should be purchased as investments, but that if a stock was bought "with a view of selling it even before delivery physically could be made, the next hour, or with a view of anticipating the future of tomorrow or the next day, that was . . . pure gambling—just as much gambling as if Senators were to sit at a roulette table and bet on the outcome of the game." Stock market speculators, he went on, "sell things they do not possess," and "buy things they never expect to get, and thereby disturb the whole commercial fabric of this country, and it ought to be stopped." Glass also felt that the New York Federal Reserve Bank had contributed to the speculative bubble by pursuing expansionary monetary policy.

Glass walked a fine line between serving the public interest and, perhaps unwittingly, serving the interests of one segment of the financial industry over another. Increasingly after 1865, the larger US banks shifted toward a universal banking model of combining loan and investment activity in one business. The genesis was competitive pressure. As trust companies, predominantly in the investment business, moved into the lending business, commercial banks sought the power to engage in investment activities by requesting charter revisions. For instance, fueled by the lucrative business of gaining critical ownership stakes in industrial firms such as US Steel and General Electric, by the 1920s, J.P. Morgan, an investment bank that had evolved from the trust company of Drexel, Morgan and Co., controlled the commercial bank First National Bank of New York. Large financial institutions, such as the Rockefeller-affiliated Chase National Bank, which began this shift later, had less to lose from the separation of investment and commercial banking activities. They moved preemptively to spin off investment banking activity and support the bill Carter Glass was writing. Piling on to support a regulatory move that would most severely penalize Morgan interests and limit the power of the New York Federal Reserve were large Chicago banks and the California banking ancestor of today's Bank of America. For support from the House of Representatives, Glass won over Henry Steagall with the inclusion of the provision for Federal Deposit Insurance.

Over the course of the twentieth century the Glass-Steagall separation of commercial and investment banking gradually eroded. Building competitive pressure in the 1980s and 1990s spurred industry lobbying for outright repeal. Political momentum gained further traction in Congress after the resounding defeat of Democratic candidates in the 1994 midterm elections. In 1999, with support of President Bill Clinton's Treasury Department, Congress passed the Gramm-Leach-Bliley Act, which effectively ended the Glass-Steagall prohibitions.

[*See also* Financial Crisis of 2008; Gramm-Leach-Bliley Act; *and* Regulation.]

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GLOBAL ECONOMY AND THE UNITED STATES

In 1944, as World War II entered its final phase, the United States found itself in the unexpected position of single most powerful country in the world. Amounting to 40 percent of the world's total gross domestic product (GDP) and producing about 50 percent of the world's industrial output, the United States also dominated the global economy. The magnitude of America's economic primacy was unprecedented in the modern age: by comparison, the British

economy—at its relative peak in 1899—had constituted just 9 percent of the world economy.

Given this unique concentration of economic power, the United States would press ahead with its vision of an open and liberal world economy and try to reverse the process of international economic disintegration that had started with the outbreak of World War I in 1914, and had led to a breakdown of the liberal order with the rise of fascism in the 1930s. However, as soon as the geopolitical rivalry of the Cold War got under way in the late 1940s, the world was ideologically divided between East and West—a division that would last until 1989. In the East, the Soviet Union under Joseph Stalin, its satellite states in Central and Eastern Europe, as well as China under Mao Tse-tung, along with other parts of East and Southeast Asia—together adding up to one-third of the total world population—would organize their economies based on communist-socialist principles and the teachings of Karl Marx and Friedrich Engels. The United States and the West organized the rest of the world economy following the logic of open markets, free trade, and private property rights, as originally outlined by Adam Smith, David Ricardo, and John Locke.

In the mid-1940s, the Democratic presidents Franklin D. Roosevelt and Harry S. Truman led America and the West (including Japan, South Korea, and Taiwan) in building an international economic system which would internalize the lessons of the Great Depression of the 1930s. What came to be known as the "Bretton Woods" system—based on relatively free trade and a fixed exchange rate system, with managed international capital flows centered on the US dollar—defined international economic relations from 1944 to 1971 in the West. New international organizations such as the United Nations (UN), the International Monetary Fund (IMF), the World Bank (WB), and the General Agreement on Tariffs and Trade (GATT) all combined liberal and realist principles of international relations, and US leadership was indispensable in their foundation during the 1940s.

The Harvard scholar John Gerard Ruggie (1982) refers to this early postwar period as the era of "embedded liberalism," since policymakers combined the principles of a relatively open world economy with the domestic constraints and demands of modern democracies, that is, the need to maintain a high level of growth and employment along with stable prices. Interestingly enough, the eventual collapse of the dollar-centric Bretton Woods system in 1971 did not lead to an existential crisis among liberal economic ideas and institutions. And with the opening up of China under Deng Xiaoping starting in the late 1970s, the fall of the Berlin Wall in 1989, and the breakup of the Soviet Union in 1991, the liberal ideas and institutions the United States put in place after World War II not only seem to have survived, but the East eventually embraced Western economic ideas and applied to join its international economic institutions, in a seeming ideological triumph of the West in the early 1990s.

However, America's relative economic power started to decline quite rapidly from 1945 onward due to the rise of the rest ("catch-up and convergence"). And given the increasing frequency and magnitude of financial crises and their contagious impact on the rest of the world economy, as well as the "state capitalist" alternatives currently on offer in places like China and Russia, it is far from evident that the world economy will remain organized based on the US liberal economic paradigm.

Charles Kindleberger's Hegemonic Stability Theory (HST), one of the most influential international political economy (IPE) theories to date, explains the resilience and relative stability of the open world economic system since World War II. Kindleberger (1981) argues that the necessary, though not sufficient, condition for stability is the existence of "one hegemon." According to HST, Great Britain played the role of hegemon between 1815 and 1914, and managed the relative stability of that period, making the first age of globalization possible. After World War I, crippled by the war effort and financially weakened, Britain was no longer able to play that role. The United States, though able, was initially reluctant in 1919 to take over from Britain, and only embraced its hegemonic task from the Bretton Woods conference onward. Kindleberger maintains

that the lack of a hegemon in the 1920s and the 1930s led to a reversal of globalization and explains the length and depth of the Great Depression, or what E. H. Carr (1939) referred to as the "twenty years' crisis" in international relations.

Given the absence of a major systemic conflict since 1945, Robert Keohane (1984) has argued that once international regimes have been established with the vital backing of a hegemonic power, they tend to live a life of their own and can survive as long as a critical coalition of states supports the existing regime. It remains to be seen whether an increasingly pluralistic world—with economic and political power distributed much more evenly among states—will be able to maintain and strengthen the liberal institutions that were created by the United States after World War II.

Generally, four broad themes have informed the thinking of academics and policymakers in their analysis of the United States' relationship with the global economy. The first theme is that of relative economic decline and renewal. The United States has strived to maintain its international competitiveness in the face of the "rise of the rest," while its own internal economic structure has been in turn affected by globalization and technological change, leading to alternating periods of declinist fears and renewed optimism in the country's capacity to rebound. The second theme is the exponential growth of international financial markets and the role of the dollar in the international monetary system. With the movement toward an increasingly plural monetary system by the beginning of the twenty-first century, with rivaling currencies like the euro and the potential future role of the Chinese renminbi as a global reserve currency, the "exorbitant privilege" the dollar has enjoyed since 1944 is being called into question. The third theme is the constant tension between multilateralism and regionalism in international trade relations and negotiations, with the establishment of the World Trade Organization (WTO) in 1994 as the main multilateral triumph, but the mushrooming of preferential trade agreements from the late 1980s onward as a clear sign of intensifying regional integration, which could be a considerable stumbling block toward global free trade. The fourth and final theme is the political and security dimension of America's international economic relations, with high defense spending and chronic budget deficits linked to persistent current account deficits, a weakening external position (with the United States switching from a "creditor nation" to a "debtor nation" in 1985), and the inevitable economic costs of what Paul Kennedy (1987) called "imperial overstretch."

These four broad themes inform the evolution of the place of the United States in the world economy in the period since World War II. For analytical purposes, this description is divided into three subperiods. The first subperiod runs from 1944 to 1971, dubbed the "thirty glorious years," when the United States was the undisputed center of a fast-growing world economy. The second subperiod begins in 1971, with the breakdown of the Bretton Woods system of fixed exchange rates. The final subperiod starts in 1991, with the end of the Cold War and a relatively short world recession at the end of the first Gulf War.

The "Thirty Glorious Years" and the Rise and Fall of Bretton Woods, 1944–1971. The first subperiod was characterized by US activism and a clear vision for US leadership in the world economy. Once it dawned on Washington's policy elites soon after the war, when the ideological battle over the world economy with the Soviet Union got under way, that Europe and Japan were experiencing a serious dollar shortage and were unable to pay back their war debts without direct American support, the Americans decided to step in with the Marshall Plan for Europe and the Dodge Plan for Japan. Both programs were acts of genuine American generosity (the Marshall Plan adding up to 10 percent of the federal budget in its first year of operation) sold to Congress as a necessary tool to stave off communism in those strategically important parts of the world, and both helped Europe and Japan rebuild their economies by importing the capital goods needed to build up their infrastructure and to develop their export industries. The plans laid the foundation for miracles of economic growth in both regions during the subsequent thirty years.

With much faster growth rates in Continental Europe and Japan, it would not be long before those countries started to catch up and converge with the living standards of the American economy, giving way to fears of relative economic decline in Washington. There was also a significant security dimension to these declinist frustrations. Since the United States was providing security to both Europe (through NATO) and Japan (through the US-Japan Alliance) at a considerable cost to its purse (at some point during the 1950s, NATO usurped close to half of America's total defense budget), the Americans found it increasingly difficult to balance their modern democracy's need for both "guns and butter." Since Europe and Japan (and soon South Korea after the 1950–1953 Korean War) could shelter under the American security umbrella, they did not have to worry about guns and were able to create their universal welfare states, with generous social safety nets, and health and pensions systems—something the United States was unable to do to the same extent, given its global military commitments. More often than not, this apparent "free-riding" behavior led to tensions between the United States and its European and Asian allies, especially over international trade and monetary negotiations. American presidents Eisenhower, Kennedy, and Johnson, in the 1950s and 1960s, found themselves caught in a constant balancing act between the need for more burden-sharing from its allies to make its containment strategy a success, and the relative weakness of those allies adding to the fear of further communist aggression from Moscow and Beijing, especially during and after the wars in Korea and Vietnam.

In the summer of 1944, over seven hundred government representatives and delegates from forty-four allied countries gathered at the Mount Washington Hotel in Bretton Woods, New Hampshire, to discuss how to rebuild the international monetary and financial system after the Great Depression. The two main protagonists of the conference were the British economist John Maynard Keynes and the American treasury department official Harry Dexter White. The compromise they reached was an attempt at reconciling a commitment to an open multilateral world economy, with new domestically oriented priorities of addressing unemployment and social welfare. Key elements of the agreement included the institution of a "gold exchange" standard, with currencies pegged in relation to the gold content of the US dollar, currency convertibility for current account transactions, capital controls designed to manage speculative and "disequilibrating" private financial flows, as well as the establishment of two new international economic organizations: the International Monetary Fund (IMF) and the World Bank (WB). The IMF was founded to provide short-term loans to help countries finance temporary balance of payments deficits and to manage international economic imbalances through oversight of the adjustable peg system, leverage use of its lending capacity, and the use of its "scarce currency" clause. The WB was founded to provide long-term loans for reconstruction and development after the war. Until about 1958, the Bretton Woods system was in virtual "cold storage": the currencies of European countries were not convertible, and the US government and regional institutions were playing the roles the IMF and WB should have. However, from 1958 to 1971, the IMF and the WB became more active lenders.

An agreement to establish an International Trade Organization (ITO), intended to complement the World Bank and the IMF, was concluded in 1948 in Havana. Since the US Congress failed to ratify the agreement, the international community had to fall back on the General Agreement on Tariffs and Trade (GATT), a multilateral contract embodying trade rules negotiated by the United States in 1947. The GATT, never intended to function as an international organization, provided a structure for the regulation of the international trade system, and was partly a mechanism to ensure that countries did not reintroduce protectionism once tariffs were lowered. The main principle of the GATT and the cornerstone of the international trade system was the idea of "non-discrimination," with article I (most favored nation principle) and article III (national treatment) addressing issues of external and internal discrimination. The GATT sponsored various rounds of multilateral negotiations to liberalize trade, with

the first four rounds in the late 1940s and 1950s addressing institutional matters but failing to make significant progress in liberalizing world trade. In those rounds, negotiations took place bilaterally and were then made multilateral through the "most favored nation" principle. The first significant round was the Kennedy round of 1963–1967, which led to an average tariff reduction of about 35 percent, introduced an anti-dumping code, and saw the European Community participating as a single unit for the first time.

The 1960s—by all measures a very successful decade for the United States and the global economy overall—saw the deep flaws of the dollar-centered Bretton Woods system come to the fore. Furthermore, the relatively fast growth and technological innovations of the Soviet Union under Nikita Khrushchev, together with the protracted military conflict in Vietnam, only underscored the latent fears of US relative decline in Washington. The inherent instability and eventual collapse of the Bretton Woods system had been predicted as early as 1960 by the Yale economist Robert Triffin. He had argued that, in a system where the dollar was the sole reserve asset, the only way to expand international liquidity was for the United States to run a persistent balance of payments deficits to provide the world with more dollars; but the more and the longer it did so, the more this very process would also undermine the credibility of the US commitment to convert dollars into gold at the fixed rate of $35 per ounce. The "Triffin Dilemma" was to choose between a liquidity crisis (the world being starved of dollars, leading to deflation), or a credibility crisis (with all countries simultaneously wanting to convert their dollars into gold).

Given the ongoing process of globalization in the 1960s, with the gradual liberalization of capital flows and the increasing importance of international trade, a very large "Eurodollar" market developed in London, and the pressure on the Bretton Woods system threatened to spiral out of control. As US currency abroad grew considerably larger than the amount of gold that the US government held to back it up, the writing was already on the wall. Initially, however, the dollar-credibility issue was averted when both West Germany and Japan agreed not to convert their dollar reserves into gold. However, other allies, such as Charles de Gaulle's France, who were more skeptical of America's intentions, and saw that nation as abusing its "exorbitant privilege" to export inflation to the rest of the world, refused to do so. When speculative pressures against the dollar reached a peak in 1971, President Richard Nixon was forced to close the gold window in August of that year, formally ending dollar convertibility into gold. Nixon also imposed a surcharge of 10 percent on imports and a 90-day freeze of wages, prices, and dividends under the cloak of a "New Economic Policy" for the United States. A new period of uncertainty in the global economy followed, with floating exchange rates and accelerating inflation, which would end the so-called thirty glorious years.

The "Great Inflation," Reagan's Recovery, and the End of the Cold War, 1971–1991. The 1970s and 1980s were two difficult decades for the United States and the world economy, with increased uncertainty in the geopolitical, monetary, and trade realms, as well as a fundamental shift in the governing economic paradigm from the "embedded liberal" ideas of John Maynard Keynes to the free market ideas of Friedrich Hayek and Milton Friedman. The 1970s started out quite promisingly, with an economic boom after Nixon's embrace of Keynesian demand stimulus and his reelection in 1972. However, this proved to be short-lived; inflation, already creeping up because of increased spending on Great Society programs at home and Vietnam abroad, spiraled out of control after the first of two oil shocks in 1973–1974 (following the Yom Kippur War). A deep stagflationary recession followed during the short-lived Ford Administration of 1974–1975.

When the Democrat Jimmy Carter was elected US president in 1976, he tried to revive the US economy's flagging fortunes through traditional Keynesian means, but was also forced to make a policy U-turn after the second oil shock in 1979 was triggered by the Iranian revolution and the fall of the shah in Tehran. Unable to recognize the sea change in economic ideas under way in the West during the 1970s, Carter publicly spoke of a "malaise" in the American

economy, and his presidency too was short-lived, after unemployment started to rise when the newly appointed Fed chairman Paul Volcker embraced monetarism to fight inflation. Ronald Reagan swept to power in 1981, promising to revive America's economic prowess through a supply-side program of deregulation, privatization, and liberalization, combined with large tax cuts to stimulate investment and big increases in defense spending to win the Cold War. Reagan hoped to unleash the creative forces of the free market, but with ballooning budget and trade deficits at the end of the 1980s (the "twin deficits"), together with the economic challenges to US competitiveness from a fast-growing Japan and the four original Asian "mini-dragons" (South Korea, Taiwan, Hong Kong, and Singapore), fears of US "declinism" were back in vogue.

After the collapse of the Bretton Woods system, the United States tried to mend international monetary relations with the Smithsonian Agreement, which heralded a very short return to fixed exchange rates allowing wider fluctuation bands. However, the oil shock of 1973 put an end to that agreement, and the United States started to embrace a new financial liberalism, including the phasing out of capital controls and the full acceptance of a floating dollar, often referred to as a US dollar policy of "benign neglect." It was clear that the growing size of speculative international financial flows had complicated governments' efforts to peg currencies, forcing policymakers to reevaluate the merits of floating rates. In 1978, this new policy turn was reflected in an amendment of the IMF's Articles of Agreement, which legalized floating exchange rates, thus formally ending the adjustable peg system. In the 1980s, spurred by Volcker's high-interest-rate policy and a more open US capital market, the US economy attracted vast capital inflows which quickly led to an overvalued dollar, hurting US competitiveness while financing growing budget and current-account deficits. Those longer-term misalignments led to more coordinated depreciation of the US dollar and more managed exchange rates among the "Group of 5" (G5) nations of the United States, Japan, the United Kingdom, West Germany, and France, resulting in the Plaza Agreement in 1985 and the Louvre Accord of 1987. This also increased monetary tensions between the United States, Europe, and Japan, with West Germany and Japan arguing that the United States was shifting the cost of adjustment squarely onto them.

The United States pushed for further trade liberalization in the GATT during the Tokyo Round (1973–1979) and the Uruguay Round, which started in 1987 but was only completed in 1994. The successful tariff reductions of the Kennedy Round in the 1960s were repeated in the Tokyo Round, with average reductions of about 35 percent of industrial nations' tariffs, but the focus of the Tokyo Round was on non-tariff barriers (NTBs) to trade. In contrast to previous GATT negotiations, the Tokyo Round was a rule-making exercise of major proportions, resulting in six legal codes covering customs procedures, import licensing, product standards, subsidies and countervailing duties, government procurement, and anti-dumping. The decision to launch a new trade round in the 1980s came after the United States argued that it was necessary to expand the GATT regime to keep it relevant in a changing world economy. The Reagan administration demanded the inclusion of new issues, such as services, investment, and intellectual property rights. Disagreement between developing and developed economies led to long negotiations, which were only completed well into the 1990s.

The 1980s also saw a new interest in the United States in regional trade agreements, given the apparent integration success of the European Community after the signing of the Single European Act in 1986, and selective government intervention to boost international competitiveness, which a growing body of research argued had played a crucial role in the Asian economic miracle. Reagan's free-market policies, after a rocky start during his first two years in office with another deep recession, seemed to have been successful, at first glance, by the middle of the 1980s. Inflation was down by the mid-1980s and the US economy grew quickly during the rest of the decade. But with exploding deficits and a growing debt burden due to beefed-up military budgets and

multiple rounds of tax cuts, a persistent current account deficit with emerging Asia and Europe, a very brief episode of declinist fear returned. But that episode was soon put to rest by the fall of the Berlin Wall in 1989 and the final collapse of the Soviet Union in 1991. In the battle for the world economy, the United States, it seemed, had triumphed. The end of the Cold War meant that the ideological battle over how to run a modern economy was over, and a new "neoliberal" consensus on how to reap the full benefits of economic globalization gained widespread acceptance, and would soon come to be universally known as the "Washington Consensus."

Globalization, the New Economy, Blowing Bubbles, and the "Great Recession," 1991–2011. The end of the Cold War had profound consequences for the relationship between the United States and the world economy. From the early 1990s until 2001, the US economy was on a seemingly unstoppable path of high productivity growth, low inflation, and low unemployment, thanks to the swift application of information and communications technology, and America was easily outpacing its direct competitors in Europe and East Asia. Also, after the all-but-painless military victories in the 1990s over Saddam Hussein's Iraq in Kuwait, and over Slobodan Milosevic's Serbia in Bosnia and Kosovo, the US military had an air of invincibility about it, and the "peace dividend" that had come with the end of the Cold War allowed presidents George H. W. Bush and Bill Clinton to drastically cut back on military spending and put the country's fiscal house back in order. This resulted in a series of large federal budget surpluses by the end of the decade. In that "unipolar moment," American elites were enamored with the idea of a "new economy" and the end of the business cycle, convinced that America was the "indispensable nation" that could lead the world economy well into the future. All over the world, Clinton administration officials were touting the benefits of free trade, economic liberalization, and deregulation, convincing the formerly communist states to join the American-led international economic organizations such as the IMF, the World Bank, and the WTO.

The flip side of the two consecutive US booms was that the two decades following the end of the Cold War saw an unprecedented series of financial crises, including currency, banking, and financial crises (or combinations of all three) in places including Mexico, East Asia, Russia, Brazil, Turkey and Argentina. The Mexican peso crisis in 1994 forced the United States to intervene directly and put together a package of loans and guarantees totaling close to $50 billion, in concert with the IMF and the Bank for International Settlements (BIS). The Asian financial crisis in 1997 raised fears of a worldwide economic meltdown due to financial contagion, and also saw the IMF step in and put together "structural adjustment programs" for all affected Asian nations. In the meanwhile, with the advent of Europe's single currency, or euro, in 1999, the dollar was no longer the sole international reserve currency of choice. For the first time since the interwar period, international investors had an alternative to the greenback as reserve currency.

The bursting of the dot.com bubble at the end of 2000 and the terrorist attacks of September 11, 2001, would forever shake the country's sense of invulnerability. The economic downturn was quickly countered with aggressive monetary easing by Alan Greenspan's Federal Reserve and two consecutive rounds of fiscal expansion during the presidency of George W. Bush, combining large tax cuts for the relatively well-off with increases in defense spending to fight the "War on Terror," with initial quick successes in Afghanistan and Iraq. Winning the war, however, would prove easier than winning the peace. The Bush stimulus soon led to another boom, now in housing markets and financial products, made possible by the continuing policies of deregulation and fueled by cheap credit at home and large financial inflows from abroad, mainly China and Japan. The boom of the 2000s did not result in fiscal surpluses as they had in the 1990s, and the US current account went deeper into deficit every year. Eventually, the financial crisis of 2008—largely blamed on cheap credit and the reckless lending practices by Wall Street's major banks, which were made possible by the deregulatory ideas of the

Washington Consensus—plunged the United States and the world economy into its deepest recession since the Great Depression of the 1930s.

The "great crash of 2008" put into question, for the first time since 1945, whether the United States was fit to lead the world economy and whether it was in the rest of the world's interest to emulate Western economic ideas. In addition, the 2008 crisis saw renewed currency rivalries between emerging markets and developed economies, with the undervalued Chinese *Renminbi* a thorn in the side of the United States, given America's record bilateral trade deficit with China, largely blamed by the Americans on Chinese currency manipulation.

For international trade, the 1990s were a decade full of multilateral and regional trade activism. The United States joined Canada and Mexico in a regional trading bloc called the "North American Free Trade Agreement" (NAFTA), which went into effect in 1994. In Marrakesh, the Uruguay Round of the GATT was finalized in April 1994, after the United States and the European Union (EU) settled their differences on agricultural subsidies in a deal informally known as the "Blair House Accord." The various agreements reached at the Uruguay Round expanded the rules of the international trade system by including services, as well as trade-related investment measures (TRIMs) and intellectual property rights (TRIPs). The most obvious outcome of the Uruguay Round was the creation of the World Trade Organization (WTO), with a permanent secretariat in Geneva and the establishment of a formally integrated dispute settlement mechanism (DSM). The WTO was a victory for the rules-based, as opposed to power-based, approach to trade relations, with the United States giving up part of its sovereignty to a supranational organization. Both the establishment of the WTO and the creation of NAFTA were not without controversy, given the opposition of American labor and environmental groups fearing a global race toward the bottom. The Uruguay Round also was seen as detrimental to developing countries. To remedy that perception, the United States and the European Union decided to launch the Doha Round in 2001, calling it the "development round" of international trade. By 2011, the Doha Round still had not been concluded, because of differences between developed economies and emerging economies over the size of agricultural subsidies and market access for manufactures.

The War on Terror, apart from being a significant drain on the US federal budget, also left the United States engaged in two costly ground wars, in Afghanistan (since 2001) and Iraq (2003–2011). Given the fact that both wars were sold to the American public as relatively easy-to-win and necessary wars, the slow progress in both conflicts by 2011 laid bare the state-building weaknesses of America's military forces. While the Barack Obama administration tried to disengage from both conflicts, the United States also tried to lead the reform of the world's financial architecture under the auspices of the Group of 20 (G20), and to get the WTO to successfully complete negotiations over the Doha Round. Given the large budget deficits, growing since 2008, the Doha Round's deadlock, and the relatively modest Dodd-Frank financial reforms at home, the United States seems to prefer only moderate reform to the global financial architecture and bilateral trade deals.

Questions about the Future: The United States as a Frugal Superpower in a Multipolar World. The long-term federal budget question, given the future demands of an aging population, together with the need for fiscal austerity at home, has made the United States gradually turn more inward. The era of the "frugal superpower" has begun, and the ghost of decline has returned in the face of much faster growth in the emerging markets, especially in the two Asian giants, China and India, but also in Latin America and Southeast Asia. Previous certainties about America's role in the world economy have been called into question, such as the central role of the dollar, its quasi-veto power in international economic organizations, future US competitiveness in the face of rising economic powers in the East, and whether America can lead the next wave of technology in an age of austerity.

America still has many advantages over its direct competitors: its unique geography; a young and

dynamic population; a relatively open policy toward immigration; the best universities in the world; flexible labor markets; continuing consumer strength thanks to its large domestic market; a positive attitude toward risk taking; and its resilience in the face of economic shocks. Despite the financial crisis, Wall Street still dominates the financial world, free market ideas are still in vogue in most parts of the world, and the country will be able to continue to borrow cheaply in world markets.

There are also disadvantages and future concerns, such as military overstretch; the limitations of democracy in making tough but necessary decisions; a huge debt overhang; largely structural current account deficits; energy dependence; unskilled-male unemployment; lagging competitiveness in industry and manufacturing; and to some extent, a lack of new ideas to replace the Washington Consensus.

America's future economic strength and competitiveness in the world economy will depend on how well the US economy will be able to deal with its own problems and reform its economic system from within. But, the main dilemma of the twenty-first century remains how America can manage to combine liberal institutions with a more traditional realpolitik-based system of power balancing.

[*See also* Economic Policy since World War II; Economy, American, since World War II; *and* Financial Crisis of 2008.]

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GLOBAL IMBALANCES AND INTERNATIONAL DEBT

International lending is a subset of international investment, and has long been a prominent feature of world economic and political affairs. Cross-border debts have been important to economic activity in many nations and have frequently given rise to domestic and international political conflict.

The economic principles of international lending are relatively straightforward. Loans across national borders normally respond to differences in rates of return: capital flows from where it is plentiful (and interest rates are low) to where it is scarce (and interest rates are high). From the standpoint of the investor, this difference in rates of return makes foreign lending attractive. However, these higher rates also reflect the generally greater risk of foreign, as compared to domestic, borrowers. If the foreign debtor refuses to service its debt, the creditor has fewer collection options than he does domestically—especially if the foreign debtor is a national government, because creditors cannot foreclose on a sovereign state. In return for accepting a higher degree of risk, foreign lenders demand a higher interest rate (that is, a higher risk premium).

From the standpoint of borrowing nations, such as the United States in the nineteenth century or most developing countries in the twentieth century, foreign loans have several interrelated effects. First, they increase the local supply of capital, allowing national investment to exceed savings. Second, they increase the supply of foreign currency, allowing national imports to exceed exports. Third, inasmuch as they are extended to governments, they increase the financial resources of the public sector, allowing the government to spend more than it takes in.

Foreign loans generally make economic sense to the borrower if they serve, whether directly or indirectly, to increase national output and ability to export (or to produce previously imported goods). To repay foreign lenders eventually, the country must use loans to contribute to economic growth and the country's earnings of foreign currencies. This process can be indirect, but sooner or later loans must increase growth if they are to justify themselves. For example, borrowing might allow a government to increase spending on transportation infrastructure that is not directly productive, and does not directly increase exports, but that allows private economic agents to increase output and exports (perhaps by opening up access to new agricultural or mining regions).

In addition to the underlying economic relationship, international debt has important institutional features. Typically, a large proportion of international loans is made to governments: from the standpoint of a foreign lender, national governments are generally better credit risks than are national firms, which are themselves in any event subordinate to government control. Before 1965, most long-term loans were made in the form of bond flotations; since then, bank lending has also been important. In either instance the number of creditor financial institutions (investment banks or commercial banks) is generally small. International loan markets are often characterized by credit rationing, in which some countries are unable to borrow at any interest rate. This is due, among other things, to the fact that the ability of creditors to enforce contractual compliance on foreign governments is very limited in the absence of a binding judicial system, such as undergirds domestic financial relations. And, for reasons that are controversial, international lending tends to cycle through waves of boom and bust: generally, a ten- or twenty-year period of easy money is followed by an equivalent period of little lending.

The political implications of international debt are generally clearest when debt must be serviced