Europe Left Behind? The Long Goodbye: From US Hegemony to a Regime of Negotiated Multipolarity

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1. China on the rise, the US struggling to keep up, and the EU on its way out. There seems to be no need for a panel that asks with a question mark whether the soft power approach of th4 EU is on the wane, nor for many more papers on the subject as the vast majority of observers agree that the EU is a lost case in global politics. The Common Security and Foreign Policy never made it to a global political force; rather, Lady Ashton contributed to its further decay. The most ambitious project of climate policies failed on so many levels that it is only a shadow of its former self. And then the Eurozone crisis demonstrates that the project of a common currency lacked, in sober economic and political fundamentals. This list can be continued.

2. Even more agreement exists in regards to the changing shape of the global regime due to the rise of China. Most agree that China is on a unstoppable growth path and soon will overtake the US as largest economy. Scholars are more divided in regards to the US, not least as so many since many years declared no only the end of US hegemony but an economic decline that eventually would result in a hard landing.

3. The paper I plan to write deviates from those analyses in three ways. First, I suggest analyzing and evaluating the position of the EU in a long-term perspective of the global regime. More concrete, I suggest looking more closely to the period since 1971, a period I label as the long goodbye. Second, the management of the Eurozone crisis in some sense re-made the EU to an intergovernmental organization. We see drastic changes in the institutional setting of the EU, a re-defining of political mandates and strong tensions between member states, as well as strong tendencies towards centralization. I suggest analyzing those processes not solely as signs of weakness but as struggles that may either put the EU on a declining path or on a path of regained strength. Time is not ripe to assess the events outcome. At this point in time, though, I argue that the EU is making more bad then good choices. Third, rather than attempting to go for a comprehensive analysis I decided to look into one arena, namely the arena of currencies. Here my starting point is very conventional: a national currency that acts simultaneously as an international currency provides the issuer of this money with economic benefits as well as with political power.

5. The count down of the US Hegemony in the western global economy started with the demise of the currency regime of Bretton Woods in 1971/73. The unilateral switch to flexible exchange rates and the cancellation of the promise of the US to exchange outside US-Dollar reserves for Gold ("as good as gold promise") was the response of strong tensions inside the fixed exchange rate regimes that conversely reflected weaknesses of accumulation regimes that built up during the period of catch up growth. In some regard, the demise of BW can be interpreted as the result of the success of the Golden Age of Capitalism. The immediate result was a strong depreciation of the US-Dollar, and severe turbulences in the global currency relations.
6. Rather then the end of US hegemony we observed the switch to a 'Wall Street-Dollar Regime' (Gowan). This new regime was based on far-reaching liberalization programs of financial markets. Financial institutions transformed their business models by making steady use of 'financial innovations' that eventually led to a strong financialization of the US economy. Liquidity became awash since the late 1980s. The more real interest rates decreased the riskier financial investments became.
7. The US model found soon imitators, mainly in the group of liberal market economies. The UK became the most prominent case of financialization in Europe. Financialization became the 'leitmotif' and economies like the German one with its emphasis on industrial activities were seen as outdated and exposed to 'sclerosis'.
8. When China in 1979 started its regime switch to a authoritarian state capitalism the global constellation started to change. It needed until 1989, though, when the implosion of the 'Soviet Empire' gave the capitalist project a further push, to create a truly global economy. Still, variants of capitalism continued to exist and rather then convergence we observed strong divergence, not only in economic outcomes but also in institutional settings. High growth rates in Asia as a result of outward looking strategies prevailed. However, the sustainability of the particular high growth models came under pressure.
9. The Asian Crisis of 1997/98 did not end this growth spurt but changed strategies. China pegged its currency in a strict way, and started to pile up huge international reserves, mainly US-Dollar. This stabilized the US and allowed to finance huge and increasing current account deficits. Rather then going towards a 'hard landing' as widely suggested, the US-Dollar benefitted from the 'second wind' provided by China. Reversely, China tied substantial parts of its paper wealth to relatively worthless USD in order to keep access to the US consumer market. The' New BW' was not sustainable.
10. However, falsifying wide-hold expectations, the structure of Financialization did not break due to the Dollar-China relation but as a

result of a internal credit bubble with highly opaque financial innovations. The financial crisis of 2008 may have started in the US but had truly global implications. It furthered a process already under way that best can be described as a differentiation of growth paths and trajectories.

11. The first response to the crisis was a policy mix of expansive fiscal and unorthodox monetary policy. This policy mix was successful as it avoided the meltdown of the global economy. Second round effects were critical, though. Financial markets and public sentiments perceived the pile up of huge public deficits as unacceptable. Greece, for other reasons, started the Eurozone crisis that quickly spread to a large number of member economies. Economies outside the zone, in particular Great Britain, were not isolated from the processes.
12. Crisis management was reluctant, and eventually took a orthodox course that focused on internal devaluation. It needs to be noted that the Eurozone mastered in quick time a institutional reset of quite enormous range. The speed of changes is outstanding, and had as a result that the underlying principles of the Eurozone changed drastically. The Eurozone experienced a fast process of deepening that came with a massive transfer of sovereignty to the EU level. Also, the crisis response moved decision-making away from the 'Community Method' (proposal of the Commission is jointly decided upon by European Parliament and the Council of the Union) ; the Commission has got more power in economic governance, not least due to its center role in the surveillance procedures under Article 121 TFEU. Mostly, though the Council took over.
13. Indications are strong that many of the features of 'clientele capitalism' will be gone soon. Normalization is the message. Slimmer public administrations and efforts to improve competitiveness are political goals of the day. Early in 2013, data shows that Italy, Greece, Spain and Portugal could reduce their current account deficits significantly. However, this should not be seen as a successful turnaround based on higher exports but mainly as the result if the austerity-triggered recession. Output losses of today will not be compensated for. In brief, the austerity course resulted in a switch to a lower growth trajectory.
14. Does this imply that the EU will further diminish its role in global governance? Short-term there is no doubt that the EU will be a more (but by far not exclusively) inward-looking actor. The start of EU-US negotiations about a Transatlantic Free Trade Area may be long shot but indicates that the EU seems willing to actively proceed with its trade agenda.
15. Another way to approach this question is to focus on one area of the global political economy. I suggest to looking more closely into the realm of currencies. It is well established that national currencies have close ties to state power. If we combine the traditional three functions of money (medium of exchange; unit of account; and store of value) and its split into private and official (intervention currency; exchange rate anchor; and

reserve currency), and then project this on the global level, we can easily get an illustration of current power relations. I follow Benjamin Cohen's suggestion that the role of a national currency is critical in the area of trade, financial markets, and official reserves. Network effects, easy access to liquid refinancing and thus the availability of relatively more time for political-economic adjustment programs may be most prominent benefits of an international currency. Empirical analyses all agree that the global currency order is centered on the US-Dollar. In other words, the US still benefit from the global position of the US-Dollar. Even a downgrading of its credit rating did not change the dominating position of the US currency but allowed the continuing easy access (low yield) to globally circulating US-Dollar.

16. The USD is the reference currency globally, whereas the Euro is a regional reference currency. In regards to the three critical areas, it is clear that the Chinese Rinminbi just started to develop closer regional ties and is becoming a regional reference currency. Data also show a very strong resilience of the Euro, a resilience that is also replicated with its exchange rate. The Eurozone crisis neither has started a capital flight nor diminished the long-term position of the Euro.
17. I argue that this resilience can at least partially be explained by the lack of currency alternatives. From a global investor's perspective that values credibility of a currency (a very much composed and aggregated category that left lots of space for interpretations) the number of credible currencies is rather restricted. The US-Dollar still is the number one currency in regards to credibility, and this despite the deep political rifts inside the US. Sop far, the willingness of the Federal Reserve to act as ubiquitous lender of last resort drives financial markets expectations and provides a financial system that has been at the verge of collapse new credibility. The case of the US is helped by technological innovation in the energy sector (Shale Gas) that already comes with the effect of reduced energy imports, and thus a reduction effects for the current account
18. China widely is seen as the new dominating power. If we look into the realm of the global currency order, such a prognosis is over tightened. The Rinminbi so far plays only a very limited role in the global economy, not least as a result of a regime of capital controls and a very limited depth of the financial regime in China. This regime is under change. In a very carefully orchestrated manner the Chinese government allows a limited internationalization of its currency. I argue that as long as China is not developing an open financial architecture, all efforts to internationalize the Rinminbi will only generate limited effects.
19. One implication of China's currency policy is the accumulation of huge international reserves, mainly hold in US-Dollars. This accumulation reflects the undervaluation strategy of China. I argue that those reserve are not so much reflecting the economic strength of the underlying growth model but the political choice for an managed exchange rate. Also, the huge pile of international reserves limit the power effects, as the reserves

are less a tool for threats then a responsibility to act in a more common interest in order to secure the value. It is only rational when Chinese officials stress that they don't have interest in a US-Dollar or a Euro crisis. Still, China has moved into a position of critical global veto power, and already this move implies a huge change for global governance.

20. The dollar bloc and the Euro bloc in the global economy differ in size but share the trait that they are relatively stable, and in case of the Euro even increase (in regards to member states as well as in regards to a currency anchor). China only slowly built up its bloc relations. Still, this configuration is neither as fixed nor as stable as it may seem. I argue that the most critical variable is the future role of the financial markets in each bloc. Restructuring is by far not finished, and even less so in case of the Eurozone where banks and financial institutions are relatively under-capitalized. Also, in both blocs the central banks are under political fire, despite the fact that both central banks were absolute critical for financial and slowly returning economic stability.
21. The turn towards austerity policies drastically reduced the economic role of fiscal policy, and thus destroyed any existing balance in the policy mix. The stabilization task has mainly been moved to central banks, and they act along lines of quantitative easing. Rather then fueling inflation those policies prepare the ground for financial exuberance, and thus the base for a next bubble.
22. Global monetary cooperation will be a key component for global economic governance. Such cooperation is difficult to establish. The main actors are no longer in positions to unilaterally set the agenda. In regards to the EU, it seems to me that the Euro will continue to play a important role as US-Dollar back up for official reserves. The macroeconomic effects of the crisis management as well as the degree of policy coordination in areas like banking and money will be critical for the position of the Euro on the global level. The more the EU tends to 'European solutions', the less weight the EU will have on the global level. Its power to set standards is not critical enough to direct global policy discourses. Still, its voice is not disappearing. The choir slowly gets larger, and all need to talk about the tune they want to move to.

My sincere apologies for sending a collection of theses rather then a full-flegded paper. I guess the usual argument of being overstretched will not help me. Don't hesitate to throw all your mighty arguments upon me. Kurt