's security; controlling the mode of production of goods and services; controlling the supply and distribution of credit and finally controlling of knowledge by the possessors in deciding the access to it or denying it, exercise hegemony in international politics.

Susan Strange in her book takes issue with some liberal and neo-Marxist scholars about the decline of American hegemony in the 70s and 80s. She doubts that U.S. power within the four primary structures had declined. What has changed is U.S. behaviour, which has become more unilateral and self-serving, disregarding both the interests of allies and the general interest of the system. In her words "the U.S. Government and the corporations dependent upon it have not in fact lost structural power in and over the system. They may
have changed their mind about how to use it, but they have not lost it. Nor taking the four structures of power together, are they likely to do so in the foreseeable future." She argues that, counting only output or of manufactured goods is not a reliable indicator of U.S. decline. In a world dominated by service industries like banking, insurance data storage and retrieval the U.S. is quite strong and no economy in the world is a match for the U.S. As regards the decline in productivity growth vis-a-vis Japan and other European economies, Strange feels that, the U.S. had such a headstart that is can afford lower annual growth rates before other states catch up.

Thus, Susan Strange is of the view that, U.S. hegemony is not on the decline and it still continues to wield structural power although, it appears to have declined in relative terms in certain sectors of the economy like manufacturing of goods, and trade vis-a-vis Japan and other West European economies.

Stephen Gill and the Structural dominance of U.S. Hegemony

Stephen Gill is a Gramscian Marxist scholar who tried to understand the structural transformations that have taken place in the global politics since the 70s. The innovative approach employed in understanding the global structural transformation lies in his use of Gramscian concept of hegemony. This approach unlike the Orthodox Marxist view or the liberal view does not take the states as primary actors in global politics. Gill understood global politics in much more complex social and political formations. He believes that non-Gramscian Marxism or liberalism for that matter, lacked concepts to grasp how capitalism evolves and overcomes crises at historical junctures. In addition, the use of
Gramscian concept of 'international civil society' presents the possibility of going beyond the state and understanding more fully the meaning and significance of transnational social forces.32

Stephen Gills book, "American hegemony and the Trilateral commission" focuses on the U.S. and constructs an analysis of the changing structure of global political economy and the way in which the U.S. has attempted to define that structure for its own end. Gill is concerned with the question of U.S. hegemony and the role of the trilateral commission as an essential component of that hegemony. By focussing on the Gramscian concept of 'hegemony' Gill brings out an interesting analysis on the power of transnational capital. Within this extended theoretical frame he is able to analyse the nature and importance of the trilateral commission.

However, for the purpose of our study we do not intend to explore the hegemonic linkage between the transnational forces and the trilateral commission. We are concerned here with only the decline of U.S. hegemony, which Gill refutes vehemently in his book. Gill, like Susan Strange does not accept the view that the U.S. hegemony is on the decline.

He defines hegemony not in terms of the preponderance of economic and military capabilities of one state in the interstate system but employs it in a Weberian notion of power over domination. This can be either overt or covert and is usually associated with intentional action. "Where this concept of hegemony is linked to more structural forms of power it often rests upon material aggregates: The states with a disproportionately high
share of economic power, resources and military might exercise structural domination, in
the same way as a monopolist dominates the market behaviour of smaller firms." The
U.S. owing to its military and economic might in the international system has the
capability to create framework of policies within which most other states are constrained
to operate. However, this structural power of the U.S. is not as visible as other forms of
relative power in areas like production, trade etc. Although the U.S. has relatively
deprecated since the 1970s in terms of production and trade vis-a-vis European and
Japanese economies, Gill argues that, the decline theorists were misled by the aggregate
figures relating to manufacture and trade and failed to understand the qualitative
transformations that were taking place within the American and Global Political
economies. Citing Robert Cox, a Gramscian structuralist Gill suggests "that the era since
the early 1970s has been non-hegemonic, or at the very least it is characterized by, in
Gramscian terms, a crisis of hegemony. This crisis should not be confused with a crisis in
US power as such. Rather, it is a crisis in social and political aspects of the world order
system. A less consensual order appears to be emerging, unbalancing the relations
between capital and labour between capital and state and between political and economic
aspects in the system more generally."

Since the 1970s and 80s, the global political economy has been witnessing profound
changes in terms of a shift from national forms of capital accumulation to one of
transnationalisation. The transnationalisation of the world economy is one of the most
significant events of the postwar period. The revolutionary development of technology
in transportation and communication has made markets in different countries
interdependent to an even larger extent than previously. As a result, trade and financial
flows between countries have become even more sensitive to changes in relative prices.
Another new feature is the globalisation of entrepreneurship and technology and the
emergence of the transnational corporation. This development also has been facilitated by
technological progress in transportation and communication over large distances, which
has made it possible to operate global organisations efficiently. The transnational activity
as a revolutionary phenomenon in global political economy affected areas of economic
production, trade and finance.35

Production of goods as a form of economic activity until the 60s and 70s was mainly a
domestic activity. Manufacturers of products felt secure in knowing that the domestic
economy could absorb their production. However, the rapid pace of technological change
has shook manufacturers out of their complacency and competitive entrepreneurs began
to supply the market with new products or make them with new materials or new
processes. At the same time, product and process lifetimes have shortened, sometimes
dramatically. The costs of investment in R&D and innovations also rose forcing
manufactures to search for additional markets abroad to gain profits to amortize their
investments in time to stay up with the competition when the next technological advance
comes along. Another important shift in the realm of production along with the
technological changes is the internationalization of production i.e. Production activity
occurring at different locations in other countries other than their home.
The second important structural change that has undermined the earlier Post-World War II economic order is the liberalization of international finance, beginning perhaps with the innovation of Euro currency dealing and lending in the 1960s, and continuing unchecked with the measures of financial deregulation initiated by the United States in the mid 1970s and early 1980s. As barriers went down, the mobility of capital went up. The old difficulties of raising money for investment in offshore operations and moving it across the exchanges vanished. It was either unnecessary for the transnational corporations to find new funds, or they could do so locally.

The third significant contributing factor, which has often been overlooked, is the steady and cumulative lowering of the real costs of border transport and communication. Without them, central strategic planning of far-flung affiliates would have been riskier and more difficult, and outsourcing of components for manufacture would have been hampered. Thus, the structural changes that have occurred in the areas of production, finance, communication, trade etc, has shaped the contemporary global political economy destroying or gradually undermining the form of postwar international economic order based on the Brettonwood system. The basic argument, however, lies in understanding this global integration process based on asymmetrical and unequal terms.

Here some observations of Fred Halliday on Hegemonic internationalism are pertinent.

"It remains a belief, often expressed in forth right terms in the international relations literature that international security and prosperity can only be maintained by hegemonic
activity of a more or less decorous kind by the leading states. For those who benefit from it, hegemonic internationalism is not, of course, incompatible with nationalism but is an extension of it.”

Hegemony exercised by the leading states such as the U.S. does not necessarily involve coercive tactics or outright intervention. Hegemony can also be exercised in many different ways, which might look cooperative and beneficial. One such example is the role of the Trilateral Commission (TC) which brings together the OECD countries, Japan and the U.S. on a platform to coordinate and integrate their economies who in turn set global economic agendas. The developing third world countries are constrained to operate within the parameter set by the hegemonic powers and the free trade agenda pursued by these powers. The slogan of free trade which is believed to be beneficial to all the countries is in fact not a free one since most of the developing countries cannot match the economic power of the developed world and the global economic interaction is carried out mostly on the terms of the hegemonic powers. Thus, Stephen Gill, discounts arguments about the decline of U.S. hegemony and highlights the structural changes that have altered the landscape of the global political economy and also the essential hegemonic dominance of the U.S. in this new global economic order.

Recession and Reaganomics

The Seventies and Eighties marked one of the severest economic crisis that engulfed most of the world economy. The crisis was sparked off by the oil price hikes imposed by the
OPEC (Organisation of Petroleum Exporting Countries) during 1973-74 resulting in a general slowdown in growth rates of almost all groups of countries ie. the western economies, the oil exporting countries and the non-oil exporting developing world. The growth in per capita output of industrial countries between 1973 and 1983 was 1.7 percent per annum, in contrast to 3.7 per cent in the former period and that of the oil exporting countries fell from 5.6 to 3.8 percent in the two periods. The non-oil developing countries per capita growth rates fell from 3.6 to 2.7 per cent in the two periods. In the Western hemisphere, the growth in per capita output in 1973-82 was 2 per cent compared with 3.3 per cent in the previous decade. In the United States, the 1979-82 recession was the worst since the 1930s. The effects of the slowdown were particularly severe for less-developed and indebted nations especially in Latin America and Africa.\(^{37}\)

However, the global recession during the 70s and 80s which was apparently sparked off by the oil price hikes is not the only single important reason that resulted in a global economic downturn. The tens of billions of petrodollars that were generated as a result of the oil prices hikes along with the Eurodollars\(^{38}\) found their way into the vaults of the big commercial banks only to be recycled back in the form of loans to the developing countries.\(^{39}\) The Developing Countries hungry for external financing for their developmental needs began attracting the 'easy money' that was made available to them by the private banks on low interest rates, resulting in an indiscriminate borrowing spree. The antecedent to this debt crisis of the 70s and the 80s is the shift in the pattern of third world financing from concessionaire financing consisting mainly of long term, low
interest, project related to non-confessional, private bank lending. One of the reasons, which prompted this switch, was the weakening of the Brettonwoods objectives. The essence of these objectives was to redress and expand the world capitalist system, which was badly shaken by the war and threatened by the spread of national liberation and other social movements in many parts of the world. The institution of the IMF (International Monetary Fund) and the World Bank helped the war-ravaged Europe and Japan in their economic reconstruction in the postwar phase. Soon after, the United States began to divert the resources of these institutions to the third world.

To understand U.S. interest in the third world we need to look at the changing world politics of the 50s and 60s. The Soviet Union emerged as a major political force with its socialist vision in the third world. Soviet Union was challenging U.S. influence in the third world by helping national liberation struggles in Asia and Africa. The U.S. in order to contain the Soviet challenge in the third world was placed in an ambivalent Position whether to support national liberation struggles or to back its European allies who were still controlling colonial territories and in effect, kept U.S. Capital out of those territories and markets. Here the U.S was competing with its allies for the third world markets and raw materials.

Under these circumstances, the U.S. began using its economic strength by giving financial assistance to some of the third world countries, which were willing to toe their line. This financial assistance was primarily based on geopolitical and long term economic considerations than short term, cost-benefit calculations. And this is why most
of the financial flows to these countries at that time were in the form of either outright aid or concessionary, development-related loans through multilateral institutions.

However, by the late 1960s and the early 1970s, most of the challenges from the Soviet Union became less threatening and the sociopolitical upheavals in the ex-colonies and less developed countries had also ebbed. In the case of Africa and some countries in Asia, the economic and cultural ties binding them to Europe proved to be more powerful than Soviet Union's ideological strength. Most of the developing countries had by then adopted a capitalist path of development, which created favourable conditions for large European private banks to lend to the third world countries on a commercial basis. This move by the private banks was also reinforced by the favourable legislative conditions as OECD countries relaxed barriers that previously hampered commercial lending to developing countries. Thus, the shift from the concessionary financing to indiscriminate non-concessional private lending in the post-OPEC price hike created anarchy in the financial world leading to one of the most severe debt-crisis that shook the global economy during the 70s and 80s.

As mounting repayments on foreign debts aggravated balance of payment deficits, most third world governments turned to the IMF and World Bank for assistance. This gave an opportunity for these institutions to prescribe neoclassical strategies which involved government's non-intervention in the market, austerity measures and currency devaluation etc., which were part of a larger consensus among the OECD countries to tide over the debt crisis. Many third world governments followed these prescriptions and the
plight of these countries worsened and at the same time gave the affluent economies of
the west a firm leverage over the economic destiny of these countries.\textsuperscript{42}

Reaganomics

The second oil price hike in 1979-80 proved to be the proverbial last straw on the camel's
back when the price hikes sparked off inflation and the growth in world output stopped
and the global economy slipped into recession. The policy response of the OECD
countries to the 1979-80 oil price hikes was diametrically opposed to its response in
1973-74. Instead of maintaining expansionary monetary policy in order to maintain the
level of growth, of income and world trade, these countries now resorted to tight
monetary policy to control inflation. The new policy created a ripple effect in the opposite
direction of the previous period: interest rates shot up, growth slowed down and
recessionary cycle of 1980-82 set in, and the export earnings of deficit countries began to
drop.

In the United States, the Reagan administration which came to power in 1980, focussed
its attention on the recovery of the economy. By advocating supply side economics and
tax cutting measures, the Reagan administration wanted to stimulate the economy so that
it would once more grow as rapidly as it had during the 1950s and 1960s. Military
spending was also vastly increased as a fiscal measure to spur growth.\textsuperscript{43} These
developments, in turn, led to widespread corporate restructuring which resulted in a large
number of non-competitive sectors of the economy going out of business. The American
manufacturing capital shifted many of its assets towards high-profit sectors like energy reserves, financial services, real-estate, high-tech industries and defence.

According to Stephen Gill, "recessions had obvious short term purgative effects associated with a down swing in the business cycle. This promoted a general restructuring of capital labour relations. For example, during 1979-82 there were record number of bankruptcies, and the decline of older, less-competitive industries was accelerated. Thus, noteworthy links between different aspects of global restructuring in the late 1970s and early 1980s were discernible. In many ways the recession of the early 1980s can be seen as facilitating the material and ideological renovation of American hegemony".  

Reaganomics, thus paved the way for a new resurgence of American economic strength and the launching of a new international economic order characterized by global interpenetration of capital and the power of the transnational corporations. It also led to a global macroeconomic restructuring where mobile forms of capital dominated the global political economy.

Thus, the major theoretical approaches discussed in this chapter contains important insights towards achieving a more accurate understanding of the interface between politics and economics in international relations. As a continuation of this understanding, the next chapter deals with the American intervention in Africa during the 70s and 80s. It explores how the economic decline of the U.S. during the 70s coupled with the serious
setbacks on the foreign policy fronts such as the Vietnam, Angolan and Afghan crises shaped American attitude towards the third world in general and Africa in particular.
Notes


4. Ibid, P. 16.


7. Ibid, P. 90.

8. Ibid, P. 91.


11. Ibid, P. 245.


15. See Appendix - Table.1 & Table.2.

16. See Nicole Bousquet's "From Hegemony to Competition: Cycles of the core" in Terence K. Hopkins and Immanuel Wallerstein ed., Processes of the world system (Beverly Hills, London: Sage Publications) 1980, P. 46-83. In this piece Bousquet sketches the Kondratieff cycles of roughly 30 years - 1896 to 1929 - A phase; 1929-1938-1945-B Phase; 1938-1945 to Circa 1970 - A Phase; 1970 - B Phase. Also see George Modelski, "Long Cycles in World Politics" (London: Macmillan Press) 1987, PP. 88-98. for a different perspective. Modelski argues that great wars and leading powers are linked to waves of major innovations, such as the age of discoveries or the industrial revolution, that have made the modern world what it is. Long cycles according to him try to show links between major wars and leadership which occur in repeated patterns and eventually link up to major trends of global development. Modelski finds that the U.S world power cycle is over by the mid - 70s.


20. Ibid, P. 77.


25. Ibid, P. 72, also see James Petras, Steve Vieux's; "Shrinking Democracy and Expanding Trade: New shape of the Imperial State", Economic and Political Weekly, Vol. XXXI, No. 30, July 27, 1996, P. 2016. In this postures of the U.S. Imperial state. He observes that the U.S is assuming more of an economic role and increasingly abandoning its cold war world wide military and ideological tasks in contrast to the 70s and 80s.


27. Ibid, P. 25.


35. See Richard J. Barnet and Ronald E. Muller, Global Reach: the power of the Multinational corporations (NewYork: Simon & Schuster), 1974, PP. 26-44. Also see


38. Euro dollars are the deposits held by the European banks denominated in the U.S dollar. All this started with the USSR and East European countries holding their dollar earnings in those banks. At the time of the cold war it made sense for the Soviet bloc to keep its money away from the U.S banking system and its government regulators. The Euromarkets expanded in the 1960's when the Johnson government attempted to impose restrictions on the growth of foreign lending by U.S banks, and took steps to control domestic interest rates. The intention of these changes was to keep U.S capital at home, but in practice they encouraged U.S companies to finance their overseas operations from U.S and non-U.S banks operating beyond the confines of U.S banking legislation. The most rapid growth of the Euromarket, however, was in the 1970's and early 1980's.


41. Ibid, P. 7.
