The Invisible Hand of the American Empire

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Before September 11, 2001, only critics linked the United States with empire. Since then many neoconservative commentators have talked with pride and promise of the "new American empire," "the new Rome," referring to the unipolar structure of the interstate system and America's dominant position of military and political power. But this empire has another face: the framework of international economic rules and rule-making organizations. With whatever degree of intentionality, today's international economic architecture ensures that the ordinary operation of world market forces—the process we call globalization—tends to shore up American power by yielding disproportionate economic benefits to Americans and conferring autonomy on U.S. economic policy-makers while curbing the autonomy of all others. It is legitimized by the widespread belief that markets are an expression of the deepest truths about human nature and that as a result they will ultimately be correct.1 The economic benefits that accrue to the United States as the result of the normal working of market forces within this particular framework then provide the basis of American military supremacy, which helps to protect the framework.

To see this, try a thought experiment. Suppose you are an aspiring modern-day Roman emperor in a world of sovereign states, international markets, and capitalist economies. In order not to have to throw your military weight around more than occasionally, you need to act through hegemony rather than coercion and others must think that your predominance is the natural result of commonsensical institutional arrangements that are fair and just. If you—a unitary actor—could single-mindedly create an international framework of market rules to promote your interests, what kind of system would you create? After describing this imaginary system I will show how close it is to our current world system—surprisingly so, given that the United States is not at all a unitary actor.

ECONOMIC GOALS OF THE HEGEMON

As an aspiring hegemon, you need world economy arrangements that will yield you high economic growth, low inflation, low interest rates, high investment, high consumption, a high value of your currency (the dollar), and high prices of your equities. Out of this prosperity you can finance a military many times bigger than anyone else's. You want to be able to ignore the resulting high

current-account deficits, and let the rest of the world's savers finance them at very low interest rates (that is, at a very low financial cost to your economy). In this way your citizens do not have to cut their consumption to free resources for the military sector—they can have more guns and butter than anyone else.

You also want to be able to set key global market parameters in response to your own domestic conditions, especially the value of your currency. To sustain these parameters at your desired level, you need to be able to thwart resistance to your decisions from other major states and decisions in other states that are not to your liking—as, for example, decisions to revalue a currency.

You want the rest of the world—beyond the major states—to depend heavily for its prosperity on exporting to your market, and not have to a strong endogenous growth mechanism. In this way you can harness the rest of the world to your rhythms.

**INTERNATIONAL FINANCIAL ARCHITECTURE**

An international financial architecture that is conducive to your interests will have several features. First, there must be no constraint, such as a gold standard, on your ability to create your currency at will, so that you can finance large current-account deficits with the rest of the world simply by selling your government’s debt securities.

Second, your currency must be the main international currency for foreign exchange reserves, international trade, and foreign exchange speculation. This ensures robust demand from the rest of the world to hold your assets, especially from the regions that are accruing the current-account surpluses that are the other side of your deficits. As a result, you can run your economy at a high growth rate with less fear of exchange rate volatility and macroeconomic instability than could other sovereign debtors, because when your currency falls relative to other currencies your debt service also falls—since your debt repayments are denominated in your own currency. This gives you more policy flexibility, especially freedom to run big deficits, than other debtors have. Most debtor nations are vulnerable to falls in the value of their currency, because their foreign debt burden goes up when the value of the currency falls; and they are therefore vulnerable to the demands of the creditors, who can influence the state of confidence in the foreign exchange markets and therefore the prospects of a fall in the debtor’s currency. However, you, the emperor, want to arrange things so that you can borrow heavily from abroad—and sustain a large stock of debt held by foreigners—while escaping the usual drawbacks of being a debtor economy.

Third, your financial markets must be dominant in international finance. With the biggest, deepest financial markets and with world liquidity (specifically, foreign exchange reserves) being constantly pumped up by your deficit financing, you become the world’s savings entrepôt. Your financial firms arrange the inflows of foreign funds needed to finance your deficits; and they also repackage these funds and invest them back in the rest of the world. Hence your financial firms benefit in boom times, and they benefit in crisis times in the rest of the world (provided the crisis is not bigger than regional) because they do the transactions of flight capital from the crisis region into your safe assets.

Fourth, there must be a single integrated private capital market worldwide, with no barriers to capital flows and no barriers to your financial services firms to enter and

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exit other countries’ markets. Thus the principle of exit, or liquidity, becomes the basic principle of the international economic order, so as to give your asset holders maximum freedom to move in and out of markets anywhere in the world according to short-run profit considerations. It minimizes the extent to which other states can run their political economies on the principle of commitment or long-term obligations and the extent to which they can create an egalitarian capitalism under strict social controls. It supports your central international location.

DERIVED POWER

These four features of the international financial architecture give you powerful tools of economic statecraft relative to everyone else. You have more autonomy to affect the value of your currency in the foreign currency markets, compared to that of other states. In general you want the dollar to be highly valued. The high dollar makes your imports relatively cheap, which keeps domestic inflation down and consumption and investment up. At the same time the inflow of foreign funds needed to finance your deficits exerts downward pressure on your domestic interest rates, despite the high dollar. The lower interest rates also keep consumption and investment up. High investment (financed from the rest of the world’s savings, since yours are low) keeps parts of your economy on the world frontier of innovation and productivity. The high dollar also helps your foreign mergers and acquisitions and your foreign military expenditures.

On the other hand, you also want the autonomy to make the dollar fall in order to deal with domestic problems, perhaps in order to boost exports, revive domestic industry, and shift growth and employment to your citizens at the expense of other countries.

When the main foreign exchange markets in the world are in your territory and your own nationals are playing the markets speculatively, a signal from your central bank that it is planning to change direction in exchange rate policy is instantly multiplied by your own nationals shorting the dollar. They are your policy multiplier. And when your currency accounts for the great majority of other countries’ foreign exchange reserves the effect is amplified. You have the capacity to shift the dollar’s value just by voicing an expectation.

Not only can you affect your own domestic conditions just by managing expectations, but you can also shift your parameters and the markets’ expectations about conditions elsewhere so as to hurt the macroeconomic conditions of would-be rival states. Rival states may have to secure your cooperation in setting the value of some of their key parameters. For example, if they want to revive their economies from a downturn and lower their interest rates in order to depreciate their currency against yours, they need your cooperation not to lower your interest rates—more than you need their cooperation in the opposite case.

The main danger with this power is that it can over-perform and the dollar can not simply fall, but crash. But you can rely on help from other central banks and finance ministries, since the last thing they want is an uncontrolled fall in the value of the main international currency.

The system puts poor countries in your power. It encourages them to borrow internationally, with the debt denominated in your currency and at variable interest rates linked to your interest rates. Hence your decisions about your currency, your interest rates, and your protection against imports from
poor countries profoundly affect economic conditions in poor states—but not vice versa. In conditions of open capital markets, floating exchange rates, and debt incurred at variable interest rates, poor economies are likely to have more volatile growth, more financial crises, and hence higher demand for foreign exchange reserves of your assets (such as your treasury securities).

In fact, in several ways currency crises in poor countries help your economic growth, your economic preeminence, and your hegemony. They generate large inflows of funds into your financial markets even at low rates of interest. They also make the rest of the world more responsive to your signals about your intentions toward your currency and your interest rates. And they reduce the likelihood that over the long haul challengers to your dominance will arise from among the poor countries.

This economic system depends on a political system of sovereign states, not colonies, that can be made responsible for handling the crises it generates in particular territories. It is a postimperial empire. Only in cases of failing or rogue states that control vital resources do you intervene directly.

INTERNATIONAL ORGANIZATIONS

To supervise this international framework you need a flotilla of international organizations that look like cooperatives of member states and confer the legitimacy of multilateralism, but that you can control by setting the rules and blocking outcomes you don’t like.

During crisis periods poor countries have to depend on bailouts from these organizations, and you can set the terms of the bailouts. You use the bailouts to “restructure” the crisis economies in such a way as to prioritize the repayment of your creditors and the advancement of your agenda of worldwide liberalization, privatization, and free capital mobility. The bailout conditionality may include cuts in the borrowing country’s spending on health, education, and infrastructure in order to free up resources for debt servicing; a domestic recession for the same reason; a currency devaluation to generate more exports; elimination of capital controls; and cuts in tariff and nontariff barriers. Replicated across multiple crises these conditionalties generate intense competition among exporters from poor countries, which gives you an inflow of imports at constantly decreasing prices relative to the price of your exports, keeping your inflation down and your living standards up, while poor countries’ terms of trade and living standards fall.

The bailout mechanism through international organizations has another useful function—it lets you shift the risks of debt default away from your private banks to the member states of the international organizations. In the face of a possible debt default to your banks you order one or more international organizations to lend heavily to the indebted countries, on the understanding that the countries will use the money to repay your banks. Your banks take the private profits, and you help them to spread the losses onto the rest of the world.

Likewise you use international organizations to confer the legitimacy of multilateralism—“the wish of the world community”—on your stringent rules of copyright and patent protection. Copyright and patents are one area where you would not preach the doctrine of liberalization, but rather stress the imperative of protection—since your artists and innovators are the predominant holders of copyright and patents. Therefore, you get the international organizations to embrace rules that set a long mini-

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mum period for patents and maximize the range of things over which private patent rights can be granted (for example, naturally occurring microorganisms, biological processes, and "community knowledge," including knowledge of traditional healers). Your firms must be able to patent anything they wish and then securely enjoy the rents for at least twenty years.

You also use international organizations to secure agreements that make it illegal for other countries to treat your firms operating in their territory differently from the way they treat their own firms. Measures to place your firms' foreign subsidiaries under various sorts of performance requirements—for local content, exports, joint venture, technology transfer—are not allowed, because they might limit your firms' freedom of action. Your aim is to facilitate your firms' shifting of lower value-added operations to lower-wage countries while holding the higher value-added operations (innovation, marketing, and distribution) in your territory.

You also support agreements for reduced trade barriers, and you sponsor multilateral negotiations to do so in "development rounds." However, you craft the agreements so that you can maintain your barriers against other countries' exports in sectors important for your voters and financial backers—now described not as protection but as measures to protect your health, safety, the environment, and national security. Further, you maintain with any necessary rhetorical justification an escalation of obstacles to trade, such that the higher the value added the higher the obstacles—and therefore the higher the probability that profit-seeking firms will maintain the high value-added operations in your territory.

You combine pressures to expand the scope of the private sector in poor economies (partly via bailout requirements for cuts in public spending on social sectors) with international agreements on free trade in services, so that your private firms can take the world as their oyster for providing education, health, pension, and other services.

Finally, you advance your agenda by having multiple negotiating forums so that you can "forum shop." If you are forced by rules of multilateralism to give up more than you want to in one forum, you switch to another forum in which you have more power. Or you take agreements reached in a multilateral forum (on patents, for example) and then "turbo-charge" the agreements in bilateral or regional negotiations. You say to particular countries or blocs of countries, "You agreed to this and this in the multilateral agreement; but if you want to enjoy continued low tariff access to our market, without risk of us raising tariffs on your exports, you'd better agree to even more."

FOREIGN POLICY

Your foreign policy seeks to befriend the upper classes elsewhere and make sure they have good material reasons for supporting the framework. It seeks to render it unlikely that elites and masses should ever unite in nativistic reactions to your dominance or demand "nationalistic" development policies that nurture competitors to your industries. Your foreign policy needs to include a strategic immigration policy that attracts the best brains in the rest of the world to your universities, firms, and research institutes. You want to have media, business schools, universities, think tanks, and management consultants that are independent enough to provide feedback on how to keep the system and your dominant position in it from falling into crisis.

Your foreign policy also calls for a very large military, so as to be able to back your
hegemony with coercion. The world financial architecture allows you to fund overwhelming military strength “on the cheap.” You can then shape the geopolitical security of all other states more than they can shape yours. You can control the sources and supply routes of the world’s vital energy resources. You can “cash in” your military dominance in return for support for the various policies and agreements that boost your economic power.

THE BOTTOM LINE

This international economic architecture allows your people to consume far more than they produce; it allows your firms and your capital to enter and exit other markets quickly, maximizing short-run returns; it locks in net flows of technology rents from the rest of the world for decades ahead and thereby boosts incentives for your firms to innovate; and through market forces seemingly free of political power it reinforces your geopolitical dominance over other states. All the better if your social scientists explain to the public that a structureless and agentless process of globalization—the relentless technological change that shrinks time and distance—is behind all this, causing all states, including your own, to lose power vis-à-vis markets. You do not want others to think that globalization within the framework you have constructed raises your ability to have both a large military and prosperous civilian sector while diminishing everyone else’s.

REAL-WORLD QUALIFICATIONS

A Machiavellian account of the U.S. role in the world economy since the end of the Bretton Woods fixed exchange rate regime around 1970? Certainly. To bring it closer to the real world we need to bring in a number of qualifications.

In reality the United States is far from being a unitary actor in pursuit of a grand design. Its central bank, the Federal Reserve, is independent of its finance ministry, the U.S. Treasury. Its policies are much affected by private-sector pressures, organized by economic sector and geographical region. Its trade protection, for example, is partly about chasing votes. The system was not the creation of the United States alone, either: Europe and Japan have joined in, though quite often in the face of force majeure. In the real world high U.S. living standards—and the ability to have more guns and butter than anyone else—depend not only on the ability to sustain large current-account deficits and earn large profits in finance. They also depend on a high rate of innovation in goods and services, which is only partially explained by the financial and selective immigration factors considered here.

In the real world the United States’s ability to run large current-account deficits and maintain a large stock of dollar financial assets in foreign hands is a double-edged sword. It does give the United States an almost free lunch by allowing it to attract the necessary financing even while paying low interest rates. However, this “hegemonic debtor’s gain” can turn into a “normal debtor’s curse” if—as at present—the U.S. domestic and external debt rises to the point where the United States has to plead with other countries to revalue their currencies and to go on holding dollar assets in the face of higher returns elsewhere and opportunities to diversify into an alternative international currency, such as the euro. A loss of foreign cooperation might lead to sudden falls in the value of the dollar, and even though this would not carry the normal debtor’s curse of raising the burden of debt servicing it could still inflict costs on the U.S.

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economy. These costs could be serious, given that foreign official holdings of Treasury securities now amount to about one-third of the total Treasury-issued debt.

To some extent this curbs U.S. autonomy, and specifically the country's monetary power vis-à-vis creditor governments. But only to some extent, since creditor governments barely attempt to coordinate their monetary decisions among themselves in order to counter the influence from the large U.S. economy. And it is striking how the East Asian countries—by far the world's biggest surplus countries—continue to hold mostly dollars, even though it is a certain bet that the dollar will fall over the next several years. They do so for two main reasons. First, they wish to maintain their currency at a relatively low value against the dollar as a way to maintain export competitiveness and keep up domestic employment. The by-product of this export-led growth strategy is the holding of a large stock of dollar reserves. Second, because they still trade mostly with the United States rather than the European Union, they do not want the disruptions caused by diversifying out of dollars and making the value of the dollar more volatile. They see the likely commercial losses as bigger than the likely financial losses of holding mainly dollars.

My imaginary account also ignores the evolution of the system. The system is less engineered "by design" than it implies. For example, the deep U.S. bond markets were initiated by the heavy debt financing of the two world wars. Unintended, the U.S. attempts in the 1960s to regulate interest rates led to the development of an offshore and unregulated financial market for dollars, which in turn generated pressures to liberalize capital markets worldwide. On the other hand, the explosive growth in the world bond market since the 1980s has clearly been by design. In order to fund massive budget deficits policy-makers sought to stimulate a bond market by tax cuts for the rich and the virtual elimination of taxes on capital gains.

Prior to the 1970s the United States dominated through production, not financial services, and therefore faced recurrent crises of excess capacity or overaccumulation of capital. It responded with varying combinations of New Deal–type investments in infrastructure, education, and social spending, Marshall Plan–type investments abroad, privatization drives, and war—all ways to absorb the excess domestic capacity, create new consumers abroad, or destroy capacity abroad. Since the 1970s the American system has developed a complementary line of response, domination through finance, as a way of expanding the play of the liquidity principle on behalf of U.S. holders of financial assets—making them mobile enough to save themselves from the periodic crises of excess capacity in the United States and elsewhere. My thought experiment emphasizes how a modern-day emperor would seek to cement this kind of domination through finance.

Again, one should distinguish between the faults of a very unequal, unipolar structure of wealth and power and the faults of the state that occupies the top position. One can be critical of the U.S. role while still recognizing that—if the unipolar structure is taken as given—the world is probably better off with the United States as the top dog than any of the likely alternatives. Certainly, when America has used its clout to "think for the world," the engineering of its dominance has at times been for the general good.

REAL-WORLD LIKENESSES

However, it is also true that the United States has often used its clout solely in the interests

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of its richest citizens and most powerful corporations, and this latter tendency has been dominant lately. In particular, the U.S. inaction on climate change; its protection of the agriculture, steel, apparel, and footwear sectors; its privileging of the interests of U.S. oil corporations; its willingness to invade Iraq partly to make sure that Russian, French, and Chinese companies do not get a lock on Iraq's enormous oil reserves (the second biggest proven in the world); and its insistence that Iraqi oil reverts to being priced and paid for in U.S. dollars after Saddam Hussein's regime began to insist on euros and other oil exporters (Iran, Venezuela, Russia) began to show signs of making the same switch.²

My account of what the emperor wants with regard to patents and copyright corresponds closely to what the United States has obtained in the World Trade Organization's (WTO) Trade-Related Aspects of Intellectual Property Rights agreement—and when the subsequent Doha ministerial meeting clarified the interpretation in a way favorable to the developing countries, the United States and other rich countries shifted forums to bilateral and regional trade agreements and to the World Intellectual Property Organization to implement more demanding intellectual property standards. With regard to unrestricted foreign direct investment, my account corresponds closely to the WTO's Trade-Related Investment Measures. And the WTO's General Agreement on Trade in Services is facilitating a global market in private health care, welfare, pensions, education, and the like, in which U.S. firms tend to have an advantage. This may well undermine political support for universal access to social services in developing countries and facilitate upper-class citizens' "exit" from their nations as fat–sharing communities—making any kind of nationalistic or regional challenge to the current world rules less likely.³

The United States has steered the World Bank—through congressional conditions on the replenishment of the funds of the Bank's soft-loan facility, the International Development Association—to launch its biggest refocusing in a decade: a "private-sector development" agenda devoted to accelerating the private (and NGO) provision of basic services on a commercial basis. Yet the Bank has made no evaluation of its earlier, highly controversial efforts to support private participation in social sectors. Its new emphasis on private sector—led development, especially in the social sectors, is largely due to intense pressure from the United States.

The United States has encouraged developing countries to promote "external integration" into the world economy but not to promote, via industrial policies, "internal integration" between industrial, rural and urban, consumption and investment sectors; yet the twin-track approach of export orientation and import replacement is vital for stable growth that is not a hostage to export markets. Indeed the United States has been leading the drive, via the WTO agreements and via bilateral or regional free trade agreements and investment treaties, to coerce or induce other countries to abandon industrial policies that promote upgrading and diversification of their industries and

³ David Gisellest, Oil Prices and Trade Deficits: U.S. Conflicts with Japan and West Germany (New York: Praeger, 1979), argues that the United States ensured the primary role for the dollar by getting OPEC to agree to accept payments for oil in dollars.

services. At the same time the United States itself has for decades mounted a large-scale industrial policy that nurtures high-tech industries (including computers, advanced sensor devices, stealth materials, aircraft) with massive amounts of public finance and public authority. Much of it is flatly inconsistent with WTO agreements but protected from sanction by the rhetorical shield of “defense policy.”

The United States’s single most important thrust since the 1970s has been for open capital accounts and freedom of entry and exit for financial service firms. The institution of these rules is causing a parametric shift in the whole world economy, resulting in the loss of ability of all states to resist other parts of the U.S. agenda. The removal of restrictions on capital mobility, far from being a neutral policy, makes the adoption of an egalitarian capitalism under tight social regulation much more difficult, by weakening the means by which a national government could implement such a collective choice. This understanding is implied in the statement by the U.S. deputy treasury secretary, Lawrence Summers: “At Treasury, our most crucial international priority remains the creation of a well-funded, truly global capital market.”4 The International Monetary Fund (IMF), too, pushed by the U.K. Treasury with the support of the U.S. Treasury, got its board of governors to endorse a plan to amend the articles of agreement for only the fourth time in its history, in 1997, to add “the promotion of capital flows” to the goals of the organization and add “the capital account” to its jurisdiction.

The IMF, urged on by the U.S. Treasury, went so far as to twist the arm of Ethiopia, one of the poorest countries in the world, to open its capital account in 1996–97. When the government refused (advised by the World Bank’s chief economist, Joseph Stiglitz) the Fund made Ethiopia ineligible for the low-interest loans through the Extended Structural Adjustment Program, even though the government had already met virtually all of the Fund’s conditions. With that Ethiopia also lost its access to several other sources of cheap funds, including the World Bank, the European Union, and bilateral lenders—the eligibility for which is conditional on eligibility for the Fund’s program.5

The drive to lock in a world commitment to open capital accounts stalled in the wake of the East Asian crisis of 1997–98. But by 1999 the IMF managing director, Michel Camdessus, was already saying, “I believe it is now time for momentum to be re-established... Full liberalization of capital movement should be promoted in a prudent and well-sequenced fashion.”6 In 2003 U.S. treasury undersecretary John Taylor testified that

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the U.S. government believes the ability to transfer capital "freely into and out of a country without delay and at a market rate of exchange" is a "fundamental right," and that no country should ever impose restrictions on capital flows in times of financial crisis. The U.S. government, he said, is insisting in its free trade agreements and bilateral investment treaties that its counterpart governments agree never to place restrictions on capital flows, with provision for U.S. investors to claim for compensation if they do.  

These statements reflect not so much a failure to learn as "unlearning." The present push for free capital mobility repeats the faults of the 1920s. Then the U.S. and the U.K. governments and bankers concerted their demands for a new financial architecture based on balanced budgets, independent central banks, restoration of the gold standard, and free capital movements. They pushed this agenda through bilateral dealings with the war-devastated countries of Europe and through the Financial Committee of the League of Nations. The policies helped to usher in a spectacular financial boom that ended in economic collapse. Nevertheless, four years into the Great Depression, the World Economic Conference of 1933, led by the United States and the United Kingdom, continued to make the same four demands, with special emphasis on independent central banks and abolition of capital controls. It was only with the 1944 Bretton Woods agreement, which left the option of capital controls to the discretion of individual states provided that the controls were not intended to restrict trade, that this lesson was learned. John Maynard Keynes considered this to be perhaps the most important part of the agreement. "What used to be heresy is now endorsed as orthodox," he wrote. "Our right to control the domestic capital market is secured on firmer foundations than ever before, and is formally accepted as a proper part of agreed international arrangements."  

Keynes of course had in mind the United Kingdom's precarious position as a massive wartime borrower facing the prospect of postwar insolvency if capital could leave the country unrestricted. But he also considered that world economic stability required that capital controls be an acceptable weapon of national economic management.

FROM UNIPOLAR TO MULTIPOLAR GLOBALIZATION

The current talk about "globalization" presents it as a general shrinkage of time and distance and widening of opportunities for all, with a corresponding erosion of the power of states to oppress their populations. Joseph Nye suggests that, although the world is very much "unipolar" on the chessboard of classic interstate military issues, it is "multipolar," or one of "balance of power," on the chessboard of interstate economic issues and "chaotically organised among state and non-state actors" on the third chessboard of transnational economic issues. "It makes no sense at all to call this [the second and third chessboards] a unipolar world or an American empire," he says. 

It is true that Europe and East Asia are not as passive as my empire picture sug-

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7 John Taylor, Under Secretary of the Treasury, testimony before the Subcommittee on Domestic and International Monetary Policy, Trade and Technology Committee on Financial Services, U.S. House of Representatives, April 1, 2003; available at www.ustreas.gov/press/releases/041403.htm.


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gests. For example, of the three-quarters of total world foreign currency reserves that are held in U.S. dollars, well over half are held by East Asian governments.\textsuperscript{10} As noted, this reflects not only their large current-account surpluses but also a policy strategy to preserve export competitiveness by maintaining a relatively low value of their currencies vis-à-vis the dollar. Now the imbalances are so large that if the U.S. authorities want to make the dollar fall in value gradually rather than precipitously, they do need to secure the cooperation of East Asian governments—and others—to go on buying U.S. liabilities, and revalue, or in the case of China, further open its domestic market. Nevertheless, the bigger story is that economic globalization is being channeled by rules of the international economic regime, in the making of which the United States has exercised by far the dominant voice. Rules such as those for patents and copyright—which far from shrinking time and distance actually slow the diffusion of technology to the rest of the world and boost technology rents flowing to, disproportionately, Americans. And rules such as those that result in the U.S. dollar being the main international currency, the United States having the biggest financial sector, and free capital mobility worldwide. Globalization so constructed frees the U.S. government of constraints in key areas of economic policy while putting other states under tighter constraints.

This is the paradox of economic globalization—it looks like “powerless” expansion of markets but it works to enhance the ability of the United States to harness the rest of the world and fortify its empire-like power.\textsuperscript{11} And since it is occurring in a world of “sovereign” states its costs can be made the responsibility of each state to handle, not that of the prime beneficiary.

It is true and important that a lot of people in the world, especially in East Asia, are a lot better off than they were twenty years ago, and that this improvement would not have been possible had they not had access to rich country markets and rich country technology. To this extent the U.S.-directed globalization has worked. On the other hand, average living standards have risen hardly at all in Latin America, Africa, the non-oil-producing Middle East, and much of South Asia since 1980. World income inequality has probably widened.\textsuperscript{12} The surge of jobs in apparel in China and Mexico during the 1990s—thanks to exports to North America—went with a fall in real wages and a sharp deterioration in working conditions (measured by what one report describes as the “startlingly high” incidence of violence and severed limbs and fingers in factories owned by Taiwanese, Korean, and Hong Kong intermediaries).\textsuperscript{13}

Slow economic growth and vast income disparities, when seen as blocked opportunities, breed cohorts of partly educated young people who grow up in anger and despair. Some try by legal or illegal means to migrate to the West; some join militant ethnic or religious movements directed at each other and their own rulers; but now the idea has spread among a few vengeful funda-

\textsuperscript{10} Martin Wolf, “Asia is footing the bill for American guns and butter,” Financial Times, February 19, 2003, p.17.


\textsuperscript{13} Robert Ross and Anita Chan, “From North-South to South-South: The True Face of Global Competition,” Foreign Affairs (September/October 2002), pp. 8–13.
mentalists that Western countries should be attacked directly. The United States and its allies can stamp out specific groups by force and bribery. But in the longer run, the structural arrangements that replicate a grossly unequal world have to be redesigned, in a way as significant as the redesign at the Bretton Woods conference was toward the end of the Second World War, so that globalization working within the new framework produces more equitable results.

The world would benefit from a less unipolar structure. A little competition between core states of the world economy for support from developing countries might lead to more commitment in the core states to creating dynamic capitalism in developing countries, as was the case in geopolitically sensitive countries during the first decades of the Cold War.\textsuperscript{14} To counterbalance American power, Europe, whether as a federation or as a “Europe of nations,” has to create arrangements that permit a common foreign policy. This implies, among other things, that expansion to the East should be slowed down or two-tracked, because the entry of many new states seeing America as their protector against the overbearing leading states of the European Union will make it next to impossible for it to agree on any common foreign policy that runs counter to U.S. wishes. And in the longer term we have to look to growing cooperation between Europe and an East Asian bloc led by China, the third major growth pole in the world economy. Political leaders in both places should be making this a long-term project of high priority.