

# American power after the financial crisis

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The financial crisis of 2008 has raised questions about the future of American power. An article in *The Far Eastern Economic Review* proclaims that "Wall Street's crack-up presages a global tectonic shift: the beginning of the decline of American power." Russian President Dmitri Medvedev sees the crisis as a sign that America's global leadership is coming to an end, and Venezuelan President Hugo Chavez has declared that Beijing is now much more relevant than New York.

Yet the dollar, a symbol of American financial power, has surged rather than declined. As Kenneth Rogoff, a Harvard professor and former chief economist of the IMF notes, "It is ironic, given that we just messed up big time, the response of foreigners is to pour more money into us. They're not sure where else to go. They seem to have more confidence in our ability to solve our problems than we do." Earlier this year, many analysts talked about the decoupling of the world economy. It used to be said that when America sneezed, the rest of the world caught a cold. More recently, many claimed that with the rise of China and the petro-states, an American slowdown could be decoupled from the rest of the world. But when America caught the financial flu, others soon followed. Many foreign leaders quickly switched from *schadenfreude* to fear, and the security of US treasury bills.

Crises often strip away conventional wisdom, and this one reveals that the underlying strength of the American economy remains impressive. The poor performance of Wall Street institutions and Washington regulators has cost New York a good deal in terms of its soft power or the attractiveness of its economic model, but the blow need not be fatal if, in contrast to Japan in the 1990s, Washington moves quickly to absorb the losses and limit the damage.

The larger question is the long term future of American power. A new forecast of 2025 being prepared by the National Intelligence Council projects that American dominance will be "much diminished," and that the one key area of continued American superiority-military power-will be less significant in the increasingly competitive world of the future. This is not so much a question of American decline as "the rise of the rest."

Power always depends on context, and in today's world, it is distributed in a pattern that resembles a complex three-dimensional chess game. On the top chessboard, military power is largely unipolar and likely to remain so for some time. But on the middle chessboard, economic power is already multi-polar, with the US, Europe, Japan and China as the major players, and others gaining in importance. The bottom chessboard is the realm of transnational relations that cross borders outside of government control, and it includes actors as diverse as bankers electronically transferring sums larger than most national budgets at one extreme, and terrorists transferring weapons or hackers disrupting Internet operations at the other. It also includes new challenges like pandemics and climate change. On this bottom board, power is widely dispersed, and it makes no sense to speak of unipolarity, multi-polarity or hegemony.

Even in the aftermath of the financial crisis, the giddy pace of technological change is likely to continue to drive globalisation, but the political effects will be quite different for the world of nation states and the world of non-state actors. In inter-state politics, the most important factor will be the continuing "return of Asia". In 1750, Asia had three-fifths of the world population and three-fifths

of the world's product. By 1900, after the industrial revolution in Europe and America, Asia's share shrank to one-fifth of the world product. By 2040, Asia will be well on its way back to its historical share. The "rise" in the power of China and India may create instability, but it is a problem with precedents, and we can learn from history about how our policies can affect the outcome. A century ago, Britain managed the rise of American power without conflict, but the world's failure to manage the rise of German power led to two devastating world wars.

In transnational politics, the information revolution is dramatically reducing the costs of computing and communication. Forty years ago, instantaneous global communication was possible but costly, and restricted to governments and corporations. Today it is virtually free to anyone with the means to enter an internet café. The barriers to entry into world politics have been lowered, and non-state actors now crowd the stage. In 2001, a non-state group killed more Americans than the government of Japan killed at Pearl Harbor. A pandemic spread by birds or travelers on jet aircraft could kill more people than perished in the first or second world wars. This is a new world politics with which we have less experience. The problems of power diffusion (away from states) may turn out to be more difficult than power transition among states.

The problem for American power in the 21st century is that there are more and more things outside the control of even the most powerful state. Although the United States does well on the traditional measures, there is increasingly more going on in the world that those measures fail to capture. Under the influence of the information revolution and globalisation, world politics is changing in a way that means Americans cannot achieve all their international goals acting alone. For example, international financial stability is vital to the prosperity of Americans, but the United States needs the cooperation of others to ensure it. Global climate change too will affect the quality of life, but the United States cannot manage the problem alone. And in a world where borders are becoming more porous than ever to everything from drugs to infectious diseases to terrorism, America must mobilise international coalitions to address shared threats and challenges. As the largest country, American leadership will remain crucial. The problem of American power after this crisis is not one of decline, but realisation that even the largest country cannot achieve its aims without the help of others.

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