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978-0-521-74938-1 - America's Global Advantage: US Hegemony and International Cooperation

Carla Norrlof

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America's Global Advantage

For over sixty years the United States has been the largest economy and most powerful country in the world. However, there is growing speculation that this era of hegemony is under threat as it faces huge trade deficits, a weaker currency, and stretched military resources. *America's Global Advantage* argues that, despite these difficulties, the US will maintain its privileged position. In this original and important contribution to a central subject in International Relations, Carla Norrlof challenges the prevailing wisdom that other states benefit more from US hegemony than the United States itself. By analysing America's structural advantages in trade, money, and security, and the ways in which these advantages reinforce one another, Norrlof shows how and why America benefits from being the dominant power in the world. Contrary to predictions of American decline, she argues that American hegemony will endure for the foreseeable future.

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To family and friends

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Preface

When I began inquiring about the distribution of benefits from trade, I was first looking at countries' relative capacity for trade expansion, synergies between import and export growth, and the determinants of commercial bargaining power. After some time, I realized that evaluating countries' relative propensity for raising imports and exports, and any advantage tied to it, required a parallel assessment of countries' ability to absorb foreign investment and to invest in other countries. Analyzing commercial gains allocation meant getting to work on the politics of investment and monetary relations, and wading through more data than any scholar without a research assistant could possibly wish for. In the meantime, there was renewed interest in cross-border financial transactions in the economics discipline, a string of unprecedented current account deficits in the United States, euro success, and China's rise. One moment there was talk of America as empire, the next forecasts of American decline. But just how much systemic variation is there between the account of America the indispensable power and America the weak? This led me to consider the structural features at the basis of a country's relative standing in the world and the relationship between these features. Was there a bargaining advantage associated with being the largest power in the world, or was it better to be a free-riding smaller power, as so many scholars surmised? My research not only suggests that the United States benefits from being the most dominant power today, but that it will continue to be the greatest power for the foreseeable future. Not all gains are quantifiable in monetary terms but come in the form of an unusually wide policy autonomy window, i.e., a longer time horizon and a greater capacity for risk-taking. Because of the leverage the United States has over other states, it has considerable leeway to pursue policies that would be suicidal if undertaken by any other country. This is not to say that the United States is above all constraint or invulnerable, but rather that it is in a better

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position to gain from international economic relations than are other states – not all of the time, of course, but most of the time. This claim will seem obvious to many readers but is surprisingly controversial in the International Relations and Political Economy literature, where Olson's public goods argument has been completely internalized and where any finding that is not counterintuitive is frowned upon. While I understand that American decline is inevitable in the long run, my analysis adds a cautionary note to all the speculation about imminent decline, which is by no means restricted to our own time but goes back to the 1970s, and never quite seems to materialize in the thunderous fashion that would sound the end of the American era.

Watching the full dread of the financial crisis play itself out in the United States while waiting for reader reports added unwelcome suspense to the review process. Although clearly this is not a book about the credit crunch, it includes aspects of the crisis and fundamentals in the banking sector relevant to assessing America's clout, its relative position, and future prospects.

Acknowledgments

In writing this book I have benefited from the insight, kindness, and generosity of many people. My greatest debt is to Joseph Carens, who read several versions of this manuscript and offered piercing comments, along with unfailing friendship and support. The man deserves a medal for his mentoring and benevolent engagement. When few could see what I was up to, Jennifer Nedelsky took the time to sit down and talk to me about my project, gently pushing me to exhume the core of my argument. David Welch read several chapters several times and offered his expertise and enthusiasm from start to finish. David Welch and Melissa Williams opened their home and made me feel as good as I possibly could when nothing was going my way.

Three distinguished IPE scholars made a big difference. Duncan Snidal has offered advice and encouragement since I defended my thesis. In characteristic good-spirited fashion, he provided trenchant comments on an early version of the manuscript, and welcomed revisions to his model of hegemonic stability theory. Even though we had never met, I sent Benjamin Cohen a paper that engaged with his work, and he responded with unprecedented speed, delivering detailed challenging comments. With the same attention to specifics, and tremendous kindness, he then offered guidance on a subsequent paper. Likewise, Joseph Grieco graciously agreed to chair an APSA panel when I contacted him out of the blue. In his supportive, congenial way, he then provided incisive comments on my paper and gave me excellent advice on how to re-frame it. Robert Pahre also agreed to participate on the same panel. His thorough criticism helped improve my paper and another one as well. Other participants on the panel, Frank Grundig and Hugh Ward, also offered insightful comments and support. Vinod Aggarwal gave me a critical but sympathetic reading of an early draft of the introductory chapter, which helped me advance my project. Louis Pauly and Steven Bernstein delivered thoughtful comments on the introductory chapter as well. Martin Osborne shared

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his reflections on a game-theoretic model. Mark Brawley gave me extremely useful comments on a paper on the IPE of investment, and invited me to talk on the rivalry between the dollar and the euro at McGill. Csaba Nikolenyi offered useful pointers and a generous reading of a paper on America's external liability position. Carol Bertaut sent me a dataset, and a co-authored paper, on cross-border securities, and took the time to answer a series of questions in very precise terms. Cedric Tille looked at a rough draft on external imbalances and offered valuable feedback including recommendations for further reading. In response to e-mail, Pierre-Olivier Gourinchas took the time to clarify some of the criticism that economists at the Federal Reserve Board of Governors had leveled against his work with Helene Rey. I also owe a special thanks to three political economists at the Graduate Institute of International Studies – Urs Luterbacher, Cedric Dupont, and David Sylvan – where I did my PhD. My supervisor, Urs Luterbacher, gave me what game-theoretic tools I have, and the attention and space I needed to develop my own ideas. His views on my work, his encouragement, and his friendship have been invaluable. Cedric Dupont shaped my way of thinking about international institutions and offered me an affiliation, a desk, and moral support at a critical juncture of this book project. David Sylvan taught me to question assumptions in the IPE literature, and gave me incredibly useful advice on the very first proposal for this book project.

Several colleagues at the University of Toronto, in addition to the ones already mentioned, offered advice and encouragement. Many thanks to: David Cameron, Ran Hirschl, Matt Hoffman, Rebecca Kingston, Nancy Kokaz, Neil Nevitte, and Grace Skogstad. I would also like to acknowledge Robert Vipond, Ragnar Buchweitz, John Miron, and John Coleman, for giving me the time and resources to complete this project.

The editors at Cambridge University Press have been terrific. John Haslam was quick on the mail and reassuring when I was impatient for the reviews. Equally fast to turn things around, Carrie Parkinson provided patient, gentle reminders for approaching deadlines, including the ones that I missed. Rosina Di Marzo facilitated every step of the production process, and Juliet Doyle did a great job editing the text. I am also immeasurably grateful to the anonymous reviewers who offered illuminating and constructive commentary.

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I would also like to officially acknowledge previous publications. Parts of chapters 4 and 5 appeared earlier, in different form, in the *Canadian Journal of Political Science*, and parts of chapter 7 in *Cooperation & Conflict*.

Finally, special thanks to my family, Eva-Carin, Claes, Sofia, and Håkan, as well as Karl and other members of my extended family for love and support, and to Isabelle and Marwa for feedback on these chapters and impeccable friendship. This book is for you.