

# Military Primacy Doesn't Pay (Nearly As Much As You Think)

Daniel W. Drezner

The 2008 financial crisis dramatically worsened the fiscal future of the United States. In the first five years of the Great Recession, the debt-to-gross domestic product ratio of the United States more than doubled, and multiple bond-ratings agencies downgraded U.S. federal government debt. The inevitable debate in Washington is where and how much to cut federal spending. The national security budget is a natural target for fiscal conservatives. Their logic is clear-cut: defense and war expenditures are not the primary culprits for the parlous fiscal state of the United States, but they acted as accessories. For the 2013 fiscal year, the U.S. federal government has budgeted more than \$685 billion in defense expenditures.<sup>1</sup> Tacking on budgeting for intelligence and nuclear forces raises that figure to more than \$725 billion. With the wars in Iraq and Afghanistan winding down and al-Qaida's top leadership decimated, the security threats to the United States have also declined.<sup>2</sup> At the same time, the country possesses an unparalleled lead in defense assets and expenditures. Given its unchallenged military supremacy, targeting cuts toward defense spending after a decade of dramatic budgetary increases is a natural ambition.

A future of limited defense budgets has nevertheless triggered anxiety from some quarters of the U.S. national security community. Advocates for a large military argue that the world is safer and more prosperous today precisely because of the United States' outsized security capacities and deep engagement with the rest of the world. Ostensibly, by acting as a guarantor of the peace in hotspots such as the Middle East and Pacific Rim, the United States keeps the international system humming along—which in turn yields significant bene-

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Previous versions of this article were presented at the Tobin Project's conference on Sustainable National Security Strategy, the University of Connecticut, and the U.S. Army War College. The author is grateful to the Tobin Project and the Michael and Andrea Leven Family Foundation for their generous financial support during the drafting of this article. He thanks Robert Art, Jonathan Caverley, Michael Desch, Francis Gavin, Jennifer Harris, Heather Hurlburt, Kenneth Osgood, Jeremy Pressman, Sidharth Shah, Jeremi Suri, Peter Trubowitz, Benjamin Valentino, Stephen Van Evera, and the anonymous reviewers for their feedback.

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1. Department of Defense, "National Budget Estimate for Fiscal Year 2013" (Washington, D.C.: Office of the Undersecretary of Defense [Comptroller], March 2012), [http://comptroller.defense.gov/defbudget/fy2013/FY13\\_Green\\_Book.pdf](http://comptroller.defense.gov/defbudget/fy2013/FY13_Green_Book.pdf).

2. Micah Zenko and Michael Cohen, "Clear and Present Safety," *Foreign Affairs*, Vol. 91, No. 2 (March–April 2012), pp. 79–91.

fits to the United States itself. A smaller military budget would make keeping the peace that much more difficult. When budgetary constraints began to appear on the horizon in 2010, the presidents of the American Enterprise Institute, Heritage Foundation, and Foreign Policy Initiative explicitly argued in the *Wall Street Journal* that “military spending is not a net drain on our economy.”<sup>3</sup> This argument is one of several that analysts have made about the economic benefits to the United States of possessing military predominance and deep engagement with the rest of the world.<sup>4</sup> Critics, however, have long questioned whether military preeminence yields the benefits claimed by proponents.<sup>5</sup> Those criticisms have only intensified since the 2008 financial crisis.<sup>6</sup> While arguments in favor of military predominance are frequently asserted in policy circles, there is less discussion about their theoretical and empirical foundation. What can international relations scholarship say about the relative economic benefits of military primacy?

This article evaluates whether the economic benefits of military preeminence and deep engagement are as great as proponents suggest. This evaluation begins by breaking down the arguments that military primacy yields economic returns into the most commonly articulated causal mechanisms. It then assesses what the scholarly literature and evidence can conclude about those causal mechanisms. The three most plausible pathways are the geo-economic favoritism that foreign capital inflows provide for military super-

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3. Arthur Brooks, Edwin Fuelner, and William Kristol, “Peace Doesn’t Keep Itself,” *Wall Street Journal*, October 4, 2010.

4. See, for example, Stephen Brooks, G. John Ikenberry, and William C. Wohlforth, “Don’t Come Home, America: The Case against Retrenchment,” *International Security*, Vol. 37, No. 3 (Winter 2012/13), pp. 7–51; Robert Kagan, *The World America Made* (New York: Knopf, 2012); G. John Ikenberry, *Liberal Leviathan: The Origins, Crisis, and Transformation of the American World Order* (Princeton, N.J.: Princeton University Press, 2011); and Stephen G. Brooks and William C. Wohlforth, *World Out of Balance: International Relations and the Challenge of American Primacy* (Princeton, N.J.: Princeton University Press, 2008).

5. Robert Jervis, “International Primacy: Is the Game Worth the Candle?” *International Security*, Vol. 17, No. 4 (Spring 1993), pp. 52–67; Eugene Gholz, Daryl G. Press, and Harvey M. Sapolsky, “Come Home, America: The Strategy of Restraint in the Face of Temptation,” *International Security*, Vol. 21, No. 4 (Spring 1997), pp. 5–48; Stephen M. Walt, *Taming American Power: The Global Response to U.S. Primacy* (New York: W.W. Norton, 2006); and Barry R. Posen, “The Case for Restraint,” *American Interest*, No. 3 (November–December 2007), pp. 7–17.

6. Benjamin H. Friedman, Eugene Gholz, Daryl G. Press, and Harvey Sapolsky, “Restraining Order: For Strategic Modesty,” *World Affairs*, Fall 2009, pp. 84–94; Christopher A. Preble, *The Power Problem: How American Military Dominance Makes Us Less Safe, Less Prosperous, and Less Free* (Ithaca, N.Y.: Cornell University Press, 2009); Robert A. Pape, “Empire Falls,” *National Interest*, No. 99 (January/February 2009), pp. 21–34; Eugene Gholz and Daryl Press, “Footprints in the Sand,” *American Interest*, No. 5 (March/April 2010), pp. 59–67; John J. Mearsheimer, “Imperial by Design,” *National Interest*, No. 111 (January/February 2011), pp. 16–34; Paul K. MacDonald and Joseph M. Parent, “Graceful Decline? The Surprising Success of Great Power Retrenchment,” *International Security*, Vol. 35, No. 4 (Spring 2011), pp. 7–44; and Richard K. Betts, *American Force: Dangers, Delusions, and Dilemmas in National Security* (New York: Columbia University Press, 2012).

powers; the geopolitical favoritism gained from an outsized military presence; and the public goods benefits that flow from hegemonic stability.

Each of these arguments is less empirically persuasive than is commonly articulated in policy circles. There is little evidence that military primacy yields appreciable geoeconomic gains. The evidence for geopolitical favoritism is much more robust during periods of bipolarity than it is under unipolarity, which suggests that primacy in and of itself does not yield material transfers. The evidence for public goods benefits is strongest, but military predominance plays a supporting role in that causal logic; it is only full-spectrum unipolarity—a condition in which a single actor is universally acknowledged to be the dominant actor across a variety of power dimensions—that yields appreciable economic gains. The economic benefits from military predominance alone seem, at a minimum, to have been exaggerated in policy and scholarly circles. While there are economic benefits to possessing a great power military, diminishing marginal returns are evident well before achieving military primacy. The principal benefits that come with military primacy appear to flow only when coupled with economic primacy. These findings have significant implications for theoretical debates about the fungibility of military power, and should be considered when assessing U.S. fiscal options and grand strategy for the coming decade.

The article's first section frames the current discourse about the economic benefits of military primacy in the context of U.S. budgetary debates. The second section evaluates the geoeconomic favoritism hypothesis. The third section considers the geopolitical favoritism argument. The fourth section assesses the public goods logic. The final section summarizes and discusses the implications of the article's findings for international relations theory and U.S. foreign policy.

### *What Is At Stake in the Debate About Military Primacy*

For the rest of this article, the terms "military primacy," "military preeminence," and "military predominance" are used interchangeably. They all refer to a distribution of military capabilities in which one country faces no current or emergent peers on any significant battlefield. A country possessing military primacy commands "the commons"—global spaces such as air, sea, or space.<sup>7</sup> Command of the commons acts as a force multiplier for other forms of power projection. In theory, a country that possesses military predominance can nev-

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7. Barry R. Posen, "Command of the Commons: The Military Foundation of U.S. Hegemony," *International Security*, Vol. 28, No. 1 (Summer 2003), pp. 5–46.

ertheless follow a restrained foreign policy. In practice, primacy always seems to lead to a concomitant foreign policy of deep engagement with the rest of the world.<sup>8</sup>

Since the collapse of the Soviet Union, international relations theorists and foreign policy analysts have furiously debated the existence, duration, and implications of unipolarity.<sup>9</sup> Sources of contention in these debates include the duration, stability, and wisdom of U.S. military primacy. Two facts, however, are not in dispute. First, U.S. grand strategy for the post-Cold War era has been predicated on preserving U.S. military primacy—deep engagement with the rest of the world serves many purposes, one of which is to deter the rise of a peer competitor.<sup>10</sup> Repeated strategy documents from different presidential administrations have articulated this view. The George W. Bush administration's 2002 National Security Strategy famously vowed, "Our forces will be strong enough to dissuade potential adversaries from pursuing a military build-up in hopes of surpassing, or equaling, the power of the United States." The Barack Obama administration's 2010 National Security Strategy, though distinct from its predecessors on numerous policy dimensions, nevertheless concurs with prior strategy documents that "we will maintain the military superiority that has secured our country, and underpinned global security, for decades."<sup>11</sup>

The second indisputable fact is that all proponents in this debate acknowledge that the United States has been the sole military superpower in the world

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8. Brooks, Ikenberry, and Wohlforth, "Don't Come Home, America"; and Mearsheimer, "Imperial by Design."

9. Charles Krauthammer, "The Unipolar Moment," *Foreign Affairs*, Vol. 70, No. 1 (Winter 1990–1991), pp. 23–33; Christopher Layne, "The Unipolar Illusion: Why New Great Powers Will Arise," *International Security*, Vol. 17, No. 4 (Spring 1993), pp. 5–51; Michael Mastanduno, "Preserving the Unipolar Moment: Realist Theories and U.S. Grand Strategy after the Cold War," *International Security*, Vol. 21, No. 4 (Spring 1997), pp. 44–98; Charles A. Kupchan, "After Pax Americana: Benign Power, Regional Integration, and the Sources of a Stable Multipolarity," *International Security*, Vol. 23, No. 2 (Fall 1998), pp. 40–79; William C. Wohlforth, "The Stability of a Unipolar World," *International Security*, Vol. 24, No. 1 (Summer 1999), pp. 5–41; Posen, "Command of the Commons"; Brooks and Wohlforth, *World Out of Balance*; Fareed Zakaria, *The Post-American World* (New York: W.W. Norton, 2008); William C. Wohlforth, "Unipolarity, Status Competition, and Great Power War," *World Politics*, Vol. 61, No. 1 (January 2009), pp. 28–57; Carla Norrlof, *America's Global Advantage: U.S. Hegemony and International Cooperation* (Cambridge: Cambridge University Press, 2010); Nuno P. Monteiro, "Unrest Assured: Why Unipolarity Is Not Peaceful," *International Security*, Vol. 36, No. 3 (Winter 2011–12), pp. 9–40; and Christopher Layne, "This Time It's Real: The End of Unipolarity and the *Pax Americana*," *International Studies Quarterly*, Vol. 56, No. 1 (March 2012), pp. 203–213.

10. Brooks, Ikenberry, and Wohlforth, "Don't Come Home, America"; and Mearsheimer, "Imperial by Design."

11. "The National Security Strategy" (Washington, D.C.: White House, September 2002), p. 30, <http://www.state.gov/documents/organization/63562.pdf>; and "The National Security Strategy" (Washington, D.C.: White House, May 2010), p. 3, [http://www.whitehouse.gov/sites/default/files/rss\\_viewer/national\\_security\\_strategy.pdf](http://www.whitehouse.gov/sites/default/files/rss_viewer/national_security_strategy.pdf).

since the collapse of the Soviet Union. More than a decade ago, Paul Kennedy concluded that the United States' military advantage was unparalleled in history: "Nothing has ever existed like this disparity of power; nothing. I have returned to all of the comparative defence spending and military personnel statistics over the past 500 years that I compiled in *The Rise and Fall of the Great Powers*, and no other nation comes close."<sup>12</sup> The hard data on this question confirm Kennedy's statement. A cursory scan of current defense budgets across the world reveals that the United States is responsible for close to 40 percent of worldwide military expenditures and more than 60 percent of great power military expenditures.<sup>13</sup> These figures have been roughly constant for the past two decades—and this distribution is distinct from any prior distribution of military expenditures since the 1648 Peace of Westphalia.<sup>14</sup> Breaking down the military balance into subcomponents does not change this evaluation. Despite a plethora of arms control treaties, the United States holds an unparalleled lead in nuclear weapons.<sup>15</sup> Barry Posen concludes that the United States dominates the global commons of air, sea and space, and that it "gets vastly more military use out of the sea, space, and air than do others; that it can credibly threaten to deny their use to others; and that others would lose a military contest for the commons if they attempted to deny them to the United States." Even skeptics of unipolarity, such as Christopher Layne, concede that "the United States still wields preponderant military power."<sup>16</sup>

The large disparity between the military power of the United States and that of everyone else explains why fiscal conservatives are seeking to shrink the defense budget. U.S. national security officials have become more concerned about the security implications of the national debt. Even defense policy principals have talked about the need to retrench in the interest of national security. Adm. Michael Mullen, while chairman of the Joint Chiefs of Staff, repeatedly averred that the debt was the single greatest threat to national security.<sup>17</sup> Former Defense Secretary Robert Gates stated in May 2010, "The attacks of September 11th, 2001, opened a gusher of defense spending that nearly doubled the base budget over the last decade, not counting supplemental ap-

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12. Paul Kennedy, "The Eagle Has Landed," *Financial Times*, February 2, 2002.

13. Stockholm International Peace Research Institute (SIPRI), "Trends in World Military Expenditure, 2012" (Stockholm: SIPRI, April 15, 2013), <http://books.sipri.org/files/FS/SIPRIFS1304.pdf>.

14. Brooks and Wohlforth, *World Out of Balance*, p. 30; and Ikenberry, *Liberal Leviathan*, p. 42.

15. Keir A. Lieber and Daryl Press, "The End of MAD? The Nuclear Dimension of U.S. Primacy," *International Security*, Vol. 30, No. 4 (Spring 2006), pp. 7–44.

16. Posen, "Command of the Commons," p. 8; and Layne, "This Time It's Real," p. 210.

17. Michael J. Carden, "National Debt Poses Security Threat, Mullen Says," American Forces Press Service, August 27, 2010; and Ed O'Keefe, "Mullen: Despite Deal, Debt Still Poses the Biggest Threat to U.S. National Security," *Washington Post*, August 2, 2011.

propriations for the wars in Iraq and Afghanistan. Which brings us to the situation we face and the choices we have today—as a defense department and as a country. Given America's difficult economic circumstances and parlous fiscal condition, military spending on things large and small can and should expect closer, harsher scrutiny. The gusher has been turned off, and will stay off for a good period of time."<sup>18</sup>

Such statements have provoked consternation in defense policy circles about whether cutbacks would actually carry more costs than benefits. Robert Kagan crystallized one logic that connects U.S. military hegemony with significant material benefits:

[T]hose who support cutting the defense budget think that if the United States would simply scale back its role in the world, it could save money and make raising further revenue unnecessary. This is a faulty assumption. The present global economic and political order, which has provided the environment in which the United States has grown and prospered for decades, is built on and around American power and influence. Were the United States to cease playing its role in upholding this order, were we to retreat from East Asia or to back away from the challenge posed by a nuclear Iran, the result could only be global instability. From a purely economic perspective, it would be far more costly to restore order and stability—both essential to a prosperous global economy—than it would be to sustain it.<sup>19</sup>

Kagan's argument is only one of multiple logics through which military primacy is hypothesized to be a net economic gain. There are several causal pathways through which military hegemony translates into economic benefits to the hegemon, but insufficient attention has been paid to assessing the combined validity of these hypotheses. Stephen Brooks, John Ikenberry, and William Wohforth recently asserted that "the wider payoffs of the United States' security role for its interests in other realms, notably the global economy . . . [have been] relatively unexplored by international relations scholars."<sup>20</sup> This is true, but there has been significant scholarship on each of the individual causal pathways through which military primacy can yield pecuniary gain.

This article does not exhaustively survey every hypothesized relationship between military predominance and economic benefit. Fortunately, some arguments can be dispatched quickly. For example, the argument that military primacy promotes employment by providing a Keynesian or innovative boost to

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18. Robert Gates, speech given at the Eisenhower Library, Abilene, Kansas, May 8, 2010, <http://www.defense.gov/speeches/speech.aspx?speechid=1467>.

19. Robert Kagan, "How the Fiscal Crisis Puts National Security at Risk," *Washington Post*, November 12, 2012.

20. Brooks, Ikenberry, and Wohlforth, "Don't Come Home, America," p. 33.

the economy is unpersuasive. Economists have concluded that any employment effect from defense spending is inefficient compared to similar levels of tax cuts or civilian government spending.<sup>21</sup> Similarly, arguments persist to this day that military primacy yields rents through the existence of “informal empire.”<sup>22</sup> A quick cursory review of the literature, however, reveals that whatever imperial rents existed in the pre-industrial era have not existed for recent military hegemonies.<sup>23</sup> The failure of the United States to convert its postinvasion control of Afghanistan or Iraq into lucrative commercial relationships is the latest data point to contradict this hypothesis.<sup>24</sup>

There are three other more viable arguments contending that military pre-eminence generates positive economic externalities. One argument, which I label “geoeconomic favoritism,” hypothesizes that the military hegemon will attract private capital because it provides the greatest security and safety to investors. A second argument posits that the benefits from military primacy flow from geopolitical favoritism: that sovereign states, in return for living under the security umbrella of the military superpower, voluntarily transfer resources to help subsidize the costs of hegemony. The third argument postulates that states are most likely to enjoy global public goods under a unipolar distribution of military power, accelerating global economic growth and reducing security tensions. These public goods benefit the hegemon as much, if not more, than they do other actors. In the next three sections, each of these causal mechanisms is discussed and then measured against the theoretical and empirical literature to assess its validity.

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21. See Uk Heo, “The Relationship between Defense Spending and Economic Growth in the United States,” *Political Research Quarterly*, Vol. 63, No. 4 (December 2010), pp. 760–770; and Robert Pollin and Heidi Harret-Peltier, *The U.S. Employment Effects of Military and Domestic Spending Priorities* (Amherst: Political Economy Research Institute, University of Massachusetts, December 2011). For a survey on the innovation impact of military research and development, see David Mowery, “Defense-Related R&D as a Model for ‘Grand Challenges’ Technology Policies,” *Research Policy*, Vol. 41, No. 10 (December 2012), pp. 1703–1715.

22. David Harvey, *The New Imperialism* (Oxford: Oxford University Press, 2003); Alex Callinicos, *Imperialism and the Global Political Economy* (Cambridge: Polity, 2009); and Sam Gindin and Leo Panitch, *The Making of Global Capitalism: The Political Economy of American Empire* (London: Verso, 2012).

23. See John R. Oneal and Frances H. Oneal, “Hegemony, Imperialism, and the Profitability of Foreign Investments,” *International Organization*, Vol. 42, No. 2 (Spring 1988), pp. 347–373; Randall W. Stone, *Satellites and Commissars: Strategy and Conflict in the Politics of Soviet-Bloc Trade* (Princeton, N.J.: Princeton University Press, 2002); and Erik Gartzke and Dominic Rohmer, “The Political Economy of Imperialism, Decolonization, and Development,” *British Journal of Political Science*, Vol. 41, No. 3 (July 2011), pp. 525–556.

24. One former U.S. diplomat in Iraq noted: “There appears to be almost no correlation between the countries which participated in the war and those now trying to develop the country.” Quoted in Lina Saigol, “Spoils of War Evade US and UK,” *Financial Times*, December 15, 2011. On Afghanistan, see Erica Downs, “China Buys Into Afghanistan,” *SAIS Review*, Vol. 32, No. 2 (Summer–Fall 2012), pp. 65–84.

### *Geoeconomic Favoritism*

In the global economy, military preeminence can potentially encourage the private sector to make voluntary resource transfers. Private capital, for example, might interpret military predominance as a powerful market signal. At a minimum, the most obvious benefit from a large military force is the security it provides to potential investors. All else being equal, a country is far more likely to attract foreign capital if it is secure from foreign invasion. This security, in turn, can make the country attractive for foreign investment.<sup>25</sup> Primacy also would appear to make it easier for a country to establish a reserve currency, which also generates pecuniary returns through seigniorage. Additionally, a country with military primacy presumably has a monopoly on the use of legitimate force within its borders. By bolstering property rights and reducing risk, military predominance can act as a magnet for foreign capital inflows. I label the positive effect of military primacy on private-sector activity as "geoeconomic favoritism."

The evidence for geoeconomic favoritism is mixed. To be sure, some measure of military power is generally acknowledged to be a prerequisite for developing a reserve currency.<sup>26</sup> There has been a powerful correlation between states with significant amounts of military power and economic wealth.<sup>27</sup> Since the beginning of the modern Westphalian state system, leaders have equated military power with economic plenty.<sup>28</sup> The direction of causality in this relationship is much more difficult to ascertain, however. It is possible that military power generates greater economic benefits, but most researchers draw the opposite conclusion: the primary causal arrow moves from economic vitality toward a strong military. This was Kennedy's conclusion in *The Rise and Fall of the Great Powers*, matching the general consensus of most scholars who work on hegemonic stability, power transition, or long cycles.<sup>29</sup> Realists such as Barry Posen have reached a similar conclusion: "If the United States were not

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25. Norrlof, *America's Global Advantage*, chap. 6. See also Michael Beckley, "China's Century? Why America's Edge Will Endure," *International Security*, Vol. 36, No. 3 (Winter 2011/12), pp. 41–78.

26. C. Fred Bergsten, *The Dilemmas of the Dollar: The Economics and Politics of United States International Monetary Policy* (New York: New York University Press, 1975); Benjamin J. Cohen, *Organizing the World's Money: The Political Economy of International Monetary Relations* (New York: Basic Books, 1977); Helleiner and Kirshner, *The Future of the Dollar*; and Norrlof, *America's Global Advantage*.

27. Robert Gilpin, *War and Change in World Politics* (New York: Cambridge University Press, 1981); and Paul Kennedy, *The Rise and Fall of the Great Powers* (New York: Vintage, 1987).

28. Jacob Viner, "Power Versus Plenty as Objectives of Foreign Policy in the Seventeenth and Eighteenth Centuries," *World Politics*, Vol. 1, No. 1 (October 1948), pp. 1–29.

29. Gilpin, *War and Change in World Politics*; A.F.K. Organski, *World Politics*, 2d ed. (New York: Knopf, 1969); and George Modelski, "The Long Cycle of Global Politics and the Nation-State," *Comparative Studies in Society and History*, Vol. 20, No. 2 (April 1978), pp. 214–235.

the dominant economic and technological power, it would not be the dominant military power.”<sup>30</sup>

For the causal logic of geoeconomic favoritism to hold up, military power must generate concomitant economic gains rather than vice versa. There is modest evidence for this assertion. At a base level, geoeconomic favoritism clearly exists. As a necessary condition, a state’s ability to defend its borders determines its ability to develop its economy, capital markets, and regional economic ties.<sup>31</sup> Thus, military capabilities can help to reduce political risk, which is a significant explanatory factor for cross-border capital flows.<sup>32</sup> The necessary condition for this relationship is not military predominance, but some sufficient level of great power military capabilities. For geoeconomic favoritism to occur, military primacy and deep engagement must generate greater inflows of capital than would otherwise be the case.

Carla Norrlof’s work represents the most direct effort to test the relationship between U.S. military prowess and financial strength. She argues, for example, that since 1979 “funds have more readily flowed to the United States” when it has won its wars.<sup>33</sup> When the United States has gotten bogged down in military quagmires, on the other hand, the reverse has been true. Her evidence for testing this assertion, however, rests solely on an annual bivariate comparison of U.S. military performance with financial flows into the United States. The failure to consider other causal factors in determining the flow of funds—such as economic growth, monetary policy, or fiscal policy measures—introduces significant omitted variable bias into her analysis.

The historical literature does not lend much support to geoeconomic favoritism. Jonathan Kirshner’s work demonstrates that financial interests are concerned with the minimization of risk. As part of ensuring global order, military hegemony frequently need to exercise their military power; such actions introduce the possibility of macroeconomic instability into financial markets and national economies. Kirshner shows that, historically, the financial sector has staunchly opposed initiating the use of force in world politics. Even military hegemony must therefore be wary of alienating global capital: “[S]tates,” he writes, “must be alert to the fact that by choosing a more assertive or ambitious national security strategy . . . they may be ‘punished’ by international financial markets, principally via capital flight, pressure on the exchange rate,

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30. Posen, “Command of the Commons,” p. 46.

31. Gerace, “State Interests, Military Power, and International Commerce”; and Norrlof, *America’s Global Advantage*.

32. Elias Papaioannou, “What Drives International Financial Flows? Politics, Institutions, and Other Determinants,” *Journal of Development Economics*, Vol. 88, No. 2 (March 2009), pp. 269–281.

33. Norrlof, *America’s Global Advantage*, p. 171.

and greater difficulty in borrowing abroad.”<sup>34</sup> At a minimum, this set of capital market preferences implies that hegemons receive negligible geoeconomic benefits from military primacy.

The behavior of reserve currencies between the two world wars is another data point against geoeconomic favoritism. If this logic is valid, then military power should also be a principal factor in determining which state issues the reserve currency. Both the United Kingdom in the nineteenth century and the United States after 1945 meet this criterion. Because these states were also the largest economies and largest financial centers during those respective periods, however, the causal factors are overdetermined. During the interwar period, however, there was a significant disparity between the military capabilities of Great Britain and the United States; the former had far greater power projection capabilities than those of the latter.<sup>35</sup> On other dimensions—market size, financial depth—the United States and the United Kingdom were more evenly matched. Despite the British military advantage, however, the most recent economic history on this subject shows that public- and private-sector actors began treating the dollar as a reserve currency as early as the mid-1920s.<sup>36</sup> Economic and financial factors, not the military balance of power, primarily determine the location of the reserve currency.

The recent economics literature on the causes of national financial strength further downplays the role of military power and favors that of domestic political institutions. While both democratic and authoritarian great powers have possessed large military establishments, this literature concludes that inclusive, democratic political institutions play the crucial role in allowing large states to exploit their financial power. Because these institutions can allow political leaders to credibly commit, states housing such institutions are perceived as more likely to honor their debts.<sup>37</sup> States with large militaries are also

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34. Jonathan Kirshner, *Appeasing Bankers: Financial Caution on the Road to War* (Ithaca, N.Y.: Cornell University Press, 2007), p. 206.

35. Paul Kennedy classifies the United States during the interwar period as a “military middle-weight.” Kennedy, *Rise and Fall of the Great Powers*, p. 328.

36. Barry Eichengreen and Marc Flandreau, “The Rise and Fall of the Dollar (or When Did the Dollar Replace Sterling as the Leading Reserve Currency?),” *European Review of Economic History*, Vol. 13, No. 3 (December 2009), pp. 377–411; and Eichengreen and Flandreau, “The Federal Reserve, the Bank of England, and the Rise of the Dollar as an International Currency, 1914–1939,” *Open Economies Review*, Vol. 23, No. 1 (February 2012), pp. 57–87.

37. The classic argument in this vein is Douglass North and Barry Weingast, “Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England,” *Journal of Economic History*, Vol. 49, No. 4 (December 1989), pp. 803–832. For more recent variants, see Kenneth Schultz and Barry Weingast, “The Democratic Advantage: Institutional Foundations of Financial Power in International Competition,” *International Organization*, Vol. 57, No. 1 (December 2003), pp. 3–42; Timothy Besley and Torsten Persson, “The Origins of State Capacity: Property Rights, Taxation, and Politics,” NBER Working Paper, No. 13028 (Cambridge,

more vulnerable to the development of “extractive” political institutions: politically powerful actors can exploit the coercive apparatus of a large military to develop political institutions that reward members of the electorate with private goods, rather than the public goods necessary to attract inward capital flows.<sup>38</sup> History suggests that absolutist leaders with large militaries have been far more likely to repudiate their debts.<sup>39</sup> As Daron Acemoğlu and James Robinson have demonstrated, countries based on extractive political institutions are more likely to possess comparatively more sclerotic economies.<sup>40</sup>

For any national government, some degree of defense spending and military prowess reassures private-sector actors that their investments will be secure. Beyond that base level, however, all of the literature indicates that primacy yields little in the way of geoeconomic returns. Security is certainly a necessary condition for attracting foreign capital inflows, but predominance does not appear to be a prerequisite. If anything, an outsized military, by loosening constraints on the state to refrain from military adventurism, retards rather than enhances inward private capital flows.

### *Geopolitical Favoritism*

The other hypothesized voluntary benefit comes from geopolitical favoritism, wherein other sovereign jurisdictions provide voluntary economic concessions to the dominant security actor. Primacy allows the hegemon to use its military power as a form of extended deterrence to protect multiple strategic partners. In return, these allies and partners can confer economic benefits, helping to underwrite military hegemony.<sup>41</sup> If these countries give preferential treatment to the hegemon’s investors, support its currency as the world’s reserve currency, buy hegemon-issued debt as a way to finance defense spending, or subsidize the hegemon’s power projection through basing fees, arms purchases, or other transfers, then the relationship between military power and pecuniary benefits comes into greater focus. More generally, those actors who rely on the hegemon’s security umbrella are less likely to question or subvert its economic

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Mass.: National Bureau of Economic Research, April 2007); and Daron Acemoğlu and James A. Robinson, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* (New York: Crown, 2012).

38. Acemoğlu and Robinson, *Why Nations Fail*. See also Bruce Bueno de Mesquita, Alastair Smith, Randolph M. Siverson, and James D. Morrow, *The Logic of Political Survival* (Cambridge, Mass.: MIT Press, 2003).

39. James Conklin, “The Theory of Sovereign Debt and Spain under Philip II,” *Journal of Political Economy*, Vol. 106, No. 3 (June 1998), pp. 483–513.

40. Acemoğlu and Robinson, *Why Nations Fail*.

41. Susan Strange, “The Persistent Myth of Lost Hegemony,” *International Organization*, Vol. 41, No. 4 (Autumn 1987), pp. 551–574.

order. As Norrlof explains, "The United States is obligated by treaty to defend roughly fifty countries. These interventions, whether to push back aggressors, or for humanitarian reasons, have purchased goodwill and provided Great Powers with an interest in preserving an American-centered world order."<sup>42</sup>

The logic of geopolitical favoritism finds some theoretical and empirical support. There are numerous historical examples of "asymmetric" alliances that function as an implicit exchange between large and small allies of security for economic gains. Empirical tests reveal that this kind of exchange of security benefits for autonomy benefits often leads to more durable alliance relationships over time.<sup>43</sup> According to this logic, states that rely on the United States for security needs are more likely to shape economic flows in a way that benefits the United States. One obvious example would be the benefits that the United States accrued after assembling the multilateral coalition to eject Iraq from Kuwait in 1991. Many countries contributed funds to help defray war expenditures during that conflict.<sup>44</sup> More generally, some key allies, such as Japan, Kuwait and South Korea, heavily subsidize the basing of U.S. troops. Statistical tests in the international political economy literature strongly suggest that trade follows the flag—that is, trade flows are likely to be higher within a security alliance than without one.<sup>45</sup> Foreign direct investment flows produce similar results.<sup>46</sup> Additionally, a reason for the dollar's continued standing as the world's reserve currency has been the strong security relationship between the United States and key capital exporters, Japan and the Gulf Cooperation Council states.<sup>47</sup> These actors have been willing to buy dollar-denominated assets even when their financial returns have not been extraordi-

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42. Norrlof, *America's Global Advantage*, p. 10.

43. James Morrow, "Alliances and Asymmetry: An Alternative to the Capability Aggregation Model of Alliances," *American Journal of Political Science*, Vol. 35, No. 4 (November 1991), pp. 904–933.

44. See Andrew Bennett, Joseph Leggold, and Danny Unger, "Burden-Sharing in the Persian Gulf War," *International Organization*, Vol. 48, No. 1 (December 1994), pp. 39–75.

45. Brian Pollins, "Does Trade Still Follow the Flag?" *American Political Science Review*, Vol. 83, No. 2 (June 1989), pp. 465–480; Brian Pollins, "Conflict, Cooperation, and Commerce: The Effect of International Political Interactions on Bilateral Trade Flows," *American Journal of Political Science*, Vol. 33, No. 3 (August 1989), pp. 737–761; Joanne Gowa and Edward Mansfield, "Power Politics and International Trade," *American Political Science Review*, Vol. 87, No. 2 (June 1993), pp. 408–420; Joanne Gowa, *Allies, Adversaries, and International Trade* (Princeton, N.J.: Princeton University Press, 1994); and Omar Keshk, Brian Pollins, and Rafael Reuveny, "Trade Still Follows the Flag: The Primacy of Politics in a Simultaneous Model of Interdependence and Armed Conflict," *Journal of Politics*, Vol. 66, No. 4 (November 2004), pp. 1155–1179.

46. Nandini Gupta and Xiaoyun Yu, "Does Money Follow the Flag?" Working Paper, May 2007, available at the Social Science Research Network, <http://ssrn.com/abstract=1316364>.

47. David Spiro, *The Hidden Hand of American Hegemony: Petrodollar Recycling and International Markets* (Ithaca, N.Y.: Cornell University Press, 1999); and R.T. Murphy, "East Asia's Dollars," *New Left Review*, No. 40 (July–August 2006), pp. 39–64. For a historical discussion, see Diane Kunz, *Butter and Guns: America's Cold War Economic Diplomacy* (New York: Free Press, 1997).

narily high. Finally, U.S. policymakers have said that military ties provided them with greater bargaining leverage for negotiating free trade agreements with close allies (e.g., Australia and South Korea) and for shaping the pattern of Pacific Rim economic governance in groupings such as the Asia-Pacific Economic Cooperation (APEC) forum.<sup>48</sup>

There are some significant flaws to this supporting evidence, however. Most of the data that support a connection between security alliances and economic integration come from the Cold War era, not from the post-Cold War era of U.S. military predominance. Theoretically, a bipolar distribution of power is most likely to lead to coherent and segmented blocs of countries. Structural realists predict that under bipolarity, relative gains concerns between the two blocs should be relatively high, leading to a tighter integration between security and economic blocs.<sup>49</sup> Statistical tests confirm that it was during the bipolar era of the Cold War that foreign economic policies seemed to most strictly follow the flag.<sup>50</sup> Indeed, whereas the 1990–91 Gulf War happened during the waning days of bipolarity, the 2003 Iraq War occurred during a period of uncontested military primacy—and yet the United States secured far less burden-sharing during Operation Iraqi Freedom than during Operation Desert Storm.

A glance at the global political economy of the pre-1914 period or post-1990 era suggests that the linkage between security and economic ties has been much weaker during these eras. In the nineteenth-century era of globalization, trade agreements, trade flows, migration flows, and capital flows bore little relationship to emerging alliance structures.<sup>51</sup> Indeed, economic interdependence was so strong among non-allies that it triggered security concerns among the great powers at the turn of the century.<sup>52</sup> Most famously, Germany and the United Kingdom were each other's largest trading partner immediately prior to the start of the World War I. The same pattern emerges in the post-Cold War global economy. During a period when the direct economic benefits from U.S. military primacy should have been at their greatest, China became the epicenter of the global supply chain and the largest foreign market for stalwart U.S. allies such as Japan, South Korea, and Taiwan. Furthermore, U.S. military primacy has not deterred China from dramatically expanding its commercial interests across the developing world over the past decade—nor

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48. Brooks, Ikenberry, and Wohlforth, "Don't Come Home, America," pp. 43–45.

49. Waltz, *Theory of International Politics*, chap. 5.

50. Michael Ward and Peter Hoff, "Persistent Patterns of International Commerce," *Journal of Peace Research*, Vol. 44, No. 2 (April 2007), pp. 157–175.

51. Kevin H. O'Rourke and Jeffrey G. Williamson, *Globalization and History: The Evolution of a Nineteenth-Century Atlantic Economy* (Cambridge, Mass.: MIT Press, 1999).

52. David M. Rowe, "World Economic Expansion and National Security in Pre-World War I Europe," *International Organization*, Vol. 53, No. 2 (Spring 1999), pp. 195–231.

has it deterred countries in the Pacific Rim, Latin America, Africa, or the Middle East from welcoming Chinese trade and investment.<sup>53</sup>

The assertions by U.S. policymakers that American military power has translated into tangible policy concessions on economic negotiations do not hold up to empirical scrutiny. If geopolitical favoritism mattered, then the free trade agreement between the United States and South Korea should contain terms that are appreciably more favorable to Washington than those contained in the South Korea–European Union free trade agreement, which was negotiated at the same time. Analyses of the two trade deals, however, do not reveal that result. Both agreements are comprehensive and contain roughly similar terms across a wide variety of sectors. While the United States did earn better terms in areas such as vegetable products and transportation, the European Union received better terms on automotive safety protocols, chemicals, machinery, and electronics.<sup>54</sup> These differences are primarily a function of European and American priorities, not U.S. military leverage.<sup>55</sup> Similarly, the claim that the United States has leveraged its security alliances into managing regional economic governance is unsubstantiated. Regional analysts agree that APEC has been the least important regional forum over the past fifteen years. During that time period, despite U.S. military primacy, most of the forward momentum in regional integration did not include the United States.<sup>56</sup>

The current state of U.S. basing fees and arms sales also clashes with the geopolitical favoritism hypothesis. If this argument holds, then Washington should earn a significant return on its overseas military bases. Furthermore, from its position of primacy, the United States should dominate the global arms trade. Neither assertion is empirically valid. Most assessments of U.S. basing expenditures conclude that the United States expends, at a minimum, tens of billions more than it receives annually from its forward military pres-

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53. Flynt Leverett and Jeffrey Bader, "Managing China-U.S. Energy Competition in the Middle East," *Washington Quarterly*, Vol. 29, No. 1 (Winter 2005–06), pp. 187–201; Rhys Jenkins, Enrique Dussel Peters, and Mauricio Mesquita Moreira, "The Impact of China on Latin America and the Caribbean," *World Development*, Vol. 36, No. 2 (February 2008), pp. 235–253; and Horace Campbell, "China in Africa: Challenging U.S. Hegemony," *Third World Quarterly*, Vol. 29, No. 1 (January 2008), pp. 89–105.

54. Yeongkwan Song, "KORUS FTA vs. Korea–EU FTA: Why the Differences?" *Korea Economic Institute Academic Paper Series*, Vol. 6, No. 5 (May 2011), pp. 1–13.

55. Ibid. See also William H. Cooper, Remy Jurenas, Michaela D. Platzer, and Mark E. Manyin, "The EU–South Korea Free Trade Agreement and Its Implications for the United States" (Washington, D.C.: CRS, December 1, 2011).

56. Jennifer Amyx, "Regional Financial Cooperation in East Asia since the Asian Financial Crisis," in Andrew MacIntyre, T.J. Pempel, and John Ravenhill, eds., *Crisis as Catalyst: Asia's Dynamic Political Economy* (Ithaca, N.Y.: Cornell University Press, 2008); Evan Feigenbaum and Robert Manning, *The United States in a New Asia*, Council on Foreign Relations (CFR) Special Report, No. 50 (New York: CFR, November 2009); and William Grimes, *Currency and Contest in East Asia: The Great Power Politics of Financial Regionalism* (Ithaca, N.Y.: Cornell University Press, 2009).

ence.<sup>57</sup> As Kent Calder concludes in his review of U.S. overseas bases, although some countries do subsidize the presence of the U.S. military, “far more common are the cases where the United States *pays* nations to host bases, rather than getting paid to do so.”<sup>58</sup> The post-Cold War trend in arms sales is just as telling. In the aftermath of the Soviet breakup, the United States controlled 60 percent of the global arms market. If geopolitical favoritism mattered, then U.S. arms producers should have maintained or increased that market share. Jonathan Caverley and Ethan Kapstein’s research reveals, however, that the United States is now responsible for less than 30 percent of the global arms market—a 50 percent decline in U.S. market share. Furthermore, Caverley and Kapstein demonstrate that the United States government incorporates geopolitical factors into its pricing of arms sales.<sup>59</sup> During the era of military primacy, the United States has sacrificed economic rents for stronger political ties. This is an inversion of the geopolitical favoritism hypothesis.

History also suggests the absence of a correlation between realpolitik concerns and the degree of cooperation among monetary authorities. In the years prior to World War I, for example, central banking authorities cooperated across Europe to avert systemic crises even as foreign ministers engaged in balancing behavior on the continent.<sup>60</sup> As Barry Eichengreen observes, “In 1898 the Reichsbank and German commercial banks obtained assistance from the Bank of England and the Bank of France. In 1906 and 1907 the Bank of England, faced with another financial crisis, again obtained support from the Bank of France and the German Reichsbank. The Russian State Bank in turn shipped gold to Berlin to replenish the Reichsbank’s reserves.”<sup>61</sup> All of this occurred despite the absence of a military hegemon on the European continent. Even with heightened concerns about geopolitical rivalries, central bankers continued to act to preserve the status quo in international monetary relations.

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57. Kent Calder, *Embattled Garrisons: Comparative Base Politics and American Globalism* (Princeton, N.J.: Princeton University Press, 2007), chap. 8. See also Alexander Cooley, *Base Politics: Democratic Change and the U.S. Military Overseas* (Ithaca, N.Y.: Cornell University Press, 2008), pp. 46–50; Hugh Gusterson, “Empire of Bases,” *Bulletin of the Atomic Scientists*, <http://www.thebulletin.org/web-edition/columnists/hugh-gusterson/empire-of-bases>, March 10, 2009; John Feffer, “Breaking Down Bases” (Washington, D.C.: Foreign Policy In Focus, November 1, 2011); and David Vine, “How the Pentagon Spends \$170 Billion,” *Mother Jones*, December 11, 2012, <http://www.motherjones.com/politics/2012/12/how-pentagon-spends-170-billion>.

58. Calder, *Embattled Garrisons*, p. 200 (emphasis in original).

59. Jonathan Caverley and Ethan Kapstein, “Arms Away: How Washington Squandered Its Monopoly on Weapons Sales,” *Foreign Affairs*, Vol. 91, No. 5 (September–October 2012), pp. 125–132; and Jonathan Caverley and Ethan Kapstein, “Power or Profit? The United States and the International Arms Trade,” Working Paper, December 2012.

60. Frieden, *Global Capitalism*, p. 48.

61. Barry Eichengreen, *Globalizing Capital: A History of the International Monetary System*, 2d ed. (Princeton, N.J.: Princeton University Press, 2008), p. 34.

Not until the 1911 Agadir crisis did this pattern of international monetary cooperation begin to break down; the Reichsbank, in particular, began to hoard specie in preparation for armed conflict.<sup>62</sup>

The same pattern emerges for monetary cooperation after the end of the Cold War. Cooperation among global central bankers during the acute phase of the financial crisis was strong.<sup>63</sup> And although U.S. allies have helped to prop up the dollar as the world's reserve currency, China has also played a pivotal role, albeit for self-interested reasons. After the 1998 Asian financial crisis, it began to buy dollars as a form of self-insurance against a financial panic. It subsequently purchased dollar-denominated debt as a means of keeping its export-led growth model afloat.<sup>64</sup> Regardless of its reasons, China was not shy in purchasing dollars, helping to keep U.S. interest rates low despite rising budget deficits over the past decade.<sup>65</sup> China also rejected summer 2008 overtures from Moscow to exploit problems at Fannie Mae and Freddie Mac as a means to force U.S. action.<sup>66</sup> If the United States' biggest potential rival was engaged in the same kind of dollar-supporting role as close allies, then it suggests that U.S. bilateral security relationships did not play a causal role in preserving the dollar's standing as the world reserve currency.

Geopolitical favoritism has existed in world politics, but its effects have been more truncated than commonly posited. Geopolitical favoritism matters more during periods of bipolarity than it does under unipolarity. Military primacy does not in and of itself affect direct economic transfers to the hegemonic power. During periods of unipolarity, allies do not appear to have bestowed economic benefits on the militarily predominant actor any more than they have on its potential rivals.

### *The Public Goods Benefits of Military Primacy*

The final and most significant argument for how military primacy translates into economic benefits is that primacy facilitates the creation of global public

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62. Liaquat Ahamed, *Lords of Finance: The Bankers Who Broke the World* (New York: Penguin, 2009), pp. 43–44.

63. Daniel W. Drezner, "The Irony of Global Economic Governance: The System Worked," *World Politics*, forthcoming.

64. Michael Dooley, David Folkerts-Landau, and Peter Garber, "An Essay on the Revived Bretton Woods System," NBER Working Paper, No. 9971 (Cambridge, Mass.: NBER, September 2003).

65. Gregory Chin and Eric Helleiner, "China as a Creditor: A Rising Financial Power?" *Journal of International Affairs*, Vol. 62, No. 2 (Fall/Winter 2008), pp. 87–102; and Herman Schwartz, *Subprime Nation: American Power, Global Capital, and the Housing Bubble* (Ithaca, N.Y.: Cornell University Press, 2009).

66. Henry M. Paulson, *On the Brink: Inside the Race to Stop the Collapse of the Global Financial System* (New York: Business Plus, 2010), pp. 160–161.

goods. Beginning with Charles Kindleberger, a wide range of international relations theorists have posited that a liberal hegemon is a necessary and sufficient condition for the creation of an open global economic order.<sup>67</sup> In a unipolar system, as John Ikenberry notes, the lone superpower “provides some array of public goods in exchange for the cooperation of other states.”<sup>68</sup> The greater economic growth and dynamism produced by the free exchange of goods, services, and capital across borders rewards all the actors in the system. Hegemonic stability theorists, however, stress that the hegemon can shape the rules of the economic game in its favor; while everyone gains from the arrangement, the hegemon, as the largest actor and the one that shapes the rules, gains in particular.<sup>69</sup> As the provider of the global reserve currency, for example, the United States can borrow at lower interest rates and collect revenues from seigniorage.<sup>70</sup> The Peterson Institute for International Economics estimates that the post-1945 opening of the global trading order adds \$1 trillion to the U.S. gross domestic product annually.<sup>71</sup>

Theorists working in the hegemonic stability tradition tend to focus on measures of economic power. Kindleberger’s public goods argument, for example, emphasized the provision of liquidity and the provision of a large market for distressed goods. The role of military power is still usually acknowledged as providing critical security goods.<sup>72</sup> One example of this role would be providing the ultimate means of enforcing the rules of the game.<sup>73</sup> A more concrete example would be ensuring free navigation of the seas for international commerce. Maintaining the safety of cross-border exchange is a necessary component of boosting trade and investment. Former U.S. Chief of Naval Operations

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67. Charles Kindleberger, *The World in Depression, 1929–1939* (Berkeley: University of California Press, 1973); Stephen D. Krasner, “State Power and the Structure of International Trade,” *World Politics*, Vol. 28, No. 3 (April 1976), pp. 317–347; Gilpin, *War and Change in World Politics*; David Lake, “Leadership, Hegemony, and the International Economy,” *International Studies Quarterly*, Vol. 37, No. 4 (December 1993), pp. 459–489; and G. John Ikenberry, *After Victory: Institutions, Strategic Restraint, and the Rebuilding of Order after Major Wars* (Princeton, N.J.: Princeton University Press, 2000).

68. Ikenberry, *Liberal Leviathan*, p. 72.

69. Mark Brawley, “Political Leadership and Liberal Economic Subsystems: The Constraints of Structural Assumptions,” *Canadian Journal of Political Science*, Vol. 28, No. 1 (March 1995), pp. 85–103; Strange, “The Persistent Myth of Lost Hegemony”; and Norrlof, *America’s Global Advantage*.

70. David M. Andrews, ed., *International Monetary Power* (Ithaca, N.Y.: Cornell University Press, 2005); Eric Helleiner and Jonathan Kirshner, eds., *The Future of the Dollar* (Ithaca, N.Y.: Cornell University Press, 2009); and Richard Dobbs, David Skilling, Wayne Hu, Susan Lund, James Manyika, and Charles Roxburgh, “An Exorbitant Privilege? Implications of Reserve Currencies for Competitiveness,” McKinsey Global Institute (MGI) Discussion Paper (Seoul: MGI, December 2009).

71. Scott Bradford, Paul Grieco, and Gary C. Hufbauer, “The Payoff to America from Global Integration,” in C. Fred Bergsten, ed., *The United States and the World Economy: Foreign Economic Policy for the Next Decade* (Washington, D.C.: Peterson Institute for International Economics, 2005).

72. Strange, “The Persistent Myth of Lost Hegemony.”

73. See, for example, Ikenberry, *Liberal Leviathan*, p. 57.

Gary Roughead has said, "So much of what moves on the world today in trade and commerce and the resources that flow moves on the oceans. About 90 percent of everything that moves, moves on the oceans. So how we protect the sea-lanes, how confident we are that goods can move from one point to the other and not be interfered with is extremely important."<sup>74</sup> Because of the concentration of oil in zones of political instability, such as the Persian Gulf, protecting energy flows would seem to be an especially useful function of military power.

Scholars working in power transition and long cycle traditions have arrived at similar conclusions about the benefits of military primacy. All of these scholarly traditions focus, in particular, on the security benefits from a concentration of military capabilities. Each posits that the presence of a military hegemon reduces the likelihood of arms races, wars, and security rivalries. For power transition theorists such as A.F.K. Organski, international order is at its most stable when there is a single leading state and all actors "accept the given distribution of power and wealth and . . . abide by the same rules."<sup>75</sup> Similarly, George Modelski and other long cycle theorists argue that stability is maximized within that cycle when a new hegemon has developed a decisive military and technological edge.<sup>76</sup>

William Wohlforth has made the strongest theoretical argument for this position in the post-Cold War era. He argues, contrary to balance of power theorists, that unipolarity is the most stable and peaceful of all possible international systems: "Unipolarity favors the absence of war among the great powers and comparatively low levels of competition for prestige or security for two reasons: the leading state's power advantage removes the problem of hegemonic rivalry from world politics, and it reduces the salience and stakes of balance of power politics among the major states."<sup>77</sup> Wohlforth has expanded on this argument in later work, applying social identity theory to explain the durability and peaceful nature of unipolarity.<sup>78</sup> He and Stephen Brooks further point out that balancing against a rising power is one thing, but balancing against an existing hegemon is altogether different: "Balance-of-power theory predicts that states will try to prevent the rise of a hegemon; it tells us nothing about what will happen once a country establishes such a posi-

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74. Quoted in Robert Rubel, "Navies and Economic Prosperity—The New Logic of Sea Power," Corbett Paper, No. 11 (London: King's College, University of London, October 2012).

75. Organski, *World Politics*, p. 361.

76. Modelski, "The Long Cycle of Global Politics and the Nation-State"; George Modelski and William Thompson, *Leading Sectors and World Politics: The Coevolution of Global Economics and Politics* (Columbia: University of South Carolina Press, 1996).

77. Wohlforth, "The Stability of a Unipolar World," p. 23.

78. Wohlforth, "Unipolarity, Status Competition, and Great Power War."

tion.”<sup>79</sup> Indeed, even realists such as John Mearsheimer and Randall Schweller have acknowledged that balancing is less common than realism predicts. Mearsheimer posits that this is because balancing is in and of itself a public good, and therefore buckpassing is more likely. Schweller attributes “under-balancing” to domestic political factors.<sup>80</sup>

Regardless of the causal mechanism, all of these international relations theories posit that once a military hegemon emerges, the world should be much more secure, peaceful, and prosperous. With a preeminent military superpower, other states have less incentive to engage in arms races, brinkmanship, or security rivalries. Potential great power rivals do not see the utility of attempting to challenge the hegemon militarily. Smaller states recognize that the benefits of bandwagoning outweigh efforts to balance. As a result, both militarized disputes and aggregate defense expenditures should be expected to decline during eras of unipolarity, thus allocating more resources for economic growth, which in turn creates a virtuous circle of greater growth and greater peace.

The empirical evidence for this causal mechanism is stronger than for the mechanisms previously discussed in this article, although there are significant qualifiers. On one hand, the literature rejects the notion that hegemony is a necessary condition for an open global economy.<sup>81</sup> Indeed, the existence of a liberal hegemon alone is not a sufficient condition; supporter states also play a crucial role in the spread of economic openness.<sup>82</sup> Although the precise causal mechanisms remain disputed, hegemonic eras are nevertheless strongly correlated with lower trade barriers and greater levels of globalization.<sup>83</sup>

Furthermore, direct evidence exists that the exercise of military power to protect sea-lanes boosts global trade flows (though the magnitude of the effect

79. Brooks and Wohlforth, *World Out of Balance*, p. 35.

80. Mearsheimer, *The Tragedy of Great Power Politics*; and Randall Schweller, *Unanswered Threats: Political Constraints on the Balance of Power* (Princeton, N.J.: Princeton University Press, 2006).

81. Duncan Snidal, “The Limits of Hegemonic Stability Theory,” *International Organization*, Vol. 39, No. 4 (Autumn 1985), pp. 579–597; and Timothy McKeown, “Hegemonic Stability Theory and 19th Century Tariff Levels in Europe,” *International Organization*, Vol. 37, No. 1 (Winter 1983), pp. 73–91.

82. David Lake, “International Economic Structures and American Foreign Economic Policy, 1887–1934,” *World Politics*, Vol. 35, No. 4 (July 1983), pp. 517–543; Arthur Stein, “The Hegemon’s Dilemma: Great Britain, the United States, and the International Economic Order,” *International Organization*, Vol. 38, No. 2 (Spring 1984), pp. 355–386; Barry Eichengreen, “Hegemonic Stability Theories of the International Monetary System,” NBER Working Paper, No. 2193 (Cambridge, Mass.: NBER, September 1989); David Lazer, “The Free Trade Epidemic of the 1860s and Other Outbreaks of Economic Discrimination,” *World Politics*, Vol. 51, No. 4 (Summer 1999), pp. 447–483; and John Nye, *War, Wine, and Taxes: The Political Economy of Anglo-French Trade, 1689–1900* (Princeton, N.J.: Princeton University Press, 2007).

83. Krasner, “State Power and the Structure of International Trade”; Lake, “Leadership, Hegemony, and the International Economy”; Stein, “The Hegemon’s Dilemma”; Edward D. Mansfield, “The Concentration of Capabilities and International Trade,” *International Organization*, Vol. 46, No. 3 (June 1992), pp. 731–764; and Edward D. Mansfield, *Power, Trade, and War* (Princeton, N.J.: Princeton University Press, 1994).

is disputed). The presence of naval forces during times of militarized disputes has reduced market expectations of supply disruptions.<sup>84</sup> It could be argued, however, that concerns about energy disruptions have been overstated; even in instances when U.S. military intervention was absent, world oil markets have rapidly adjusted to price spikes.<sup>85</sup> A similar story can be told when analyzing the naval reaction to the post-2008 surge in Somali piracy. Attacks spiked after the financial crisis and peaked in 2011. Attacks remain at an elevated level after peaking in 2011, but their success rate has fallen markedly. Between 2011 and 2012, the number of successful global piracy attacks declined by 67 percent. The presence of multinational naval patrols—including the U.S. Navy—in the most vulnerable sea-lanes has helped matters, but the improved private security on board the commercial tankers appears to have helped even more.<sup>86</sup>

The historical evidence further suggests that global and regional systems with a sole superpower have lower levels of arms races and violent conflict. In one empirical review of the literature, Daniel Geller concluded, “The only polar structure that appears to influence conflict probability is unipolarity.”<sup>87</sup> Examinations of pre-Westphalian regional systems also support this finding.<sup>88</sup> For example, the East Asia region had a clear hegemon in China from the start of the Ming dynasty to the peak of the Manchu dynasty. The result was a period of remarkable political stability. Countries in the region refrained from attacking China and each other; Beijing refrained from converting its hegemony into an expanding empire.<sup>89</sup> Except for moments of Chinese stagnation, war was extremely rare during this period; indeed, it was so rare that some Chinese international relations scholars now extol this *tianxia* era as a model for the future of global order.<sup>90</sup>

The post-Cold War era offers further evidence for reduced security rivalries

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84. Robert Looney, “Market Effects of Naval Presence in a Globalized World,” in Sam J. Tangredi, ed., *Globalization and Maritime Power* (Washington, D.C.: National Defense University Press, 2002).

85. Eugene Gholz and Daryl Press, “Protecting ‘The Prize’: Oil and the U.S. National Interest,” *Security Studies*, Vol. 19, No. 3 (Fall 2010), pp. 453–485.

86. Clarkson Research Services, *World Fleet Monitor*, July 12, 2012, p. 24. For speculation on the causes, see Mike Pflanz, “For Somali Pirates, July Was a Very Bad Month,” *Christian Science Monitor*, August 8, 2012.

87. Daniel Geller, “Explaining War: Empirical Patterns and Theoretical Mechanisms,” in Manus I. Midlarsky, ed., *Handbook of War Studies II* (Ann Arbor: University of Michigan Press, 2000), p. 437.

88. William C. Wohlforth, Richard Little, Stuart Kaufman, David Kang, Charles Jones, Victoria Tin-bor Hui, Arthur Eckstein, Daniel Deudney, and William Brenner, “Testing Balance-of-Power Theory in World History,” *European Journal of International Relations*, Vol. 13, No. 2 (June 2007), pp. 155–185; and Stuart Kaufman, Richard Little, and William C. Wohlforth, eds., *The Balance of Power in World History* (New York: Palgrave Macmillan, 2007), pp. 199–227.

89. David C. Kang, “Stability and Hierarchy in East Asian International Relations, 1300–1900 CE,” in Kaufman, Little, and Wohlforth, *The Balance of Power in World History*.

90. Zhao Tingyang, “A Political World Philosophy in Terms of All-Under-Heaven (Tian-Xia),” *Digenes*, Vol. 56, No. 1 (February 2009), pp. 5–18.

and greater stability in a hegemonic world order. The Human Security Project has tracked violent conflict in the post-1945 period, and its data are incontrovertible: there has been a marked and secular decline in interstate violence since the end of the Cold War, and a further decline in other forms of violence, such as civil war and extrajudicial killings.<sup>91</sup> Consistent with the logic of unipolarity, global military expenditures have declined dramatically following the end of the Cold War. Global expenditures on defense as a percentage of global output averaged 5.1 percent between 1972 and 1990. Over the last decade, despite the global war on terror, defense expenditures as a percentage of global output have averaged only 2.5 percent.<sup>92</sup> The peace dividend from the shift to unipolarity has been significant.

Military primacy alone is not the sole cause of this decline. A growing body of work suggests that the post-Cold War decline is merely the continuation of a long-term secular trend toward less violence.<sup>93</sup> Still, even scholars advancing this long-term argument acknowledge the role that U.S. military hegemony plays. Joshua Goldstein, for example, attributes part of the decline in violent conflict to “the end of the cold war, and to a unipolar world order with a single superpower to impose its will in places like Kuwait, Serbia, and Afghanistan. . . . [A] unipolar world is inherently more peaceful than the bipolar one where two superpowers fueled rival armies around the world.”<sup>94</sup>

There are two significant caveats to this body of evidence, however. The first reservation is that in all of these theories—hegemonic stability, power transition, long cycle—eventually the cost of maintaining global public goods catches up to the sole superpower. Other countries free-ride off of the hegemon, allowing them to grow faster. Technologies diffuse from the hegemonic power to the rest of the world, facilitating catch-up. Chinese analysts have posited that these phenomena, occurring right now, are allowing China to out-

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91. Human Security Report Project, *Human Security Report 2009/2010: The Causes of Peace and the Shrinking Costs of War* (New York: Oxford University Press, 2010). See also Lotta Themnér and Peter Wallensteen, “Armed Conflicts, 1946–2011,” *Journal of Peace Research*, Vol. 49, No. 4 (July 2012), pp. 565–575.

92. Cold War data from Malcolm Knight, Norman Loayza, and Delano Villanueva, “The Peace Dividend: Military Spending Cuts and Economic Growth,” World Bank Policy Research Paper, No. 1577 (Washington, D.C.: World Bank, February 1996). Post-2002 data accessed from World Bank military expenditure database, <http://data.worldbank.org/indicator/MS.MIL.XPND.GD.ZS/countries?display=graph>.

93. John Mueller, “War Has Almost Ceased to Exist: An Assessment,” *Political Science Quarterly*, Vol. 124, No. 2 (Spring 2009), pp. 297–321; Steven Pinker, *The Better Angels of Our Nature: Why Violence Has Declined* (New York: Viking, 2011); Joshua S. Goldstein, *Winning the War on War: The Decline of Armed Conflict Worldwide* (New York: Penguin, 2011); and Bruno Tertrais, “The Demise of Ares: The End of War as We Know It?” *Washington Quarterly*, Vol. 35, No. 3 (Summer 2012), pp. 7–22.

94. Joshua S. Goldstein, “The Worldwide Lull in War,” *Christian Science Monitor*, May 14, 2002. See also Goldstein, *Winning the War on War*, p. 15; and Louis Kriesberg, “Long Peace or Long War: A Conflict Resolution Perspective,” *Negotiation Journal*, Vol. 23, No. 2 (April 2007), pp. 97–116.

grow the United States.<sup>95</sup> The absence of burden sharing is particularly acute on the military side of the public goods equation. Eugene Gholz and Daryl Press argue that the costs of a forward military presence outweigh the gains accruing to the United States from global stability.<sup>96</sup> Nuno Monteiro observes that the United States has been at war in thirteen of the twenty-two post-Cold War years—a marked contrast to pre-1989 levels.<sup>97</sup> These military operations might have prevented wider wars from breaking out, but the United States continues to pay the price in blood and treasure. The costs of the Iraq and Afghanistan operations have exacted a significant toll on America's fiscal health—more than \$3 trillion to date, with an estimated \$4 trillion to \$6 trillion total projected for both conflicts.<sup>98</sup>

The second caveat is whether military power alone is the primary driver for the public goods benefits of unipolarity. Most scholars who attempt to determine the presence of unipolarity do not rely solely on military measures to make that assertion. The literature on measuring state power relies on multiple metrics. Joseph Nye has repeatedly referred to power in world politics as a “three-dimensional chessboard” that comprises military, economic, and “soft power” dimensions. Scholars who debate the persistence of American unipolarity include, at a minimum, both economic and military measures of power.<sup>99</sup>

Hegemony relies on multiple channels of power. This matters because the primary causal mechanism that leads to peace and prosperity through unipolarity is the elimination of uncertainty.<sup>100</sup> When hegemony is uncontested and acknowledged by all major actors, then secondary states have less need to attempt to balance or to engage in status-seeking behavior. Indeed, even scholars who argue for the persistence of unipolarity acknowledge the importance of preeminence across a variety of power metrics. Wohlforth notes:

The theory suggests that it is not just the aggregate distribution of capabilities that matters for status competition but also the evenness with which key dimensions—such as naval, military, economic, and technological—are distrib-

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95. See, for example, Eric X. Li, “Hang On, Leviathan, Hang On,” *New York Times*, June 4, 2012.

96. Eugene Gholz and Daryl Press, “The Effects of Wars on Neutral Countries: Why It Doesn't Pay to Preserve the Peace,” *Security Studies*, Vol. 10, No. 1 (Summer 2001), pp. 1–57.

97. Monteiro, “Unrest Assured,” pp. 9–10.

98. Linda Bilmes, “The Financial Legacy of Iraq and Afghanistan: How Wartime Spending Decisions Will Constrain Future National Security Budgets,” Harvard Kennedy School Faculty Research Working Paper Series RWP13-006 (Cambridge, Mass.: Harvard Kennedy School, March 2013).

99. For the most recent iteration of Nye's metaphor, see Joseph S. Nye Jr., *The Future of Power* (New York: PublicAffairs, 2011). For other operationalizations of power, see Wohlforth, “The Stability of a Unipolar World,” pp. 14–17; Brooks and Wohlforth, *World Out of Balance*, pp. 29–33; and Ikenberry, *Liberal Leviathan*, pp. 41–47.

100. Gilpin, *War and Change in World Politics*, p. 31; and Geller, “Explaining War,” p. 438.

uted. Uneven capability portfolios—when states excel in different relevant material dimensions—make status inconsistency more likely. When an actor possesses some attributes of high status but not others, uncertainty and status inconsistency are likely. The more a lower-ranked actor matches the higher-ranked group in some but not all key material dimensions of status, the more likely it is to conceive an interest in contesting its rank and the more likely the higher-ranked state is to resist.<sup>101</sup>

If Wohlforth's logic is accurate, then military power alone does not explain the reduction of conflict or security rivalries in the post-Cold War era. It is the combination of military and economic supremacy that leads to peace and prosperity. For unipolarity to yield positive economic benefits through systemic stability, it must be full-spectrum unipolarity.

This observation is problematic for the present and the future. As previously noted, there is a broad-based consensus that the military primacy of the United States will remain uncontested for the next decade at least; indeed, even extrapolating current trends, it is far from clear whether Chinese military spending will catch up with that of the United States in the next generation.<sup>102</sup> U.S. economic primacy is another matter entirely. Multiple private- and public-sector estimates suggest that China will overtake the United States within the next decade. The International Monetary Fund (IMF) projects that China's gross domestic product will overtake U.S. gross domestic product, as measured using purchasing power parity, by the year 2016. At least one estimate posits that China has already overtaken the U.S. economy in terms of purchasing power parity.<sup>103</sup> China has been increasingly willing to use its economic power to influence its near neighbors, such as withholding rare earth exports to Japan after it seized a Chinese fishing boat captain in disputed territorial waters.<sup>104</sup> It has also attempted to use its economic power to influence U.S. economic policy.<sup>105</sup>

China's economic rise has reintroduced uncertainty into assessments about the global distribution of power. This perceptual gap is revealed in the different national responses to the April 2012 Pew Global Attitudes survey.<sup>106</sup>

101. Wohlforth, "Unipolarity, Status Competition, and Great Power War," pp. 39–40.

102. See "The Military Balance," *Economist*, March 18, 2013, <http://www.economist.com/blogs/graphicdetail/2013/03/daily-chart-11>.

103. On the IMF projection, see Brett Arends, "IMF Bombshell: Age of America Nears End," *MarketWatch*, April 25, 2011. On the estimate that China's economy is already larger than that of the United States, see Arvind Subramanian, *Eclipse: Living in the Shadow of China's Economic Dominance* (Washington, D.C.: Peterson Institute for International Economics, 2011).

104. On China's use of sanctions, see James Reilly, "China's Unilateral Sanctions," *Washington Quarterly*, Vol. 35, No. 4 (Fall 2012), pp. 121–133.

105. Daniel W. Drezner, "Bad Debts: Assessing China's Financial Influence in Great Power Politics," *International Security*, Vol. 34, No. 2 (Fall 2009), pp. 7–45.

106. For survey data, see Pew Research Global Attitudes Project, "World's Leading Economic Power: What Country Is the World's Leading Economic Power?" percentage responding United

When asked to name “the world’s leading economic power,” only Turkey and Mexico had majorities of respondents name the United States. On the other hand, in five of the original Group of Seven economies, strong majorities or pluralities named China as the world’s leading economic power. In other words, an increasing proportion of the developed and developing world thinks that economic primacy has shifted to China. One could argue that elite policymakers are immune from mass misperceptions; U.S. policymaking elites interpret China’s rise differently.<sup>107</sup> Nevertheless, both public rhetoric and private diplomatic discourse suggest that U.S. policymakers share this view of China’s new economic status with the global public.<sup>108</sup>

This perception is wrong. By any objective assessment, the United States remains the world’s largest and most powerful economy; it is also more appropriate to measure economic power using market exchange rates rather than purchasing power parity.<sup>109</sup> Furthermore, there are excellent reasons to doubt the straight-line extrapolation of China’s economic ascent.<sup>110</sup> Still, according to Wohlforth’s logic, the shift in perceptions alone should lead to increases in status-seeking behavior by China. And, indeed, this argument parsimoniously explains the Sino-American relationship since the start of 2009.<sup>111</sup> In the aftermath of the 2008 financial crisis, China challenged the security status quo. In early 2009, Chinese ships engaged in multiple skirmishes with U.S. surveillance vessels in an effort to hinder American naval intelligence-gathering efforts.<sup>112</sup> Beijing responded angrily and forcefully to the awarding of the 2010 Nobel Peace Prize to Chinese activist Liu Xiaobo. China reacted to routine U.S. arms sales to Taiwan with extremely hostile rhetoric and threats to sanction

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States, 2012, <http://www.pewglobal.org/database/?indicator=17&survey=14&response=United%20States&mode=chart>; and *ibid.*, percentage responding China, 2012, <http://www.pewglobal.org/database/?indicator=17&survey=14&response=China&mode=chart>.

107. Pew Research Center, “U.S. Public, Experts Differ on China Policies” (Washington, D.C.: Pew Research Center, September 18, 2012).

108. *Ibid.* On public discourse, see Evan Osnos, “China and the State of the Union,” *New Yorker*, January 25, 2012, <http://www.newyorker.com/online/blogs/evanosnos/2012/01/china-and-the-state-of-the-union.html>. For private discourse, see Ewen MacAskill, “Hillary Clinton’s Question: How Can We Stand Up to Beijing?” *Guardian*, December 4, 2010, <http://www.guardian.co.uk/world/2010/dec/04/wikileaks-cables-hillary-clinton-beijing>.

109. Wohlforth, “The Stability of a Unipolar World,” pp. 32–34; Brooks and Wohlforth, *World Out of Balance*, pp. 40–42; and Robert Lieber, “Staying Power and the American Future: Problems of Primacy, Policy, and Grand Strategy,” *Journal of Strategic Studies*, Vol. 34, No. 4 (August 2011), pp. 509–530. See also Tim Callen, “PPP versus the Market: Which Weight Matters?” *Finance and Development*, Vol. 44, No. 1 (March 2007), pp. 50–51.

110. Barry Eichengreen, Donghyun Park, and Kwanho Shin, “When Fast Growing Economies Slow Down: International Evidence and Implications for China,” NBER Working Paper, No. 16919 (Cambridge, Mass.: NBER, March 2011).

111. For a more skeptical take on whether China has been newly assertive, however, see Alastair Iain Johnston, “How New and Assertive Is China’s New Assertiveness?” *International Security*, Vol. 37, No. 4 (Spring 2013), pp. 7–48.

112. “Naked Aggression,” *Economist*, March 12, 2009, <http://www.economist.com/node/13279348>.

U.S. firms. China refused to condemn North Korea for the sinking on the South Korean ship *Cheonan*, frustrating Japan and South Korea. In response to push-back from the United States and the Association of Southeast Asian Nations on the South China Sea at the 2010 ASEAN Regional Forum, Chinese Foreign Minister Yang Jiechi responded angrily, bluntly lecturing other participants that “China is a big country and other countries are small countries, and that’s just a fact.”<sup>113</sup>

The policy responses to China’s post-2008 policy shifts have been particularly interesting for the argument that military primacy generates stability. On the American side, the fall of 2011 saw a widely reported “pivot” or rebalancing by the United States toward the Pacific Rim that included a range of security-related statements and actions.<sup>114</sup> The United States signed the ASEAN Treaty of Amity and Cooperation and began attending the East Asia Summit; Secretary of State Hillary Clinton announced that the peaceful resolution of territorial disputes in the South China Sea to be in the U.S. national interest; the State Department averred that the U.S. defense treaty with Japan covered the contested Senkaku/Diaoyu Islands; and the U.S. Navy ramped up activity in the region and announced that a greater preponderance of naval assets would be allocated to the Pacific. Washington facilitated or enhanced security dialogues and military exercises with friends and partners in the region; five hundred U.S. Marines were stationed in Darwin, Australia. In addition, the Obama administration fostered a diplomatic, economic, and security opening with Myanmar, a longtime ally of China. Although there have been economic components to the rebalancing toward East Asia, the most prominent elements have been military.<sup>115</sup> Furthermore, most of China’s neighbors warmly embraced the U.S. pivot.

If the public goods logic of military unipolarity held true, then these actions should have deterred China from further aggressive actions. Yet, despite the flexing of U.S. military power, China did not ratchet down its behavior in the region. As Wu Xinbo observed, “[G]iven the comprehensive rise in its national power in recent years, China feels more confident in confronting the U.S. rebalancing strategy.”<sup>116</sup> Indeed, if anything, Beijing increased its aggres-

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113. Quoted in Joshua Kurlantzick, “The Belligerents: Meet the Hardliners Who Now Run China’s Foreign Policy,” *New Republic*, January 27, 2011, <http://www.newrepublic.com/article/politics/magazine/82211/china-foreign-policy>.

114. For an overview, see Hillary Clinton, “America’s Pacific Century,” *Foreign Policy*, No. 189 (November/December 2011).

115. Tanguy Struye de Swielande, “The Reassertion of the United States in the Asia Pacific Region,” *Parameters*, Vol. 42, No. 1 (Spring 2012), pp. 75–89; and Elizabeth Bumiller, “Words and Deeds Show Focus of the American Military on Asia,” *New York Times*, November 10, 2012.

116. Wu Xinbo, “Not Backing Down: China Responds to the U.S. Rebalance to Asia,” *Global Asia*,

sive behavior. China ratcheted up tensions with the Philippines over the Scarborough Shoal in the spring and summer of 2012. In the fall of 2012, it escalated tensions with Japan over the latter's claim of ownership of islands in the East China Sea. The pacifying effects of unipolarity appear to have dissipated. Instead, Chinese behavior is consistent with predictions of great power behavior under status uncertainty. Within the Chinese policymaking and scholarly communities, there is a growing obsession with measuring and comparing Chinese power to U.S. power.<sup>117</sup> In one recent assessment, Wang Jisi summarized the worldview of the top Chinese leadership: "The rise of China, with its sheer size and very different political system, value system, culture, and race, must be regarded in the United States as the major challenge to its superpower status."<sup>118</sup>

China's assertiveness, particularly in the wake of U.S. efforts to display its military preeminence, suggest that the causal logic through which primacy should lead to reduced security rivalries is eroding. Contrary to neo-conservative fears, the issue is not the waning of U.S. military power: both Chinese and U.S. military analysts acknowledge that the United States' military advantage is still impressive. Rather, uncertainty about U.S. economic strength feeds perceptions of American decline. Following the logic of a unipolar system, this perceptual shift and uncertainty will lead to a revival of status-seeking behavior by China. Military supremacy on its own is insufficient to prevent the renewal of great power tensions in the world; full-spectrum unipolarity is necessary. Without a sufficient amount of economic power, the pacifying effects of military supremacy will eventually erode.

### *Conclusion*

For the past generation, U.S. military hegemony has been a concrete fact in world politics. The anticipated austerity of the defense budget has prompted concerns among some analysts that the costs of any reduction in defense spending outweigh the benefits to the U.S. economy. This article has assessed the merits and demerits of military hegemony for a superpower's economy. Reasons have been put forward to describe how U.S. military supremacy represents a net economic gain: the inculcation of geoeconomic and geopolitical

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Vol. 7, No. 4 (Winter 2012), p. 19. See also, more generally, China's 2013 Defense White Paper, [http://news.xinhuanet.com/english/china/2013-04/16/c\\_132312681\\_2.htm](http://news.xinhuanet.com/english/china/2013-04/16/c_132312681_2.htm) (in English).

117. Mark Leonard, *What Does China Think?* (London: PublicAffairs, 2008).

118. Wang Jisi, "Understanding Strategic Distrust: The Chinese Side," in Ken Leiberthal and Wang Jisi, eds., *Assessing U.S.-China Strategic Distrust* (Washington, D.C.: Brookings Institution, 2012), p. 11.

favoritism, and the generation of greater benefits from global public goods under the shadow of military primacy.

The empirical record suggests that many of the hypothesized benefits have been overstated. The private sector responds positively to a country's military capability, but only up to a point; military primacy is hardly a prerequisite for attracting trade and investment. Geopolitical favoritism does occur, but only during periods of bipolarity. Economic exchange is actually less correlated with security ties under conditions of unipolarity. Finally, military primacy does appear to be an important adjunct to the creation of an open global economy and the reduction of militarized disputes and security rivalries, but military supremacy is only one component of unipolarity. A decline in the hegemon's economic power undercuts many of unipolarity's posited benefits. Both the public goods and geopolitical favoritism arguments have some validity, but both rely on the hegemon's economic might as much as its military might for the causal pathways to function.

To be clear, nothing here should suggest that military predominance does not confer significant political and diplomatic benefits on the hegemon. Military preeminence can translate into a force multiplier for other forms of statecraft, including the use of economic sanctions. As Barry Posen notes, command of the global commons "allows the United States to exploit more fully other sources of power, including its own economic and military might as well as the economic and military might of its allies."<sup>119</sup> It also seems clear that full-spectrum unipolarity does yield significant benefits. Still, the argument that military preeminence alone produces significant economic gain appears to be exaggerated.

The results presented in this article are preliminary—greater and deeper dives into the data must be made. Nevertheless, if these results hold, there are significant implications for both international relations theory and U.S. foreign policy. For theorists, these findings have implications for the role that military power plays in world politics. Over the past forty years, there has been a running debate in international relations scholarship regarding the relative fungibility of power. Some realists have argued that force is a fungible tool of statecraft; critics argue that power resources are harder to deploy across issue areas.<sup>120</sup> The arguments presented here suggest that the fungibility of military

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119. Posen, "Command of the Commons," pp. 8–9.

120. Robert O. Keohane and Joseph S. Nye Jr., *Power and Interdependence* (Boston: Scott Foresman, 1978); Waltz, *Theory of International Politics*; David A. Baldwin, "Power Analysis and World Politics," *World Politics*, Vol. 31, No. 2 (January 1979), pp. 161–194; David A. Baldwin, *Paradoxes of Power* (New York: Blackwell, 1989); Robert J. Art, "American Foreign Policy and the Fungibility of Force," *Security Studies*, Vol. 5, No. 4 (Summer 1996), pp. 7–42; David A. Baldwin, "Force, Fungibil-

power is more circumscribed than advocates of military primacy contend. Military power is essential in a wide variety of cases, but the argument that an overseas military presence pays for itself, or heavily defrays the costs of deep engagement, does not hold up. Only full-spectrum primacy yields the hypothesized benefits that allegedly flow from military hegemony.

There are also clear implications for U.S. foreign policy and fiscal policy. The lesson from this analysis for U.S. grand strategy is that an overreliance on military preponderance is badly misguided. Again, it is not that military power is useless; it is that the law of diminishing marginal returns has kicked in. The United States would profit more from investing in nonmilitary power resources than in military assets. An excessive reliance on military might, to the exclusion of other dimensions of power, will yield negative returns. Without a revived economy and the associated global recognition of a renaissance in American economic power, the United States runs the risk of strategic insolvency.<sup>121</sup> The United States needs to focus primarily on policies that will rejuvenate economic growth, accelerate job creation, and promote greater innovation and productivity. If the U.S. economy is perceived to be rebounding, then the biggest economic benefits that have been hypothesized to flow from military predominance will be preserved. Furthermore, over the long run, economic growth is the strongest driver for growth in defense spending.<sup>122</sup> Short-term cuts can lead to long-term growth in defense spending. As policymakers weigh the choice between maintaining a large military and taking steps toward economic revival, the results in this article point strongly toward deeper cuts in defense expenditures.

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ity, and Influence," *Security Studies*, Vol. 8, No. 4 (Summer 1999), pp. 173–183; Robert J. Art, "Force and Fungibility Reconsidered," *Security Studies*, Vol. 8, No. 4 (Summer 1999), pp. 183–189; Leslie Gelb, "GDP Matters More Than Force," *Foreign Affairs*, Vol. 89, No. 6 (November–December 2010), pp. 35–43; and Norrlof, *America's Global Advantage*.

121. Michael Mazarr, "The Risks of Ignoring Strategic Insolvency," *Washington Quarterly*, Vol. 35, No. 4 (Fall 2012), pp. 7–22.

122. Jonathan Ablett and Andrew Erdmann, "Strategies, Scenarios, and the Global Shift in Defense Power," McKinsey Global Institute, April 2013, [http://www.mckinsey.com/insights/public\\_sector/strategy\\_scenarios\\_and\\_the\\_global\\_shift\\_in\\_defense\\_power](http://www.mckinsey.com/insights/public_sector/strategy_scenarios_and_the_global_shift_in_defense_power).