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Neoliberalism and the global imbalances: the neo-Gramscian approach

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Neoliberalism and the global imbalances: the neo-Gramscian approach

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Abstract

This paper argues that the current episode of global imbalances is caused by the rise of neoliberalism. The paper employs the neo-Gramscian approach to understand the emergence and expansion of neoliberalism. The global imbalances have been the economic consequences of the rise of neoliberalism as a new world order. As no significant counter-hegemonic challenge is likely to occur, the neoliberal world order is likely to remain intact in the near future. To the extent that the neoliberal world order prevents an effective rebalancing of the global imbalances, the current episode of global imbalances may end up with a hard-landing of the global economy.

Keywords: Global Imbalances, Neoliberalism, Neo-Gramscian
JEL Classification: B51; F01; F50; P16

1. Introduction

Global imbalances (substantial current account imbalances of the world's major economies) are not new in the history of world economy. Prior to the current global imbalances, there were four episodes of global imbalances, i.e., the early period of globalization from 1870 to 1914, the interwar period, the Bretton Woods period, and the dollar crisis period from 1977 to 1979 (Bordo 2005). The current episode of global imbalances is not simply a repetition of history. According to Bracke et. al. (2008), there are three differences between the current and the past global imbalances. First, in the current one, capitals have flown from emerging countries to developed countries; second, financial globalization has allowed countries to have greater choices to diversify their portfolios; and, third, the world economy has grown at faster rates despite the imbalances. However, Bordo (2005) observes that, except the end of the first global imbalances prior to World War I, every episode of global imbalances ended with a fundamental reshuffle of the global economic structure. From this fact, the current episode of global imbalances has become the great economic concern for the world economy.

The core idea of this paper is to argue that the current episode of the global imbalances is caused by the rise the neoliberal regime since the 1980s. In particular, this paper employs the neo-Gramscian approach to understand the emergence and expansion of neoliberalism. The paper argues that the rise of neoliberalism resulted from the victory of the US capitalist class to create a new historic bloc in the USA, which involved the establishment of a new social consensus between classes. Neoliberalism then spread beyond the US territory via international organizations by convincing other countries that neoliberalism was a new strategy for economic growth. The rest of the paper is organized as follows. Section 2 presents the general picture of the current global imbalances and discusses possible consequences. Section 3 explains the neo-Gramscian approach to international relations. Section 4 applies the neo-Gramscian approach to international relations to analyze how neoliberalism has risen and how it has driven the global imbalances. Section 5 argues that the current global imbalances are unsustainable and may end with a hard landing of the global economy. Section 6 concludes the paper.

2. The Current Episode of the Global Imbalances

2.1. The Characteristics of the Current Global Imbalances

Figure 1 shows the current account balances of selected countries with large current account imbalances from 1980 to 2012.

[FIGURE 1 INSERTED HERE]

The US current account was in deficit for every year from 1982 to 2012 with the exception of 1991. Japan's current account has been in surplus for the entire period from 1981 to 2012. Similarly, the "Asian Tigers" (Hong Kong, Singapore, South Korea, and Taiwan) have run current account surpluses. One can argue that the global imbalances (in term of the US current account deficits and the Asian economies' current account surpluses) emerged in the 1980s.

Since the mid-1990s, the global imbalances appear to have intensified. As the US current account deficits widened, a growing number of countries began to run current account surpluses. The US current account deficit reached the maximum of 798.48 billion dollar or 5.76 per cent to the US GDP in 2006. The five Southeast Asian economies or the ASEAN-5 (Indonesia, Malaysia, Philippines, Thailand, and Vietnam), had current account deficits prior to the Asian crisis in 1997, but has run current account surpluses from 1998 to 2012. The Middle East and North African countries[1] had run current account surpluses for every year from 1996 to 2012, with the only exception of 1998.

China has undergone the most extraordinary transformation. In 2008, China's current account surplus peaked at 420.57 billion dollars. China has become a large contributing factor to the current global imbalances. According to Dooley, Folkerts-Landau, and Garber (2003 and 2009), the rise of China might be understood as the revival of "an important periphery" which could turn the time back to the Bretton Woods era when similar global imbalances prevailed. They considered the current global financial arrangement as "the revived Bretton Woods system" or "the Bretton Woods 2." According to this perspective, China and other emerging countries are acting in a manner similar to the peripheral countries under the original Bretton Woods system, employing export-led strategies, with pegged and undervalued currencies and controls over capital flows. The US also plays a similar role as it did under the original Bretton Woods system. Being the "center," the US is the consumer of last resort, buying goods and services from the peripheral countries.

Figure 2 shows the current account balances of selected countries with small current account imbalances. Since the 1980s, Developing Asia, Latin America and the

[1] "Middle East and North Africa" includes Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, United Arab Emirates, and Yemen

Caribbean, European Union, and Sub-Saharan Africa have experienced current account surpluses or deficits that have more or less offset either. These countries do not play significant roles in the current global imbalances. In Europe, the current account surpluses of Germany and the Netherlands have been mostly at the expense of the European peripheral countries, such as Greece, Italy, and Spain (Perez-Caldentey and Vernengo 2012). As a whole, the European countries do not play a significant role in contributing to the global imbalances (especially the US current account deficits).

[FIGURE 2 INSERTED HERE]

Simple national economic accounting would suggest that in the global imbalances, the deficits countries (such as the USA) would suffer from lower employment and output, while the surplus countries would benefit from higher employment and output. But the simple national economic accounting ignores the financial implications. The surplus countries, receiving a large amount of US dollars and keeping some as reserves, have bought American assets in order to earn capital returns on their excess reserves. Table 1 shows the top holders of the US long-term securities by value from 1984 to 2012.

[TABLE 1 INSERTED HERE]

From 1984 to 2012, the US long-term securities surged from 268 billion dollars to 12,450 billion dollars. Among the lenders to the US, China has emerged as the largest holder of the US long-term securities. In 1984, China held only 2 billion dollars of US securities. By 2012, China's holding surged to 1584 billion US dollar. The foreign lending helped the USA to finance its consumption and investment expenditures and stimulated US imports from surplus countries. The USA has acted as the financial intermediary in the global economy by borrowing "short" from surplus countries (by selling short-term and long-term liquid assets, such as the US treasury bonds) and lending "long" to the so-called "the capital account regions," such as Canada, Europe, and Latin America, which have been the favorite sites of the US foreign investments (Folkerts-Landau, and Garber 2003).

2.2. Limits to the Current Global Imbalances

Risk of the US Dollar Depreciation

Since the peripheral countries' currencies have been set undervalued to encourage exports and to obtain current account surpluses, there is a pressure on their currencies to appreciate. On the other hand, as the USA has run current account deficits, the US dollar should have tended to depreciate. In fact, the US dollar has been able to maintain its relative value, as the peripheral countries have collectively kept their foreign exchange reserves in the form of US dollar assets.

Eichengreen (2004) argued that the bloc of peripheral countries that held the US dollar assets as their foreign exchange reserves in effect operated as a cartel of countries that collectively demand the US dollar. Unlike the cohesive European bloc during the original Bretton Woods system, the contemporary peripheral countries have not formed a strong cartel and they will likely break away from the cartel at some points in a future.

Roubini and Setser (2005) argued that the current global imbalances were weak in two ways. First, the US dollar did not have any strong anchor to gold. Second, there was no official commitment between countries to hold the dollar-holding cartel together. The countries were aware of the risk of the US dollar depreciation, which would lead to large capital losses on dollar-dominated assets.

Figure 3 shows the share of the US dollar assets in the world's total foreign exchange reserves from 1995 to 2012. Since 2000, the US dollar assets share has been in decline. As the US dollar assets share continues to decline, there will be growing incentives for countries to break away from the dollar-holding cartel by diversifying their portfolios and holding their foreign exchange reserves in the form of non-US-dollar assets. The currency diversification of the global asset portfolios will impose further pressure on the US dollar to depreciate, reducing incentives for the emerging economies to run trade surpluses. The interactions of these actions will eventually bring the current episode of global imbalances to an end.

[FIGURE 3 INSERTED HERE]

Twin Deficits and the Default Risk

In recent decades, the US has suffered from a persistent shortage of domestic saving, which helps to explain both the current account deficits and the fiscal deficits (Feldstein 2008, Roubini and Setser 2005). This has become known as the "twin deficits" for the US economy.

Figure 4 presents the US government deficit to GDP ratio from 1980 to 2013. Figure 5 presents the US government debt to GDP ratios from 1980 to 2013. Since 2000, both ratios have tended to rise. The rising deficit and debt to GDP ratios have raised the default risk of US government debt. Concerned with the default risk, the central banks of the rest of the world may choose to reduce the purchase of US government securities (Roubini 2006, Eichengreen 2007: 27-28). Since the financial crisis of 2008-2009, there has been concern that the USA may encounter a shortage of capital inflows due to the lack of confidence by other countries (Hunt 2008, Economic Report of the President 2009: 61-98). The US fiscal cliff and the government shutdown in 2013 almost sent the US economy back into recession.

[FIGURE 4 INSERTED HERE]

[FIGURE 5 INSERTED HERE]

Impacts on US Domestic Demand

US trade deficits reduce the demand for US domestically produced goods and services, leading to lower incomes and higher unemployment. Scott (2010), using an input-output model that can estimate numbers of workers required in domestic industries, finds that since from 2001 (when China entered into WTO) to 2008, the undervaluation of the Chinese yuan alone had caused 2.4 million jobs lost or displaced for the US workers. Palley (2006) argued that the US trade deficits reduced the US domestic demand for three reasons. First, the Federal Reserve might respond to trade deficits by running tight monetary policy. This would raise the interest rate and slow down economic growth. Second, US local banks might tighten their credit-issuing policies, as they observed that many of their customers over-spent relative to their incomes. Third, US consumers might voluntarily reduce their consumption due to slow economic growth. The financial crisis of 2008-2009 and the burst of the housing bubble confirmed Palley's analysis.

Impacts on the Periphery

Eichengreen (2004, 2007), Roubini and Setser (2005), and Goldstein and Lardy (2005) argued that the global imbalances can cause inflation and hence higher cost of sterilization for peripheral countries. Huge current account surpluses force the peripheral countries to sell domestic bonds in order to absorb the liquidity to prevent inflation. However sterilization leads to higher interest rates and the higher interest rates in turn attract speculative capital inflows, forcing the peripheral countries to choose between either higher inflation or more speculative capital inflows (Goldstein and Lardy 2004, 2005). With speculative capital inflows, there is a tendency for domestic credits to be extended to those who have inferior credit history, causing rising non-performing loans. Central banks of peripheral countries may have to increase the required reserve ratios to prevent excessive loans and bear the administrative costs.

2.3. Proposed Solutions

Most economists believe that the global imbalances are unsustainable.[2] Hence, several solutions have been proposed.

At the domestic level, Blanchard and Milesi-Ferretti (2009) argued that the US would need to increase private and public saving and the export-led countries should attempt to raise their domestic demands by allowing their people to have access to credits and receive better social insurances.

[2] Jorg Bibow (2006, 2009, 2010a, 2010b) may be the only prominent economists who argues that the global imbalances are sustainable. In his analysis on the Bretton Woods 2, he encourages the US government to replace the US private demand to run the sustainable balance.

At the international level, UNCTAD (2012) proposed a multilateral system of rules-based managed floating exchange rates, in which exchange rates must be adjusted according to a country's terms of trade and a country's current account balances. Some returned to Keynes's proposal made at the Bretton Woods conference. Joshi and Skidelski (2010) proposed that "excessive" and "persistent" current account surpluses should be taxed and Special Drawing Right (SDR) could replace the US dollar as an international reserve asset. The UN (2009) proposed the creation of a "Reserve Currency Association," in which member countries could officially agree to adopt SDRs as foreign reserve assets. The IMF or a new "Global Reserve Bank" could issue and allocate SDRs to countries, and the allocation procedure should be built to discourage or even penalize a country with persistent current account surpluses.

3. The Neo-Gramscian Approach to International Relation

The rise of the Reagan administration in the USA and the Thatcher government in the UK marked the advent of neoliberalism in the early 1980s. At about the same time, the global imbalances showed the sign of emergence. This was not a coincidence. Both Palley (2011) and Li and Zhu (2005) both pointed out that the global imbalances were caused by the rise of neoliberalism.

In the neo-Gramscian approach to international relations, neoliberalism is known as a hegemonic order (which is interchangeably with world order). The starting point to understand the rise and the fall of a hegemonic order is rooted in social relations among classes. In Gramsci's words, it was the war of movement between different classes in a society that set up a new configuration in relations of production. When a class won the war of movement, it could set up a new hegemonic order that would be most beneficial for the ruling class itself.

To establish the new hegemonic order, the dominating class does not simply impose the new order on other classes by force. It creates consents among classes by showing that the new configuration of production can benefit all classes. “[A] hegemonic order was one where ‘consent rather than coercion,’ primarily characterized the relations between classes, and between state and civil society” (Gill and Law 1993: 93). Practically, the dominating class would take control of a government to issue a set of policies to implement the new hegemonic order. Intellectual influences supporting the new hegemonic order play important roles in creating the new social consent. Gramsci called the society where the ruling class could rule by consent as a “civil society”. At the international level:

> “[To] be hegemonic, a state would have to found and protect a world order which was universal in conception, i.e., not an order in which one state directly exploits others but an order which most other states… could find compatible with their interests… the hegemonic concept of world order is founded not only upon regulation of inter-state conflict but also upon globally-conceived civil society” (Cox 1993: 61).

Therefore, a hegemonic order must be able to yield interests to all social classes and create consents among states. Using Gramsci’s concept of “passive revolution”, the neo-Gramscian perspective argues that a society’s structures can be transformed by the strong impact of a revolution in another society. The emergence of a hegemonic order requires the victory of one class to settle down a new order in one country. Through passive revolution, other countries "import or thrust upon them aspects of a new order created aboard" (Cox 1993: 54). The spread of the new order to other countries is the international process of consent generation as well as the process of settlement of a new hegemonic order.

4. Neoliberalism, US Hegemony, and the Global Imbalances

In the USA, the economic prosperity during the postwar era divided wage-workers into two classes: managerial classes (wage-workers with high salaries in managerial positions), and popular classes (wage-workers with low salaries). This polarization among wage-workers, as a result, created a tripolar class configuration in the US economy, where three classes – capitalist classes, managerial classes, and popular classes – existed (Dumenil and Levy 2011: 13-14). In the late 1970s, the world was entering the era of systemic chaos, since the USA as a hegemon was unable to contain the world situations in a proper order due to its loss in Vietnam, leading to a collapse of the Cold War world order. This led to "the reversal of relationships of power in the world system" and "the escalation of inter-capitalist competition," but, as the world economy was in a period of diminishing returns, this competition reduced the real return to capital (Arrighi 1994: 321-2). Therefore, the crisis of stagflation, the breakdown of the original Bretton Woods, the Oil Shocks, and other economic turbulences during the time were the economic consequences of the weakening US hegemony. To overcome the state of diminishing returns in the USA, there was a neoliberal compromise of the capitalist classes and the managerial classes to find mutual interests by encouraging a rise of a financial sector to earn more income share out of the total national income. This phase of "financial rebirth expansion" is actually a common phenomenon occurring in all declining hegemonic powers (Arrighi 1994: 6). The apparent milestone of the financial rebirth expansion in the USA was the attempt to tighten the monetary policy by increasing interest rates in 1979 (ibid. 316). However, this 'revenge of the rentier' (Passinetti 1997) or, in Dumenil and Levy's term, the '1979 coup' (2004: 69) were not a simple monetary policy to strengthen the US dollar; in fact, it was the first step to impose neoliberalism as a new hegemonic order. In this sense, the neoliberal compromise was a revolution of the upper class against the working class who had had benefited from the Keynesian economy during the 1950s to the early 1970s. This revolution of the upper class created the consent among Americans not only through the political power of the Reagan administration to cut taxes and weaken labor unions but also through the right-wing intellectuals to build up economic theories supporting neoliberalism (Harvey 2007: 43-56).

The diminishing trend of real wages to workers since the 1970s implies that neoliberalism yielded an undesirable result to the popular classes. As income inequality became worse, it might seem strange that a majority of people could submissively accept this situation. The myth of this wage repression was that the USA could import cheap consumer products to feed poorer workers, so the popular classes did not feel that their living conditions had been so harsh. Figure 6 presents that the ratio of imports of goods to GDP in the USA from 1980 to 2012 has continuously increased, while Figure 7 presents an increasing trend of a proportion of food and consumer goods in total value of imported goods. In addition, the USA has been successful in finding the new source of products with cheaper costs. In Figure 8, the proportions of imported goods from Japan, Korea, and Taiwan showed a declining trend since the late 1980s, while the proportion of imported goods from China has a clear increasing trend. That is, labor costs in the old trade partners have increased, while China has had advantages due to its cheap labor. These cheap products play an important role to allow all US low-income workers to survive with lower real wages.

[FIGURE 6 INSERTED HERE]

[FIGURE 7 INSERTED HERE]

[FIGURE 8 INSERTED HERE]

Since the real wages could be kept low and imported goods came to the USA at low prices, the benefit to the USA was that the inflation rate since the 1980s was relatively low. From Figure 9, since 1983, the US inflation rate has never been greater than 4 per cent. This success is compatible with the neoliberal ideology, because low and steady inflation spawns certainty for capitalists to predict future outcome of their production.

[FIGURE 9 INSERTED HERE]

Furthermore, because a majority of Americans received poorer real wages, their spending and the US current account deficits were hence financed by debts, toxic mortgage debts in particular (Bibow 2010a). As shown in Figure 10, since the 1980s, the ratio of outstanding debt to disposable income in the household sector has kept increasing.

This, in turn, benefited financial corporations, that created financial innovations from the household debts, and financial capitalists, who earned more incomes from speculations on securities. At the same time, the expansion of the financial sector led to the diminution of the real sector due to the following reasons. First, a large amount of surplus generated in the USA was paid for interests and dividends, so more capital was accumulated in the financial sector while there was a declining tendency of capital accumulation in a non-financial sector. Second, financial institutions allocated their resources to make more profit in a financial market, instead of financing real-sector investment (Dumenil and Levy 2011: 141-155).

[FIGURE 10 INSERTED HERE]

While being in a process of settling down in the center, neoliberalism gradually spread out to other countries in a form of passive revolution of the upper classes in each country. Chile had probably been the first country that was influenced by the US intellectuals in founding ‘pure’ neoliberalism. Shortly after that, other Latin American countries also adopted neoliberal path of development. Then, the fast growing countries such as Germany, Japan, and the Asian Tigers, which had relied on protectionism, took on the neoliberal path, bringing in such neoliberal policies as reductions in trade barriers and fast developments of financial sectors. The Washington Consensus then became a standard policy prescription for all rising countries, which were willing to join the global economy. Furthermore, the international organizations such as the World Bank and the IMF, which had already adopted the neoliberal ideology, cooperated with the US government to spread neoliberalism to other countries. According to Harvey (2007: 92), “the Wall Street – IMF – Treasury complex that came to dominate economic policy in the Clinton years was able to persuade, cajole, and … coerce many developing countries (especially in Asia) to take the neoliberal road.” Meanwhile, Rucket (2007) added that the Poverty Reduction Strategy Paper of the World Bank and the IMF also played a very important role to create consents to accept neoliberalism in developing countries.

Even though the developing countries had encountered economic prosperity at the initial phase of their neoliberal eras, most of them later experienced economic crises at a point in time. As it is well known, the 1980s was a lost decade for Latin American countries. In Asia, countries that got engaged with neoliberalism in the highest degree especially in pursuing capital mobility such as Thailand and Indonesia encountered the most devastating crises, while those that adopted a lower degree of neoliberalism such as Taiwan and Singapore were hit relatively softly by the Asian crisis in the mid 1990s. China was a latecomer on the neoliberal path, since its economic liberalism was markedly launched during Deng’s famous travel to the southern part of China in 1992. However, according to Harvey (2007: 122), neoliberalism in the Chinese style was “managed to avert the economic disasters that beset those countries (Russia and other Eastern European countries that employed the shock therapy)”. In addition, as argued by DFG (2003), the Asian crisis, later, informed China that the path of having capital mobility to boost the country would later yield an undesirable economic turbulence, and a country needed an abundance of reserves in order to protect its domestic economy from global economic fluctuations. These huge reserves were very important for China to finance banks’ loans which were full of NPLs (Harvey 2007: 141) and to finance the expansion of domestic infrastructures (ibid.: 130-1). Consequently, in order to reach the fast pace of reserve accumulation and to be most effective in exports, China needed to set the Chinese yuan undervalued to encourage exports. This adoption of neoliberalism in China with a lot of state intervention was a unique form of neoliberalism, and this is why Harvey called this as "neoliberalism 'with Chinese characteristics.'" However, even though the Chinese national income grew quickly, the issue of income inequality turned worse. As presented by Li (2008: 88-89), from 1990 to 2005, the wage share of Chinese workers fell from fifty per cent to thirty seven per cent, meanwhile household consumption as a share of GDP also fell by about the same amount. This implies that the capitalist class benefited the most from economic restructuring and fast economic growth in the neoliberal path.

In the Neo-Gramscian perspective, the hegemonic order is created by consents among countries. Under neoliberalism, the USA has imported cheap products with relatively strong US dollar, so it has been able to feed American workers with cheaper costs and the Federal Reserve has been able to keep the US inflation rate under control. Meanwhile, the developing countries, along with trade liberalization championed by the neoliberal ideology, took advantage from their cheap labors and employed the export-oriented strategy to meet the US demand. This ability to export hence was a real booster for their economies. This scenario became more apparent after the rise of China whose labor reserve was abundant and whose goal was to accumulate US dollar reserves to protect its economy from economic fluctuations. In addition, the ability to borrow short and lend long of the US capitalists, the supporters of neoliberalism, allow them to have opportunities to seek extra profits from other countries. The mutual benefits to both the

USA and the developing countries hence created consents for all of the countries to accept the neoliberal ideology as a blueprint for their economic developments. As already observed, neoliberalism gradually spilled over from the USA to other countries, i.e. first to Latin America, then to Asia and former Soviet Union, and lastly to China. This is similar to what is explained in the neo-Gramscian perspective; that is, a passive revolution spread a hegemonic order throughout the world. Coming during the downfall of the US hegemonic power, neoliberalism has been very important to keep the US hegemonic power alive since the 1980s, because it has acted as a new production regime for the world economy. However, neoliberalism has led to the current global imbalances. The flood of the US dollar, the increasing default risks of US government assets, and the persistent current account deficits apparently brought in some curiosities about when and how the USA would be able to fix these problems. At this point, I can argue that the US hegemonic power is self-destructive; that is, it needed neoliberalism to keep it alive, but neoliberalism caused the current global imbalances, which have detrimentally undermined the US hegemonic power.

5. The End of the Current Episode of the Global Imbalances?

Since the global imbalances are unsustainable and they undermine the US hegemonic power, Dumenil and Levy (2009) suggested that, in order to save the life of the US hegemony, global rebalancing is necessary. However, this is not an easy task for a capitalist economy in which all economic agents struggle to obtain their own benefits. As Cox (1993: 65) said “the task of changing world order begins with the long, laborious effort to build new historic blocs within national boundaries.” That is, in order to successfully establish a new hegemonic order, an oppressed class in a country must struggle and rise to oppose an oppressing class and build a new hegemonic order in the country. After this is accomplished, the impact of this rise will spread to other countries and then overwhelm the world; then a new hegemonic order is settled.

Since neoliberalism has been a main factor for the global imbalances, the neo-Gramscian approach suggests that there must be a change of class relations in one country that can lead to a halt of neoliberalization, an elimination of the present neoliberal order, and a birth of a new regime to replace neoliberalism. Lately, the anti-austerity movement in Europe and the Occupy movements have shaken the strong positions of neoliberalism in the world economy. However, whether or not these movements have been sufficiently strong to topple neoliberalism is still questionable. In Europe, it could be widely observed that economists and journalists severely criticized that economic austerity has worsened the current European crisis. Still, politically, it is another story. A majority of EU countries' leaders are from right-wing political parties, which are under the rubric of neoliberalism. Furthermore, according to David Cameron, after the emergence of the European crisis, Europe has entered the age of austerity in which most countries have raised taxes and cut fiscal spending to keep their fiscal balances in check. This well represents a political stronghold of neoliberalism in Europe.

In the USA, Dumenil and Levy (2011: 332-334) argued that the contemporary crisis is going to yield a change of class relation in the USA, and it is likely that the ideology is going to move to the Center Right where the managerial classes and the capitalist classes cooperate to dominate the US economy. Similarly, Harvey (2007: 81-6) arguesd that rising power will be the neoconservative ideology which is consistent with neoliberalism of "elite governance, mistrust of democracy, and the maintenance of market freedoms" (ibid.: 82). Instead, chaos of individual interests will be under control of stricter orders from the elites and overweening morality will repress possible political turmoil and bring in political security to the country (ibid.). Thus, there is no tendency of successful labor movement that can boost up real wages.

Yang et. al. (2010.) predicted that wage growth in China will be at a moderate pace in the future because of an abundant supply of Chinese labor force, so China will be able to keep its export-oriented strategy and take advantage from the global demand. Further, according to Harvey (ibid.: 142-51), whether or not the mass movement of workers can be successful for their better living conditions cannot be told at this moment. Even though there are signs of working class movements, the communist party is well prepared to have these movements under control by sending state officials to stop them at the beginning. Meanwhile, after China adopted neoliberalism, income inequality turned worse as elites in the communist party seemed to be richer while rural people stayed poor and there were evidences of merging of interests between elites in the communist party and capitalists. This led Harvey (ibid.: 151) to come with the conclusion that "China may be moving… towards a confluence with the neoconservative tide now running strongly in the US." Since there is no clear trend of mass movements in China, it is quite certain to say that the counter-hegemony challenge will not be able to soon emerge from China.

The proposed solutions, presented in section 2, for the global imbalances ask for widespread and sufficient coordination among countries and also need a dominating role of an international-clearing-union-like institution. These solutions are contradictory with the neoliberal ideology in which market liberalization is urged while public intervention is discouraged. In addition, since SDRs are proposed to be a global currency, the position of the US dollar as quasi world money would be shaken or even demolished. That is, the rise of new world money prevented the USA to run chronic trade deficits and feed their workers with cheap products from foreign countries. If this was to happen, US workers would need to earn higher real wages to make up their stagnate real wages that have occurred since the emergence of neoliberalism and hence they would rely less on debts for their livings. As it is well known that financial innovations, such as mortgage-backed securities and collateralized debt obligations, and hence the US financial boom in the 2000s were built on a rising stack of household debts, it could be predicted that a smaller role of debts on workers' expenditures might constrain the expansion of or might even downsize the US financial sector. Furthermore, financial regulations would be imposed in order to ensure that financial institutions really supported real-sector investments and promoted employments, resulting in benefits to the working class. In export-led countries, an attempt to encourage greater domestic demands and adjustable exchange rates would definitely require rising labor costs, so the countries could rely less on exporting to the USA. That is, for all of these occurrences to be realized, neoliberalism needs to be overturned.

However, since no possible counter-hegemony challenge is likely to occur in the global economic relation, neoliberalism hence should be able to stay as a world hegemonic order. Therefore, the necessary international coordination at a sufficient degree to find the soft-landing end of the global imbalances is difficult to be established. The USA will keep feeding its poor workers with cheap products from foreign countries. This means that the US workers will be more indebted to buy foreign products, while the financial sector will be able to maintain its growth pace from an increasing number of debts. Financial crises will emerge more often especially in the US economy and other financially advanced countries. Meanwhile, China and other cheap-labor countries, taking advantage from low labor cost, will keep exporting and accumulating the US dollar. In the meantime, investments in China and other exporting countries are likely to excessively expand. As a result, the crisis of overproduction leading to a falling profit rate and excess production capacity is going to occur (Li and Zhu 2005).

As unsustainable situations are predicted in both the center and the periphery, the world economy is inevitably prone to economic crises. This predicted picture of the world economy really means that the US hegemonic power is unable to bring in prosperity to the world. The world will return to balance after the US dollar loses its position as a hegemonic currency, leading to US dollar depreciation.[3] The US current account will then return to its balance. But, this ending scene of the current global imbalances is too costly, because many countries must suffer from economic crises. In other words, if the proposed solutions, mentioned in section 2, are to find a soft landing for the global imbalances, neoliberalism is likely to bring the hard one for the world economy.

[3] According to Fields and Vernengo (2011), because the USA is a hegemon, it can issue an asset free of default risk. Therefore, other countries are willing to accumulate the US dollar and lend it back to the USA by buying US dollar-dominated assets. The US dollar hence can maintain its position as a hegemonic currency. From this reasoning, if the US hegemonic power were quickly declining, a US-government asset would not completely free of default risk. This hence led to a diminishing demand for US dollar and then the US dollar devaluation.

6. Conclusion

In the current episode of the global imbalances, most economists realize its sustainability and its upcoming dangers, and some solutions have been widely proposed. Even, in politics, some countries' leaders, such as president Obama in the G-20 summit in 2010, have called for the rebalancing of the world economy. However, practical solutions has been barely done. The reason behind such phenomenon is that most of the proposed solutions are contradictory with neoliberalism which is the current hegemonic order. For example, the proposed "Global Reserve Bank", whose job is to plan how much and how long a country can stay in surpluses by its SDR allocations, inevitably intervenes market mechanism in a global scale. Therefore, it is quite difficult to see a birth of such bank or, if it is to be born, the bank must encounter a difficulty to become a powerful international institution, because, theoretically, it undermines market efficiency and generates some dead weight losses. The main obstruction for global rebalancing is embedded deeply in the ideological level in the current hegemonic order. That is, the emergence of the current global imbalances was due to the rise of neoliberalism, and the problem has magnified since neoliberalism firmly settled as a world order.

Taking the neo-Gramscian approach, this paper argues that neoliberalism supports the capitalist classes and the managerial classes to take advantage over the popular classes by appropriating a larger proportion of national income. In spite of this fact, no movement from the popular classes has not been sufficiently strong to overturn neoliberalism. The US workers, whose real wages have been stagnated since the rise of neoliberalism, were satisfied with their mediocre living conditions because they have been able to access cheap products from the peripheral countries and they have been able to be indebted to achieve their American Dreams. In addition, the advanced financial system in the USA, invigorated by a rising number of household debts, has benefited the upper classes who are highly involved with the financial market. Meanwhile, the capitalist classes in peripheral countries, especially China, could take advantage from low labor cost and large markets for exports to achieve fast economic growth. The mutual benefits of the working class in both the center and the periphery then, in turn, enhanced the upsurge of neoliberalism. In other words, the increasing benefits of the upper classes and the consents to adopt neoliberalism have been paid by the problem of the global imbalances.

In the Neo-Gramscian approach, only a counter hegemony challenge, leading to a construction of a new historic bloc, can replace neoliberalism with a new hegemonic order. This process actually takes time, as it needs to happen in a national boundary before spreading out to other countries. Still, in the current world situation, no powerful counter hegemony shows a precise signal to occur. Therefore, neoliberalism is likely to maintain its position as a hegemonic order. The proposed solutions by several economists are to find a 'soft landing' for the global imbalances to return to the equilibrium. However, since neoliberalism tends to stay as a hegemonic order and the proposed solutions would not be realized in the field of policy enactments, the future return to the equilibrium is a 'hard landing' in which several economic crises are prospected. The US hegemonic power will be weakening, while the world economy will be pushed further to its destructive shape

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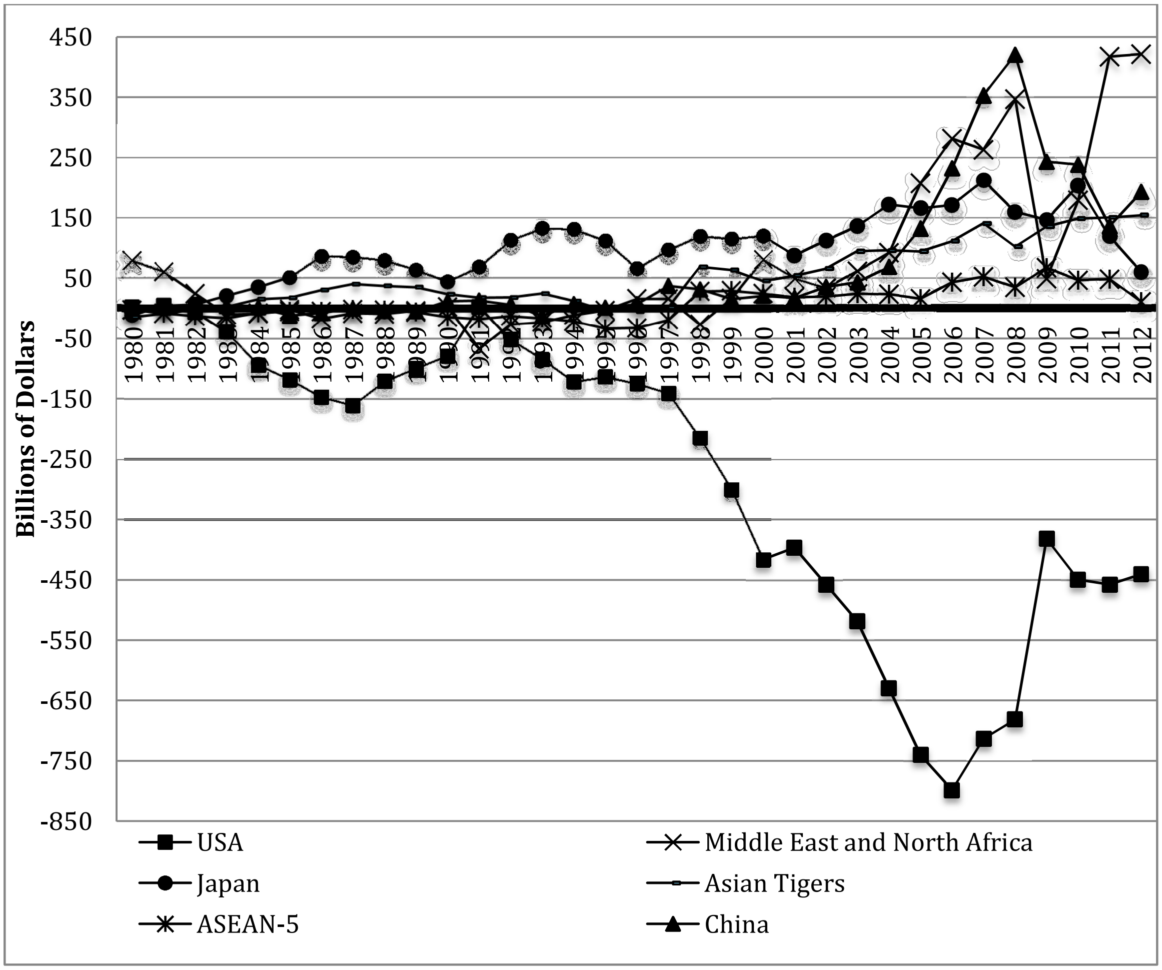

Figure 1 The Current Accounts of Countries or Regions that appear to be unbalanced since 1980 to 2012
Source: IMF's World Economic Outlook Database

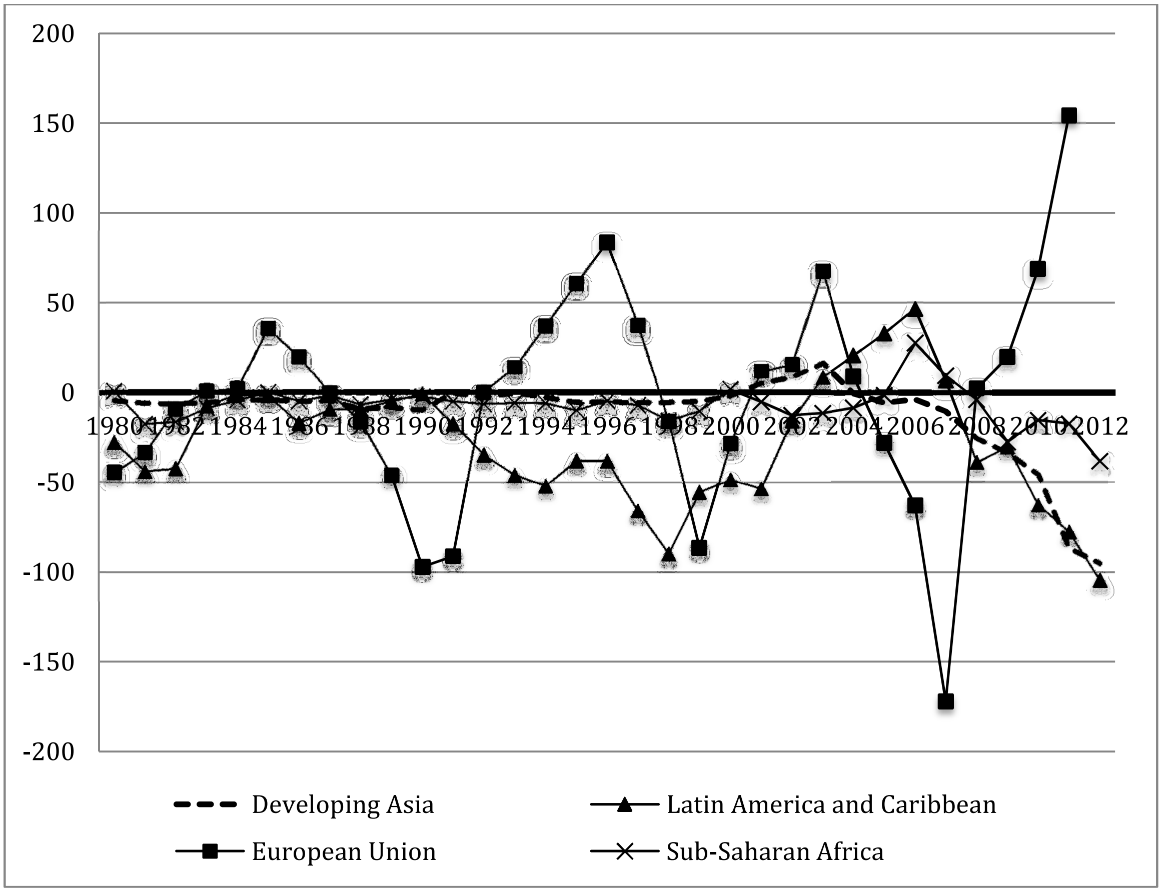

Figure 2 The Current Accounts of Countries or Regions that appear to be balanced since 1980 to 2012
Source: IMF's World Economic Outlook Database

Table 1 US long-term securities of the top holders by value

	1984		1994		2003		2006		2009		2012	
	v	%	y	%	y	%	y	%	y	%	y	%
China	*	0	18	1	252	6	682	10	1304	15	1584	13
Canada	22	8	58	5	246	5	368	5	324	4	619	5
Japan	28	10	230	18	649	14	1022	14	1201	14	1772	14
UK	43	16	168	14	371	8	624	9	765	9	986	8
Germany	30	11	68	5	150	3	195	3	172	2	221	2
ASEAN	1	0	18	1	32	1	48	1	78	1	126	1
A. Tigers	10	0	96	8	344	8	503	7	600	7	926	7
Middle E	45	17	45	4	71	2	202	3	286	3	398	3
Total	268		1244		4503		7162		8492		12450	

Source: Report on Foreign Holdings of US Securities, 2000, 2008, and 2012

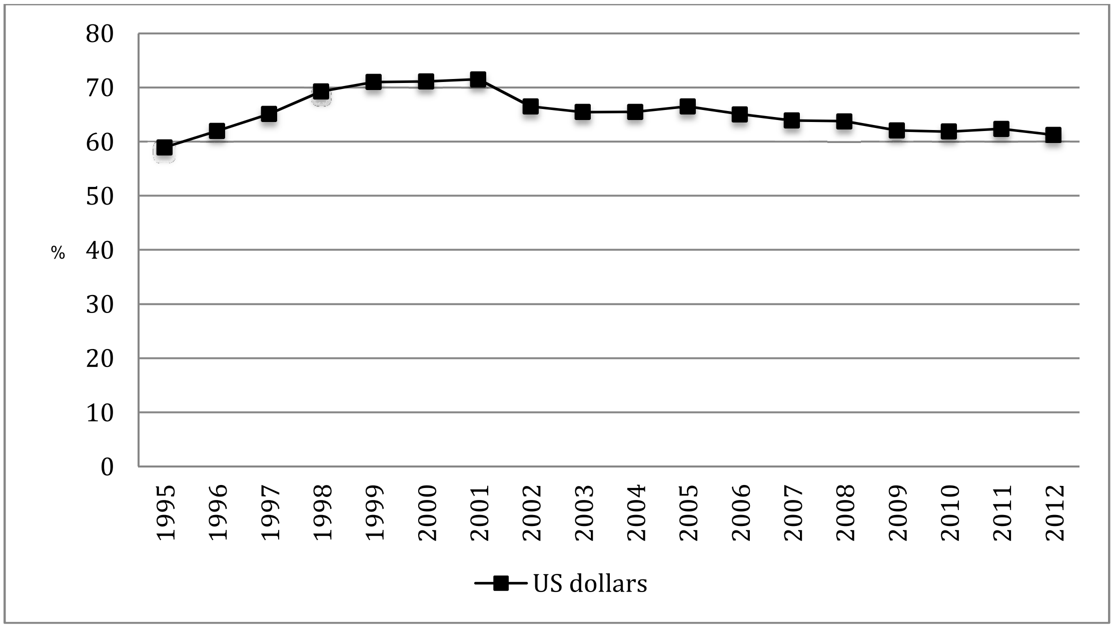

Figure 3 the percentage of US dollar in total foreign exchange reserves
Source: Currency Composition of Official Foreign Exchange Reserves (COFER), IMF

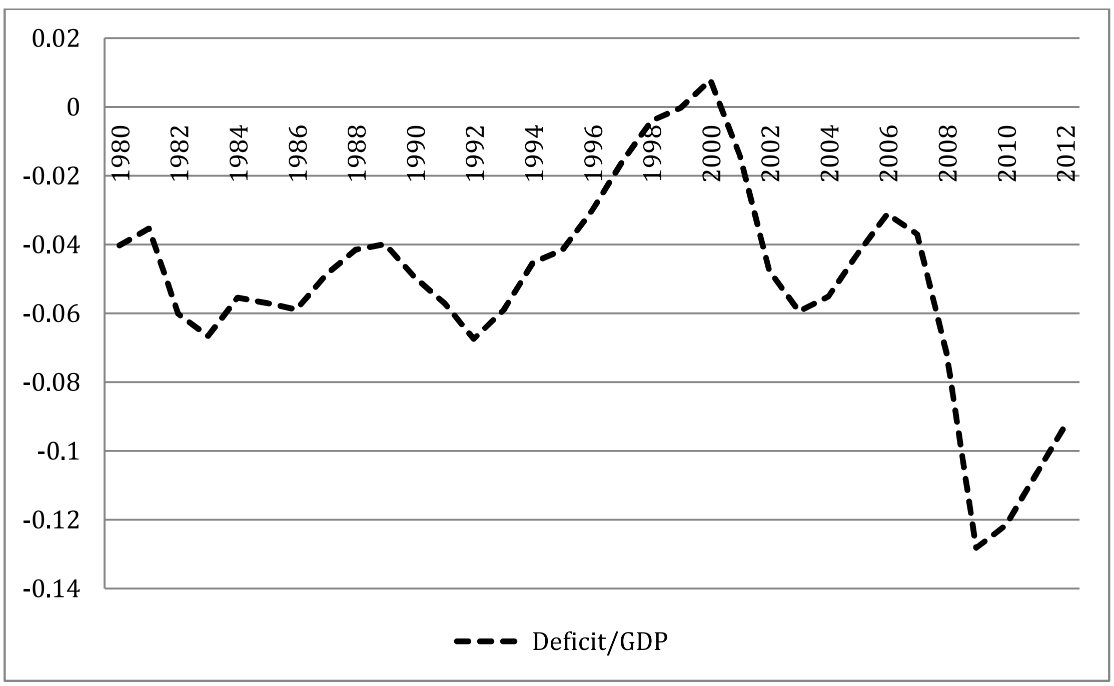

Figure 4 The Ratio of Government Fiscal Deficit to GDP from 1980 to 2013
Source: IMF's World Economic Outlook Database

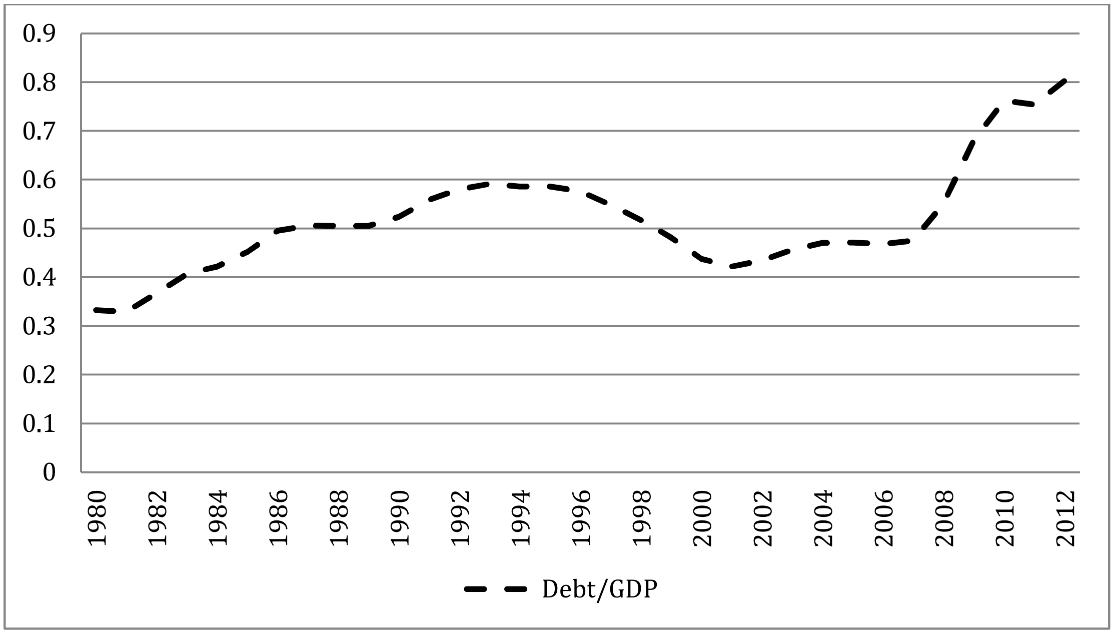

Figure 5 The Ratio of the stock of US Public Debt to GDP from 1980 to 2013
Source: IMF's World Economic Outlook Database

Figure 6 the ratio of imports of goods to GDP in the USA from 1980 to 2012
Source: Bureau of Economic Analysis

Figure 7 the proportion of food and consumer goods in total value of imported goods in the USA from 1980 to 2012
Source: Bureau of Economic Analysis

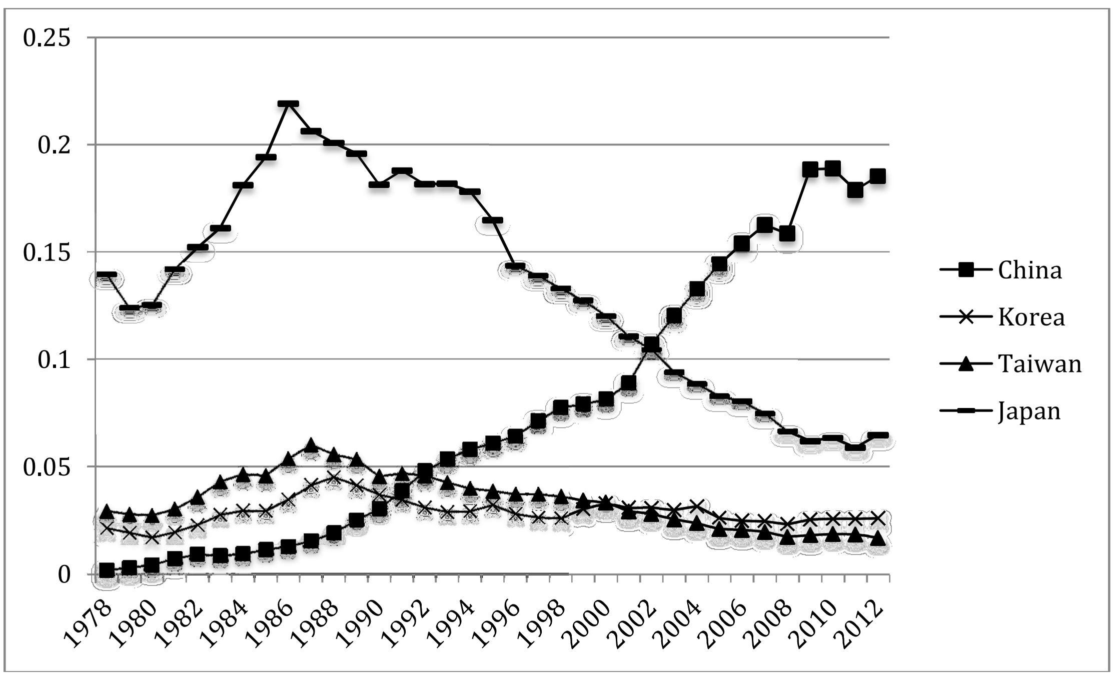

Figure 8 The proportion of imported goods from China, Japan, and the Asian Tigers in total value of imported goods from 1978 to 2012
Source: Bureau of Economic Analysis

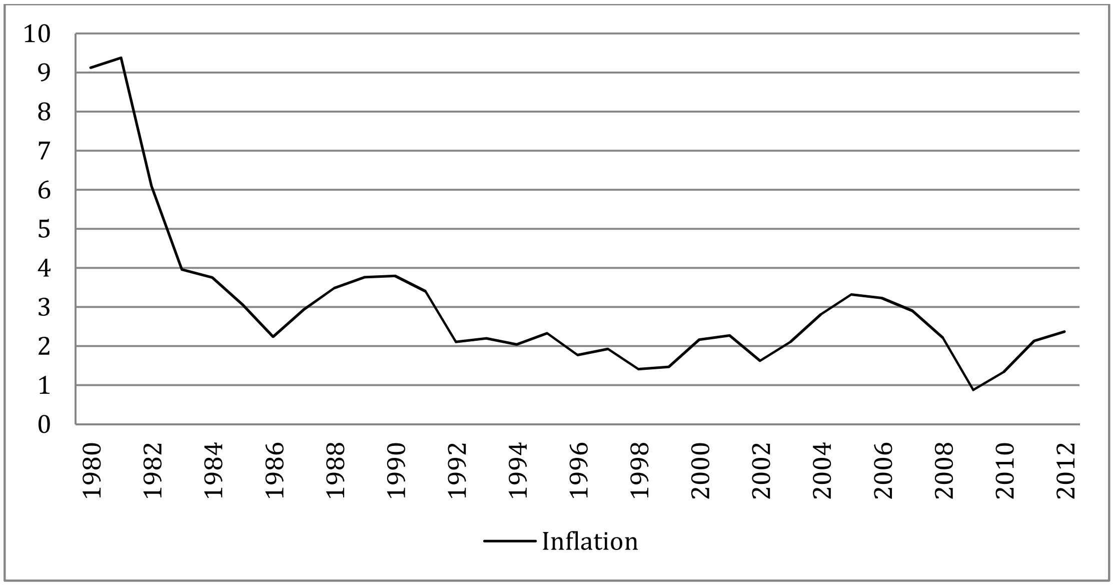

Figure 9 The US Inflation Rate from 1980 to 2012
Source: The World Bank's DataBank

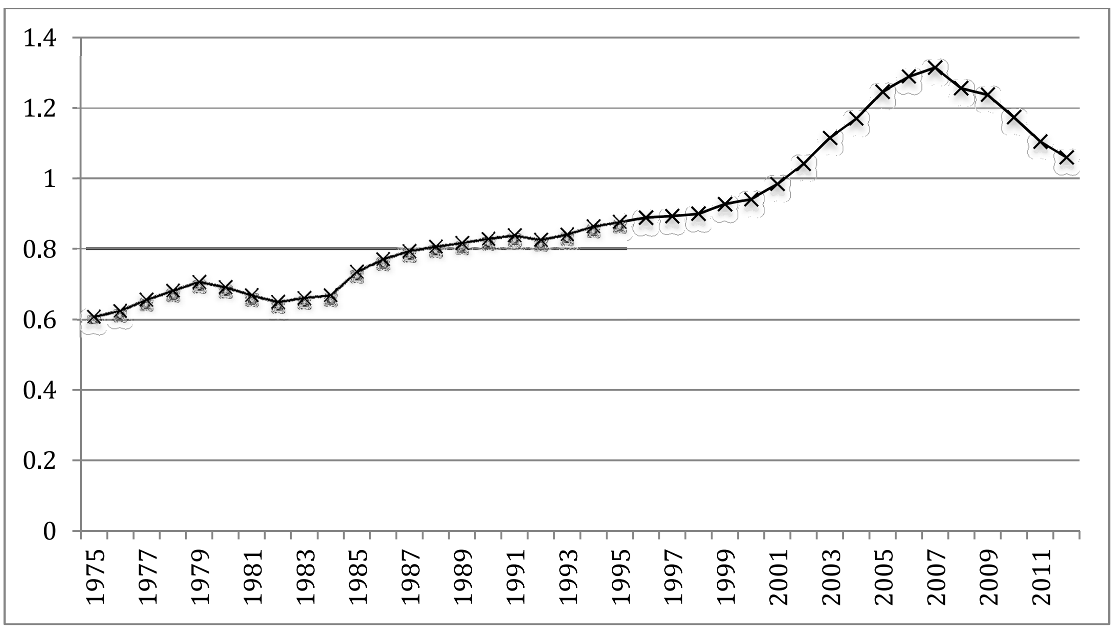

Figure 10 the ratio of outstanding debt to disposable in the US household sector from 1075 to 2012
Source: Board of Governors of the Federal Reserve System, Flow of Funds Accounts of the United States, Annual Flows and Outstandings, December 8th, 2011. Household disposable income is in page 13 Table F.100 line3, while household debt outstandings is in page 4 table L.1 line 3 of this report. Available at. http://www.federalreserve.gov/releases/z1/current/data.htm