1989

Hegemonic Stability Theory: An Examination.

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Hegemonic stability theory: An examination

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The Louisiana State University and Agricultural and Mechanical Col., 1989
Hegemonic Stability Theory: An Examination

A Dissertation

Submitted to the Graduate Faculty of the Louisiana State University and Agricultural and Mechanical College in partial fulfillment of the requirements for the degree of Doctor of Philosophy

in

The Department of Political Science

by

Victor E. Sachse
B.S., Louisiana State University, 1979
M.A., Louisiana State University, 1983
May 1989
Acknowledgments

I would like to express my appreciation to all who have contributed to this dissertation, either directly or indirectly. This includes many people, far too numerous to name, who have had an impact upon my work through their articles or simply through informal conversation. Several people do need to be singled out for special mention. I would like to thank all of the members of my dissertation committee, including Cecil Eubanks, Michael Grimes, Wayne Parent and Paul Paskoff. I would like to give special thanks to committee member Cecil V. Crabb Jr., who played an active and extremely helpful role throughout the writing process.

I owe a particular debt of gratitude to my major professor and mentor, Lawrence Falkowski. Without his help, intellectual insights, humor, and constant encouragement, this dissertation would not have been possible. Finally, I express my greatest thanks and love to my wife, Esther.
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Abstract

Hegemonic stability theory been the focus of substantial scholarly attention in recent years. Hegemonic stability theory is a theory that attempts to explain changes in the degree to which the international political economy is "open" or "restricted" on the basis of the power relations between the major states in the world system. Specifically, the theory holds that markets will tend to be most open when one state is clearly predominant, particularly in terms of economic power, and, conversely, that markets will tend to be restricted when there is no predominant power.

From the end of World War II until the late 1960s or early 1970s, the United States was the hegemonic power in the world economy. The U.S. was particularly predominant in the period from 1945 through roughly 1960. Since the early 1960s, the U.S. has gradually lost position relative to that of other major economic powers. If the theory of hegemonic stability is valid, this should cause trade levels to decline as a percentage of aggregate economic activity.

This dissertation presents a general examination of hegemonic stability theory. This includes discussion of different variants of the theory, as well as discussion of the internal logic of the theory. Hegemonic stability theory is tested statistically, utilizing the case of American hegemony in the post World War II period. Finally, the findings of the statistical test are discussed in terms of their implications for the international political economy of the coming decades.
Introduction

This dissertation examines the "theory of hegemonic stability." Hegemonic stability is a theoretical perspective that is concerned with international trade policy. Specifically, this theory is concerned with the relationship between the level of economic power of the dominant state in the international economy (when one state clearly is dominant), and the degree to which international trade increases or decreases.

I present an examination of hegemonic stability which begins with a basic presentation of the theory, and a critique of some of the other works related to the theory. This necessarily includes a discussion of concepts such as "free trade" and "public goods," as these concepts are central to the theory of hegemonic stability. I also present a statistical test of the theory, and discuss the implications of the results thus derived for the international economy of the coming several decades.

An examination of hegemonic stability theory may be useful in understanding the trading policies of states of all levels of development. The central question with which the theory is concerned is under what conditions the core, or the most developed states, maintain relatively open trading policies. This in turn has a significant effect upon the trading policies of peripheral, or less developed states, as well as upon the trading policies of semi–peripheral states, or states at a medium level of development. Finally, as will be made evident, hegemonic stability theory has important general implications for the world political economy.
This dissertation will be set forth in five chapters. Chapter One presents the theory of hegemonic stability with an emphasis upon the central tenants of the theory. In Chapter Two I consider the major work that has been done to date regarding hegemonic stability theory, and examine some of the commonalities and differences exhibited by in the perspectives of scholars who have written about the theory.

Chapter Three discusses U.S. policy in the post World War II period in terms of its orientation toward the establishment and maintenance of an open international economic order. Hegemonic stability theory is also discussed in terms of its application in making predictions as to whether or not there will continue to be an open international economic order with there being no hegemonic power.

Chapter Four presents a statistical test of the theory of hegemonic stability. In Chapter Five, the results of the statistical test is be discussed. Finally, these results are used to present a brief prognosis as to the possible changes in the international economic order over the coming several decades.
Chapter One

The Theory of Hegemonic Stability

In recent years a number of scholars have advocated a theoretical perspective regarding international trade policy that appears to offer fresh insights. This perspective attempts to explain changes in the openness or restrictedness of international trade, and thus of the relative level of international trade, in terms of the distribution of state power among the core states. In particular, the concern is with the degree of control one particular state is able to exercise over the trading policy of the other core states. This perspective has come to be known as the "theory of hegemonic stability."

The theory of hegemonic stability holds that a world order dominated by a single country will be most stable and will have the most open economic order. It is further held that greater aggregate wealth will be produced under such a world order. This view is summed up well by Peter Katzenstein, who maintains that "Periods of imperial ascendance are distinguished by the politics of plenty," while "Periods of hegemonic decline, on the other hand, are marked

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1 Stability, in the context utilized by a number of advocates of hegemonic stability theory, such as Charles Kindleberger and Robert Gilpin, refers to an international system with free trade, high levels of foreign investment, and a well-functioning international monetary system. The system will be called stable only if disagreements between core states regarding international economic policy are relatively few in number and do not result in the establishment of major impediments to free trade or impediments to regularized exchange of currencies. Such a system is generally termed a "liberal economic order." Obviously, the term stability is used in a heavily normative context here.
by the 'politics of scarcity'" (Katzenstein 1977: 9). Charles Kindleberger refers to this as "a system of world economy based on leadership (Kindleberger 1981:251). According to Kindleberger, a liberal economic order needs leadership, a country which is prepared, consciously or unconsciously, under some system of rules it has internationalized, to set standards of conduct for other countries; and to seek to get others to follow them... (Kindleberger 1973: 28).

Similarly, Robert Gilpin maintains that a liberal international economy can only be formed and maintained through the support of the most powerful state or states in the system (Gilpin 1975:85). By the term "liberal economic order," both Kindleberger and Gilpin are referring to an international economy with an open market and with readily available currency conversion. In Gilpin's view, the efforts of a country in a position of hegemony are required in order to provide for "a secure status quo free trade, foreign investment, and a well-functioning international monetary system" (Gilpin 1981: 145). Kindleberger refers to this as the provision of public, or cosmopolitan, goods (Kindleberger 1981: 247). A public good is one the consumption of which by one unit does not reduce the amount available for other units (Kindleberger 1981: 243). Whether or not a hegemonic state is required in order to provide these "public goods," it is clear that these factors are positively related to trade among core countries. Kindleberger is most concerned with the maintenance of "free trade." Indeed, the maintenance of free trade is held to be the major result of hegemonic stability.
Despite the substantial attention given to the concept of hegemony, there is no single agreed upon definition of the term. One problem is that the term hegemony has been used in a number of different manners; in some cases these have little relationship to one another. For example, the term is sometimes used to describe direct control of one unit over another, with the control being exercised through political or military means. One such case is the manner in which Chinese diplomats have referred to "Soviet hegemony." Within the context of hegemonic stability theory, hegemony is basically an economic concept, although, as I briefly discuss below, it cannot be considered in complete isolation from non-economic factors. Unfortunately, even within the context of economic theory in general, and hegemonic stability theory in particular, there is not a standardized definition. Timothy J. McKeown notes that while it may not be necessary to establish a precise share of world capabilities as a threshold that a state must reach in order to be considered as being hegemonic, it is at least necessary to be able to determine what relative distributions of capability are required (McKeown 1983: 76). Unfortunately, McKeown himself does not make such explicit determinations. Indeed, definitions of hegemonic stability have tended in general to be rather vague. For example, Robert Keohane defines it as follows:

The theory of hegemonic stability, as applied to the world political economy, defines hegemony as preponderance of material resources (Keohane 1984:32).

This definition is not only of little use operationally, but does not even serve adequately for Keohane's own descriptive purposes, as his discussion of hegemony
centers around the formation and maintenance of regimes by the hegemon, not merely control over resources. Immanuel Wallerstein defines hegemony in economic terms as:

a situation wherein the products of a given core state are produced so efficiently that they are by and large competitive even in other core states, and therefore the given core state will be the primary beneficiary of a maximally free world market (Wallerstein 1980: 38).

This definition is more specific and subject to examination than that of Keohane, although again no specific limits are set as to just what conditions must be met in order for a system to be a hegemonically controlled system.

In terms of military capabilities, the minimum requirements in order for there to be a hegemonic order is also in question, although here there is a greater level of agreement than that regarding economic factors (see section on military power below). In practice, there is no disagreement about when the major periods of hegemonic control have occurred. Precisely when hegemonic control ends, however, is much less clear. For purposes of analysis, it is best to view hegemonic control on a continuum, rather than attempting to define arbitrary limits for hegemonic control. The would-be hegemon's level of preponderance of trade and economic size are the major factors upon which this continuum should be based.

Hegemony, in the context of hegemonic stability theory, is primarily an economic term that should not be confused with the many non-specific uses of the term, based upon a more general concept of power, that are in common use.
Nonetheless, the strong relationship between military and economic power is too important to be ignored. Military power and economic power certainly are not synonymous with one another, but each is dependent upon the other. In order to forge and maintain a hegemonic order, a hegemon must possess certain requisite military capabilities. For example, it must be able to prevent other states from using military power to limit access to its key markets. At the same time, of course, military power depends, in part, upon economic power. Military power cannot be maintained without a sound economic basis. While military power will not be directly included the statistical analysis, it must be recognized that the economic hegemony that is the focus of the present work would not be possible without related military power.

Free Trade and Reciprocity

"Free trade" is the cornerstone of liberal trading policy. Classical economic theory holds that free trade is the most efficient basis upon which to allocate resources. Free trade may be said to exist when three basic conditions are met. First, there must be no tariff mechanisms, as these may make imported goods noncompetitive with domestically produced goods. Second, there must be no product subsidies, due to the advantages these confer upon the producers of the subsidized goods. Third, import quotas must also not exist. When these conditions are met, the market is said to be "unrestricted" or "open". The "ideal type" of free trade would be a situation in which all of these conditions are met completely. In practice, of course, these conditions are never completely present;
instead the question is just how close to completely these conditions are met. Other factors that may cause some reductions in trade, such as production and licensing agreements, are not considered to be part of the restrictedness of a market, as these are not structural barriers to the importation of other goods.

Another central component of a liberal trade policy is the principle of reciprocity. In some instances, reciprocity may be based upon accords providing strict guidelines that are designed to insure that the principle of reciprocity is followed. Even in lieu of explicit agreements, reciprocity is implicitly required in order for free trade to be maintained. Reciprocity in this context may be defined as "actions that are contingent on rewarding reactions from others and that cease when these expected reactions are not forthcoming" (Blau 1964: 6). If one state allows goods to be imported from another state without subjecting them to a tariff, but does not receive reciprocal treatment, it will tend to change its policy (through reciprocating), with the establishment of a tariff.

Although some form of equivalency is a part of most conventional understandings of reciprocity, absolute equivalence is not a part of all reciprocal relationships. Indeed, reciprocity can be present in a relationship among unequals, where exchanges are not based upon full equivalence (Keohane 1986: 6). This understanding of reciprocity is different from that in much of the political literature, where reciprocity often has meant absolute equivalence. Nonetheless, this has not been the case in much of the sociological literature, such as in the Blau definition cited above. In this context, reciprocity means that there is equivalence of form, but not necessarily of benefits. For example, there may be a reciprocal trade agreement between a highly developed and a lesser developed state. In such
a case the rules regulating exchange may be the same for each party, but benefits may not be at all equally distributed. This will be discussed more fully below.

Differential Effects of Open Trading Systems

Kindleberger, and, indeed, liberal economists in general, maintain that free trade is beneficial to all states, and that a hegemon is necessary in order to maintain such free trade. The provision of free trade is thus seen as being a public good. In other words, it is a good that may be shared, to advantage, by all states. Kindleberger states that although both small and large states benefit from "leadership" (his term for the efforts exerted by a hegemon to maintain a liberal economic order), the benefits are often even greater for small states than for large ones. This is due to the fact that smaller states are more often able to adopt the role of a "free rider." An example of a free rider in this context would be a small country that is militarily protected by a large one, and as a result does not need to maintain a defense force of its own. In a similar vein, Kindleberger argues that where a hegemon exercises leadership, the costs for maintaining the system (i.e. the maintenance of a steady flow of capital, a stable currency exchange, etc.) are disproportionately paid by the hegemon, and to a lesser degree by other relatively large members of the system (Kindleberger 1976:19, 32). This is in accord with the economic theory of public goods, which hypothesizes that public goods are under produced due to free riding (Kindleberger 1976: 19). Kindleberger also assumes that states of all levels of economic development benefit from "leadership" (Kindleberger 1976:19). Kindleberger thus maintains that the
hegemon performs duties that make it a sort of benevolent benefactor for the system, whereas he clearly indicates that many other states, particularly smaller states, benefit from the system without performing sufficient tasks related to the maintenance of the system.

Kindleberger's assertion that small states tend to benefit most from hegemonic stability, particularly with regard to the maintenance of free trade, may be correct in strictly economic terms. International trade generally accounts for a larger portion of the aggregate economic activity of these states than is the case for larger states, due to the smaller internal markets of the smaller states. Nonetheless, the situation for less developed states is quite different.

Kindleberger's assumption that free trade will be beneficial even for less developed states is derived directly from classical economic theory. Classical economic theory holds that free trade is essential in order to maintain proper competition. The law of comparative advantage establishes the basis for this conclusion. According to the law of comparative advantage, the profitability of trade lies in the fact that certain states or individuals can always produce given goods or services more efficiently than others. This perspective holds that...

... such situations may arise when there are money and exchange rates that disguise the real goods exchange, and when governments interfere with the market determination of the exchange rate. But the principal remains valid that there always must be some activity in which a country has a comparative advantage (Grubel 1981: 15).
It is maintained on this basis that free trade is the most beneficial basis of exchange for states of all levels of development, and thus, that an open trading system is beneficial to all states. Certainly this view is held by most contemporary economists in the United States, and there has been remarkably little scholarly criticism of this position in the U.S. This is even more the case in U.S. governmental circles. Nonetheless, there are numerous problems with the above statement. The following two points are particularly important in this regard. First, more developed states will always have a comparative advantage vis-à-vis a much wider range of goods and services than is the case for less developed states. Second, there are always some government interventions in the market that place restrictions upon trade; at some points in time there simply are less than others. Less developed states tend to be more greatly disadvantaged through such interventions than more developed states, since they have less economic or political power to bring to bear in order to secure their interests.

There is a growing body of literature, much of it coming from outside the U.S., that provides considerable evidence to support the contention that the degree to which a state benefits from the existence of free trade is, in fact, strongly affected by the level of development of the state (Prebisch 1980). This is dealt with in great detail especially in dependency theory and world system's theory literature (Emmanuel 1972; Frank 1966; Wallerstein 1979). While there is general agreement among both liberal economists and dependency and world systems theorists that free trade will be maintained only with the existence of a hegemon, the motives and results assumed by dependency theorists and world systems theorists are quite different from those assumed by liberal economists.
For the former, concern centers upon the problem of unequal exchange (Amin 1976; Emmanuel 1972). According to this perspective, much trade between developed and less developed countries is detrimental to less developed countries, due to the considerably higher amounts of labor that generally are required to produced goods sold from less developed to the developed countries, than vice versa, for goods priced at the same level. This type of trade thus is unequal, and results in a continual loss of value for the less developed countries.

It is extremely difficult for less developed countries foster new industries when operating in direct competition with industries from more developed countries. When a less developed country is penetrated by goods from more highly developed countries, domestically produced products are generally greatly disadvantaged unless the costs of the foreign goods are driven up substantially through the use of tariffs, or domestic goods are subsidized (the latter is generally a less feasible policy for LDCs, as sufficient capital for such subsidies is generally not available). This is due to the lower costs of production in the developed countries made possible through more efficient means of production and greater economies of scale.

Not surprisingly given its competitive advantages, a state that has a very strong market advantage is most likely to want to secure free trade. For example, in the first half of the nineteenth century, Great Britain was able to produce many goods at a substantially lower cost than other states due to the technological advantages conferred by its early industrialization. The amount of labor time required for the manufacture of these goods was much lower than elsewhere, and British goods could readily be priced at levels far below that of
the competition. This gave Great Britain a huge advantage over competitors without the protection of tariffs or product subsidies. As British exports penetrated more and more markets with its goods, additional advantages were gained through more favorable economies of scale. Therefore, the maintenance of free trade in the international system was extremely important to British interests.

It is important to note that the U.S. itself industrialized behind a system of heavy tariff barriers in the latter half of the nineteenth century. Without protection against British industrial goods, this development would have at least been greatly impeded, and probably made impossible. Indeed, the debate over free trade was a principal cause of the American Civil War. Southern planter interests wanted to continue to purchase cheap British goods, whereas northern industrial interests realized that they could develop only with protection against such goods. The British advantages in terms of both economies of scale and technology were simply too large to be overcome without such protection.

The Movement from Free Trade to Restriction

The example of Britain in the latter half of the nineteenth century provides an excellent example of a hegemon's position with regard to market openness. From the end of the Napoleonic wars until the period of 1870–1880, Britain was clearly the preeminent economic power in the world. In 1870, Britain accounted for 24 percent of world trade (Lake 1983: 525). Also, Britain accounted for 31.8% of the world's production of manufactured goods; in this category they remained even above the U.S. (although by the period of 1881–1885, the U.S.
had surpassed Britain in this category; the percentages were 28.6 and 26.6 respectively). Britain's nearest European competitor in manufactured goods, Germany, accounted for only 13.2% of the world's manufactured goods. The second major competitor, France, accounted for 10.3% (League of Nations 1945: 13). By 1880 Britain still had the highest per capita income in the world, and accounted for approximately double the share of world trade and investment of France, its closest competitor in trade and investment. The only major areas in which Britain had been surpassed were in aggregate economic size; the U.S. economy was by this time the largest in the world, and in the level of manufactures. Nonetheless, the U.S. was not yet a major player in matters of international economics, and was generally not integrated into the international political economy. U.S. trade and investment remained extremely low, relative to that of France and Germany, much less Britain. For this reason, Britain remained virtually unchallenged as the world's major economic force.

When the power of a hegemon begins declining precipitously relative to that of other core powers, there is a strong tendency for it to move away from a free trade posture. Although Britain remained the preeminent economic power in terms of world trade and investment after 1870, it was rapidly loosing ground to the U.S. and Germany, among others. British colonies began to erect trade barriers to which only British goods were exempted, particularly in the 1890s. Additionally, Britain began to re-introduce major tariffs on imported goods, although this did not occur until 1915. It should be noted in this context that a hegemon's retreat from a free trade posture is generally a long, gradual process. As we may see, although British power was declining relative to that of other
major states after 1870, the retreat from a free trade posture war certainly not immediate. There is considerable inertia present in the system. Nonetheless, from the 1870s on, Britain no longer worked to maintain an open economic order. Eventually, Britain itself enacted tariff legislation.

With the end of the Second World War, the U.S. quickly became established as the new hegemon. The major industrial powers of Europe, Great Britain, France, and Germany, were in a shambles both in terms of their physical plants and in terms of economic organization in general. The U.S. emerged from the war far stronger than the other major actors, both economically and militarily. U.S. policymakers quickly worked to reorder the international economic system in a manner believed to be conducive to U.S. interests. In particular, the U.S. sought to establish a new economic order based upon a system of free trade similar to that forged by the U.K. in the nineteenth century. The U.S. was the principal architect of a number of international institutions and agreements designed to facilitate this economic order, including the Bretton Woods monetary accord, and the International Monetary Fund and the World Bank. These institutions will be discussed more fully in Chapter Four.

As was the case with Britain of the 1870s, however, the U.S. is now no longer at the apex of its power, and continues to decline in terms of its share of world trade and investment (for a more complete discussion, see Chapter Four). It must be emphasized that we are referring here to relative, rather than to an absolute decline in U.S. power. As a result, a number of tariffs against specific goods have been put in place, and there is a strong movement toward the erection of further tariff barriers. Whereas in the early decades after World War
If the U.S. had sought to convince the nations of the world that free trade was in everyone's best interest, the U.S. is now beginning to retreat somewhat from this stance. Thus it is clear that free trade is an important part of the ideology of those with the most advantaged position, and that this ideology begins to change as advantage is eroded.

There is an interesting paradox regarding hegemonic decline that seems, at first glance, to run counter to the theory of hegemonic stability. There is a tendency for a declining hegemon to enter into a series of reciprocal trade relationships. For example, beginning in the 1870s, Great Britain gradually entered into such trade relationships, particularly with its own colonies. It might seem that this would serve to increase trade. However, the actual effect is quite the opposite. Movement from open trade relations to trade relations based upon reciprocal trade agreements tends to reduce, rather than to increase the aggregate level of trade in the system. This is due to the fact that reciprocal trade agreements confer specific advantages upon the parties to the agreement, thus creating competitive disadvantages for other parties. Other states tend to reciprocate by also entering into reciprocal arrangements. Therefore, competition is reduced, and the aggregate level of trade tends to decline. Thus, the fact that declining hegemons enter into such reciprocal relations serves as a support to the theory of hegemonic stability.

The impetus for the establishment of protectionist policies for a declining hegemon may, of course, come initially from government circles or may emanate from various pressure groups or the most basic constituency level. Regardless of the national source of such an impetus, it is the contention of hegemonic stability
theory that this impetus is the result of the hegemonic decline itself. As the 
hegemon becomes less able to dominate trade, jobs tend to be lost and wage 
levels tend to decline, or at least to decline in their rate of growth. Therefore, 
pressure to institute protectionist policies is likely to come from a variety of 
sources. The important point for the present analysis is the contention that such 
pressure comes as a result of the hegemon's decline.

Military Power

The question as to the means a hegemon uses in order to foster an open 
international trading system is of central importance to hegemonic stability theory. 
Particularly, it is necessary to consider the question as to whether economic or 
military initiatives are best suited for such purposes. Stephen Krasner states that 
where there are dramatic asymmetries between the capabilities of the hegemon and 
weaker states, the hegemon may use military power to coerce the weaker states 
to adopt an open trading structure. However, he emphasizes that force is not a 
very efficient means of changing economic policies, and that it is particularly 
unlikely that force will be utilized to change the policies of medium-sized states 
(Krasner 1976: 322). Robert Keohane also notes that it is difficult in the 
contemporary world for a hegemon to use military power directly to attain its 
economic policy objectives with its military partners and allies (Keohane 1984: 
40).

Instead, Krasner argues that the hegemonic state may best use its economic 
resources in order to create an open trading structure. This may take the form
of positive incentives, such as offering access to its domestic market and its relatively cheap exports, or of negative sanctions, such as the withholding of aid or engagement in competition in third country markets that may ruin the second country's chance for exports (Krasner 1976: 322–323).

Robert Keohane notes that a hegemonic state must "be able to protect the international political economy that it dominates from incursions by hostile adversaries" (Keohane 1984: 39). Nonetheless, he further notes that a state need not be dominant militarily world-wide in order to be hegemonic. Neither British power in the nineteenth century, or American power in the decades following World War II, ever reached such a level. Throughout the nineteenth century Great Britain was challenged by the continental European powers, and even at the apex of American power following World War II, the Soviet Union presented a challenge to American dominance. Nonetheless, Britain was able to dominate the international political economy through most of the nineteenth century, and the U.S. was able to do so between late 1945 and the early 1970s.

The military conditions for economic hegemony are met if the economically preponderant country has sufficient military capabilities to prevent incursions by others that would deny it access to major areas of its economic activity (Keohane 1984: 40).

If these military conditions are not met, hegemony may be ended rather quickly. Immanuel Wallerstein points out that Dutch economic hegemony in the seventeenth century was destroyed through the use of military force by Great Britain and

Differences in the level of International Trade between Small and Large Industrial States

In general, international trade accounts for a greater portion of the economic activity of small states than of large ones (Krasner 1976: 319). Small states in this context refers to states with relatively small populations; particularly where the population is below ten million. Notable among small highly industrialized states, for example, are Denmark and Finland. The reasons that trade accounts for a particularly large portion of economic activity of small states are quite clear. Small states generally have to import more goods per capita than larger states due to the fact that small states are less able to manufacture all of the specific goods that are desired. Additionally, exports are particularly important to smaller states because their internal markets are not sufficiently large to provide favorable economies of scale. Many goods cannot be produced efficiently in small quantities. Therefore, while exports are important for all states in terms of economies of scale, this is particularly so for smaller states. Largely because of these factors, at any given time there will be wide variations among states in terms of their ratios of trade to national income\(^2\), even among states of relatively equal levels of development. Specific trade policies of the different countries do,

\(^2\) National Income is often used by various authors as synonymous with Gross National Product. Gross National Product is used as the measure of National Income in this analysis.
of course, have some affect here. It is the change in this ratio for each individual state over time with which we are concerned. If the theory of hegemonic stability is correct, there should be a general decline in the proportion of trade to national income as the market becomes more restricted due to the failure of the hegemon to maintain an open market.

Obviously, at any given time certain states will have particular policies designed either to increase or decrease their level of international trade. For example, a given state may wish to decrease its level of imports in either a selective or general manner. A selective approach would be utilized to protect the development or continuance of specific industries. A general reduction in the level of imports may be desired in order to ameliorate an unfavorable balance of trade. Certainly the trade policies of smaller states are often based upon considerations different from those of larger states, given their extreme market vulnerability due to their particularly high levels of trade. Nonetheless, structural factors constrain the manner in which a state may act to change its balance of trade. In some cases, the simple fear that the imposition of tariffs may cause other states to reciprocate will be sufficient to deter the implementation of such a policy. In a system dominated by a hegemon, the hegemon may bring various pressures to bear in order to insure that other states maintain a free trade posture. In some instances, this may even take the form of direct military intervention.
It should be clear from the discussion of hegemonic stability theory in this chapter that this work falls clearly within the realm of international political economy. While there clearly is a strong economic component, there is a strong political component as well. Indeed, hegemonic stability theory cannot be considered in a strictly economic context.

Much of the pressure that a hegemon brings to bear on other states in order to secure a liberal international economic order is brought within a political context. Even threats of economic sanctions, while certainly within the realm of economics, also have a strong political component. Economic threats cannot be viable without other supporting factors. For example, a militarily weak state is not able to use economic sanctions within the same latitude of circumstances as is a militarily strong state. Additionally, the particular groups of allies that a state has may be a key determinant of whether or not that state is in a position to use economic sanctions in specific situations.

Finally, it should be noted that the aggregate nature of the world political economy has major ramifications for international politics. For example, the U.S. clearly is today less able to dictate the terms under which the international political economy is regulated than in the period in which the U.S. had greater economic power relative to other major industrialized states. The form of international economic organization (such as the degree to which the system is "open" or "restricted") is thus determined by both economic and political factors. We could not speak of the existence of a hegemon on the basis of economic
factors alone. In turn, the form of international economic organization has significant ramifications for international politics in general. Certainly, for example, the question of military balances and struggles in the Middle East cannot be discussed without reference to both regional and global economic factors vis-a-vis oil. In Chapter Four, some of the specific ramifications of the changing world political economy for international politics in general will be discussed.

In the next chapter, some of the major work that has been done by a number of scholars regarding hegemonic stability theory will be discussed. In particular, the question of the manner in which different versions of the theory are similar, and the manner in which they diverge will be examined.
Chapter 2

In this chapter major literature related to hegemonic stability will be examined. First, what has come to be known as "regime analysis" will be discussed. This represents a modification to hegemonic stability theory that some scholars maintain is necessary in order for the theory to work. "Cycle theory" is also discussed, as the cycle theory literature strongly overlaps with the hegemonic stability theory literature. Some of the similarities and differences in the work of various scholars doing work regarding hegemonic stability are also examined. Finally, we will examine an article that attempts to test hegemonic stability theory by utilizing a group of case studies; perhaps the only major test of this form to date.

Regime Analysis

Some theorists have criticized the theory of hegemonic stability, at least in the form in which it is generally presented. Robert Keohane argues that in its crudest form, the theory has little analytical value. He asserts that the theory fails to explain lags between changes in power structures and changes in international regimes; does not account well for the differential durability of different institutions within a given issue-area and avoids addressing the question of why international
regimes seem so much more extensive now in world politics than during earlier periods (such as the late 19th Century) of supposed hegemonic leadership (Keohane 1982: 326).

He proposes that the primary problems of the theory can be greatly mitigated by focusing upon the relationship between the concentration of power in the international system and the supply of international regimes.¹

We will use Keohane's definition of regimes as those arrangements for issue areas that embody implicit rules and norms insofar as they actually guide behavior of important actors in a particular issue area (Keohane 1980: 133).

Keohane advocates the use of "a structural approach to international regime change, differentiated by issue area" (Keohane 1980: 154). Three such issue areas cited by Keohane are the international petroleum regime, the international monetary regime, and the international trade regime.² It is his contention that eroding U.S. hegemony is helpful in accounting for changes in the international petroleum regime, less so for the international monetary regime, and even less to the international trade regimes (it should be noted that he provides little empirical evidence to justify this contention).

¹ The phrase "supply of international regimes" comes from Keohane, and is used here to help illustrate his view of the context within which international regimes are formed.

² In this dissertation, the more general version of the theory of hegemonic stability is the theory being addressed, except when it is noted otherwise.
In this work, the concentration is directly upon matters of international trade; thus the primary concern is with issues that Keohane would include as components of the international trade regime. Indeed, it is international trade that is the central focus of hegemonic stability theory as espoused by Kindleberger and most other theorists. Nonetheless, it is my contention that issue areas should not be differentiated within the context of hegemonic stability theory in the manner suggested by Kindleberger. I will also argue that Keohane's conclusions are based, at least in part, upon erroneous reasoning.

While differentiation by issue areas certainly has face validity and may be of some analytical utility, whether the issue areas may be separated as clearly as Keohane suggests is questionable at best. It is clear, for example, that the international trade regime has strong structural links with the international monetary regime. For example, international trade is highly affected by changes in international monetary policy. Thus, these issue areas do not form mutually exclusive categories.

Second, some of the explanations Keohane offers for changes in the different regimes seem questionable. For example, in his explanation of changes in the international trade regime, he notes,

Most explanations of increased protectionism also focus on the recession of the 1970s and the rise of manufactured exports from less developed countries, (a position which Keohane supports) (Keohane 1980: 153).
While this argument is undoubtedly largely correct, it misses the key point. The seriousness of the recession itself, although a part of the general boom and bust cycle, was more than likely deepened by the lack of monetary control due to the breakup of the Bretton Woods international monetary regime; a matter which Keohane himself discusses at length, but does not relate to the seriousness of recession. Perhaps even more importantly, the rise of manufactured exports from less developed countries relative to those from the hegemonic (or previously hegemonic) power is itself a manifestation of the erosion of hegemony. Therefore, this certainly cannot properly be used as an argument against hegemonic stability theory in the manner suggested by Keohane. Again, the structural links between the regimes analyzed by Keohane are much more important than he suggests.

Despite some of the problems suggested above, regime analysis has become increasingly common in the international relations literature in recent years. Although the acceptance of regime analysis has not been unequivocal, criticism has been relatively limited. Nonetheless, a few scholars have suggested that the utility of this form of analysis may be less than is generally accepted. Indeed, Susan Strange argues that not only is this the case, but further asks whether it may not even be actually negative in its influence, obfuscating and confusing instead of clarifying and illuminating, and distorting by concealing bias instead of revealing and removing it (Strange 1982: 479).

While Strange advances a number of excellent arguments against the use of regime analysis, her argument regarding bias is particularly noteworthy. The
primary bias lies in the fact that there is a general assumption that everyone wants more and better regimes (Strange 1982: 478). It is interesting to note in this context that in the same issue of *International Organization* in which Strange's article here cited appeared (an issue focusing on regime analysis), one of the articles is even titled "The Demand for International Regimes" (by Robert Keohane). The assumption that regimes are desired by all (or, at least most) is quite common. Strange further points out this bias by quoting from the earliest draft of editor Stephen Krasner's introductory article to the above cited volume of *International Organization*:"...the most fundamental concern of social theory: how is order established, maintained and destroyed?" (Krasner 1979). Not included as primary concerns of social theory here are questions such as those relating to justice or other normative considerations. Although Strange does not delve more fully into the factors influencing the direction of social theory, it is clear how strongly structural functionalism has influenced much of the literature.

It is entirely possible that most states do, in fact, desire there to be international regimes, but this certainly does not mean that most desire the types of regimes that have been established since the end of World War II (an assumption generally made in the American literature). Many of the regimes that are in place have been highly detrimental to many less-developed countries. That many do not desire the same types of regimes as those favored by the U.S. and to some extent other Western powers is clear (a simple examination of U.N. General Assembly votes is telling in this regard).

Further, a number of states have gone beyond the point of simply rejecting the extant regimes, and have proposed the formation of new regimes, or, at least
major alterations in existing ones. An excellent example of proposed regime creation and alteration is the proposal by a large portion of the world's developing states for the development of a "New International Economic Order" (NIEO). This includes, for example, a call for a major redistribution of international credit (the formation of a new credit regime). It also includes a call for the developing states to have a much larger voice in structures existing under present regimes, such as the World Bank and the International Monetary Fund.

Krasner notes that the distribution of votes and power in international organizations is often not congruent with the distribution of state power (Krasner 1985: 75). He further notes that "During periods of hegemonic decline there is a propensity to move from congruence to incongruence or even to dynamic instability" (Krasner 1985: 75). As he points out, one of the ironies is that hegemonic powers tend to create international regimes that include international organizations that initially serve their interests, but that later may be restructured by other actors for other purposes. A good example of this is the International Court of Justice. Thus far, this type of restructuring has not taken place with any of the major international monetary institutions, such as the World Bank or the International Monetary Fund. This is due to the disproportionate number of votes of the United States (and, to a lesser degree, of other major economic powers such as West Germany, France, and Great Britain).

It should be noted that a determination that regime analysis of the type suggested by Keohane is not tenable does not mean that we should not discuss specific regimes. Indeed, one can certainly refer to specific regimes, such as the international monetary regime, for analytical purposes. However, reference to a
regime in this manner does not imply that regimes may be studied separately in the manner of Keohane's work. In this dissertation, when the term regime is used, it refers to a particular set of implicitly understood rules for a given issue area (in the manner of Keohane's own initial definition), but does not imply the type of relative issue autonomy of the type that is inherent in Keohane's work.3

**Cycle Theory**

Cycle Theory is a theory of international political economy that contains hegemonic stability as a central component. Indeed, in cycle theory the central manner in which the world system is characterized is in terms of the degree to which it is a system dominated by a hegemon or the degree to which there is core competition. A number of analysts, particularly world systems theorists such as Wallerstein, Christopher Chase-Dunn, and Richard Rubinson, among others, maintain that the system alternates between periods of hegemony and periods of core competition on a more or less regular basis (Chase-Dunn and Rubinson 1977: 463). It is their contention that this alternation has taken place since the sixteenth century, the beginning of what Wallerstein terms the modern world system.

The alternation between hegemony and core competition is generally divided into two primary phases. The A-phase is the period in which one particular state

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3 As a byproduct of the statistical test of hegemonic stability theory presented in Chapter Four, the theory is, in fact, tested with regard to Keohane's concept of looking at the international trade regime separately. One of the three basic equations that is utilized is concerned solely with factors involving international trade, and may be used as a test of Keohane's version of the theory pertaining to an international trade regime.
is greatly increasing its economic power relative to that of other core states. The A-phase lasts until the time when the hegemon has reached the pinnacle of its power. After this time follows a period in which the economic power of the hegemon declines relative to that of other core states. The hegemon may, in fact, still be growing economically in absolute terms, but nonetheless be losing ground in relative terms due to more rapid growth of other core states. The period of decline is termed the B-phase. Taken together, the A-phase and B-phase constitute a systemic cycle which begins with a period of core competition, enters a phase in which the system is dominated by a hegemon, and then returns to a period of core competition. Another cycle then follows.

A number of scholars have argued that these cycles occur in a regularized time frame. For example, this may take the form of long waves of roughly determinant length, such as the Kondratieff wave, a hypothetical business cycle wave lasting approximately forty years (Kondratieff 1979). Nonetheless, while there is substantial evidence to support the existence of general cycles (at least over the past several hundred years), the evidence indicates that the periods of time required for the cycle to run its course varies from case to case (Bergesen 1981: 187–188).

George Modelski, like Wallerstein, places the beginning of the modern world system around 1500 (Modelski 1978: 214). He asserts that since this time, the world system may be seen as having gone through a series of cycles with an average period of just over one hundred years (Modelski 1978: 217). Modelski states that each cycle begins with a period of weak system organization that ultimately dissolves into a global war. The result of such a global war is the
emergence of one world power that is preponderant and thus able to dominate the system, and maintain systemic order. Ultimately, the dominant power looses ground relative to competitors, and eventually the system again disintegrates, resulting in global war (Modelski 1978: 217).

Modelski states that there have been five such cycles since the beginning of the modern world system: the period of domination by Portugal from 1494 through 1576–1580; domination by The Netherlands (United Provinces) from 1609 through 1672–1678; a first period of British domination from 1713 through the late 1700s; a second period of British domination from 1815 through 1939; and a period of U.S. domination beginning in 1945 that has not yet ended. It must be noted that there is rather general, although not complete agreement among scholars as to these cited periods. There is no major dispute in the literature regarding the periods of domination or hegemony by The Netherlands, the second British period, or the U.S. period. However, Modelski himself notes that some scholars hold that the major power of the sixteenth century was Spain rather than Portugal (Modelski 1978: 219). Secondly, not all major scholars concerned with cycles and hegemonic stability identify the period that Modelski refers to as the first British period. Finally, as we have already seen, most scholars place the end of what Modelski refers to as the second British period much earlier than 1939. For Modelski, 1939 has to be considered as the end of the period due to the fact that, in his theoretical perspective, each period of domination must end with global war. In this context, Modelski holds that World Wars I and II were both part of the same basic global conflict that ended one world order, and began anew one in 1945.
It should be noted that Modelski’s work is generally referred to as cycle theory rather than hegemonic stability theory. Another self–proclaimed "cycle theorist" Suzanne Frederick maintains that "a long–cycle perspective of world leadership leads to a different (but occasionally overlapping) interpretation of systemic power hierarchy" (Frederick 1987: 192). It is her contention that hegemonic leadership "is conceived of as predominantly economic in nature," whereas "the long cycle perspective proposes that minimum threshold levels of systemic political–military capability concentration have been required..." (Frederick 1987: 193). While it is certainly true that hegemonic stability theory is basically economic in nature, it is definitely not the case that hegemonic stability theory does not hold that minimum military thresholds are required. While it is true that some "cycle theorists," including Modelski, may deal somewhat more with military power than do hegemonic stability theorists, there is general agreement regarding basic military thresholds.

Modelski also undertakes a comparison of long cycle theory with hegemonic stability theory. He notes that there is indeed "considerable convergence" between the two approaches (Modelski 1987: 12). Nonetheless, it is his contention that there are also significant differences. For example, he notes that while hegemonic stability theory posits a direct relationship between hegemony and the existence of free trade policies, this is not completely the case for the long–cycle perspective. In the latter perspective, a relationship between hegemony and free trade is posited, but the relationship is held to be more variable, depending upon specific conditions. This is, in fact, probably the largest difference between the two perspectives, and it certainly is of significance. Modelski also contends, as
did Frederick, that the long-cycle perspective is more concerned with strategic concerns than is hegemonic stability theory.

Unfortunately, Modelski makes another comparison between hegemonic stability theory and long-cycle theory that is completely unfounded. He states that the long-cycle perspective, in contrast to hegemonic stability theory, is concerned

not just with leadership, but also with the challenges to leadership, and with the tension that inevitably arises between them — a tension that imparts a dynamic quality to the entire process (Modelski 1987: 12–13).

Hegemonic stability theory is, in fact, directly concerned with the challenge to leadership and the tension thus arising. Indeed, this challenge is one of the major factors that is held to result in a loss of hegemony.

As we have seen, to maintain that there are no relevant differences between hegemonic stability theory and the long-cycle perspective would be incorrect. Two differences may be clearly discerned: 1. The long-cycle perspective does concentrate upon military and strategic matter somewhat more than does hegemonic stability theory. 2. The relationship between hegemony and free trade is less clear-cut in long-cycle theory than in hegemonic stability theory. The latter point is particularly important for the present work, as a statistical test of the relationship between hegemony and free trade appears in Chapter Three. Therefore, this must be considered as being directly a test of an important axiom of hegemonic stability theory, but not of long-cycle theory. Nonetheless, the results
certainly will pertain to long-cycle theory, as the degree to which the relationship is present or not present is of concern here as well.

In conclusion, while there certainly are differences in the perspectives, the commonalities are also strong. Both are directly concerned with the rise and fall of hegemonic orders. Both identify, at the very least, specific periods of British and American hegemony, and both see many common conditions involved in the transition from hegemony to competition.

Perhaps most important of all, both maintain that the system will only be stable when one a hegemonic state is present. To try to force distinctions between the perspectives that simply do not exist, as Modelski and Frederick have both done, can only be dysfunctional in the long run.

Until the present, movement from hegemony to core competition, which may also be termed as movement along the uncentric-multicentric continuum, has coincided with the expansion and contraction of colonialism (Bergesen and Schoenberg 1980: 238). Colonialism has expanded when economic power has been held by a number of core states, without any one state being clearly predominant. Colonialism has contracted when one state has become predominant in the system; i.e. the hegemon. The British case of the nineteenth century serves as an excellent illustration of this point. Until the latter portion of the nineteenth century, Britain dominated the system, and established a free trade regime. Although some colonization did, in fact, take place during this period, the rate was rather gradual. As Britain's power and the British-established free trade regime eroded, particularly after 1870, a scramble began among the core powers to carve up the remaining un colonized parts of the world. Thus, colonial empires were
expanded rapidly during this period. Britain itself was a major player in this expansion, even adding an area as vast as India to its empire. By the end of the century, much of Africa and a substantial portion of Asia had been colonized.

With the ascendance of the U.S. as a hegemon in the post–World War II period, and with the advent of a new free trade regime, the gradual process of decolonization began. This process has now been almost completed.

The crux of the argument is that when the system is multicentric, it is inherently unstable, and states utilize colonization as a mechanism for regularizing their economic relations. For example, core states trading with their own colonies are not subject to the uncertainties and differential treatment of changing tariff policies. By contrast, when the system is dominated by a hegemon and a free trade regime is in place, conflict is minimized and economic transactions take place in a more stable environment. Linkages in the system between core and peripheral states are primarily economic, rather than explicitly political, as in the case of colonialism.

An important question that needs to be addressed is whether systems with declining hegemons will continue to be reshaped as colonial systems. Although the suggestion that this is the case is sometimes made, it seems rather unlikely given the present world order. In particular, the present balance between the Western Powers and the Eastern Bloc would seem to greatly mitigate the possibility of a return to colonialism (this will be discussed more fully in Chapter Five). A much more likely scenario is that as hegemony continues to erode, the world economy will come to be based more and more upon various particularistic trade agreements, with free trade thus becoming much less common. This has
been the pattern the last several hundred years, although until the present it has been accompanied by waves of colonization. If the theory of hegemonic stability is correct, this will also mean that international trade will gradually decrease for the core states, as a percentage of aggregate national income.

In short, while for the last several hundred years movement from unicentricity to multicentricity has been accompanied by movement from core–periphery relations based on primarily economic linkages to relations based increasingly on colonial arrangements, it is quite possible that this will not be the case in the future. Instead, as we have discussed above, the changes may be simply in the form of the economic linkages. Nonetheless, the cycle of movement toward and away from colonialism is not generally viewed analytically as being the same as the movement from unicentricity to multicentricity; it is seen as a cycle resulting from the latter movement. Again, it must be emphasized that the argument regarding colonialism is advanced by the world systems theorists, not by such liberal theorists as Kindleberger and Keohane. For the latter, the focus is entirely upon the unicentricity/multicentricity continuum.

Differences

As is usually the case with regard to general theories, there are some differences among advocates of hegemonic stability theory as to some of the theory's specifics. There is, of course, general agreement that a hegemon is needed in order to create and maintain an open international order (although Keohane, departing from the general theory, maintains that once the regimes to support an
open international regime have been created, a hegemon may no longer be essential. Nonetheless, there are some notable differences among theorists, particularly with regard to the question as to the specific character of the role played by the hegemon.

As we have already seen, Kindleberger and Keohane both maintain that the hegemon performs a role that is beneficial to the world order in general. Kindleberger's choice of the term "leadership" to describe the role taken by the hegemon is strongly indicative of this understanding. Nonetheless, Kindleberger himself notes that it is not always easy to distinguish leadership from exploitation (Kindleberger 1981: 248). Despite this, he maintains that the U.S. has generally assumed a leadership role rather than one of exploitation. He does suggest that from the end of World War II until 1960, "domination was inadvertently involved" (Kindleberger 1981: 248). Nonetheless, two important points need to be noted here. First, Kindleberger refers to any denomination present as being "inadvertent," although he does not spell out the specific forms of domination and does not indicate in what manner this domination was inadvertent. Secondly, although he admits that exploitation is possible, when discussing the American case he substitutes the term "domination" for "exploitation." Although he does not discuss this substitution, domination clearly has a less determinant meaning than exploitation. Some, but not all, domination includes exploitation. Finally, Kindleberger believes that by 1960, domination was not present in the U.S. role as "leader." (Kindleberger 1981: 248).
Kindleberger does note that public goods are sometimes competitive with private goods. He cites U.S. management of the exchange standard from 1945 to 1971 as such a case. This, he states, can be viewed as provision of either the public good of international money, or the private good for itself of seignorage, which is the profit that comes to the seigneur, or sovereign power, from the issuance of money. Of course it can be both (Kindleberger 1981: 248).

Kindleberger argues that whatever surplus is gained by the hegemon in this manner may be seen as being a benefit gained in return for the disproportionate system maintenance costs borne by the hegemon (Kindleberger 1981: 248). His primary concern lies with the instances where the public good is underproduced due to the abundance of free riders, where "there is neither domination nor self-abnegation in the interest of responsibility" (Kindleberger 1981: 249). He believes that "the system is essentially unstable and subject to entropy" (Kindleberger 1981: 250). The leadership role may be threatened by the refusal of followers to go along, or due to the inability or unwillingness of the hegemon to pay the costs of system maintenance. In Kindleberger's view, the latter will be brought about principally due to an increase of costs resulting from an increase in free riding (Kindleberger 1981: 251).

Keohane is somewhat more direct than Kindleberger in acknowledging that some advantages do accrue to the hegemon. He draws a parallel here between the hegemon and an entrepreneur. In order for an entrepreneur to make a
particular set of investments, he must be convinced that he will be able to gain more from the investments than merely than the value of the investments themselves. The promise simply of a social good is not sufficient. Keohane argues that a government, in effect acting as an entrepreneur, will have the same requirements. For example, a government "must expect to be able to gain more itself from the regime than it invests in organizing the activity" (Keohane 1982: 339). Therefore, a hegemon is unlikely to carry out the stabilizing role for the system if the maintenance costs are greater than the perceived value of received benefits.

Despite the fact that Keohane is more explicit than Kindleberger in his discussion regarding benefits for the hegemon, his major concern for the system is virtually identical to that of Kindleberger. Keohane states that the big problem is that a situation is most likely to exist where

no potential entrepreneur is large relative to the whole set of potential beneficiaries, and where 'free riders' cannot be prevented from benefiting from cooperation without paying proportionately (Kindleberger 1982: 339).

This is the same as Kindleberger's concern about the tendency of public goods to be underproduced relative to private goods due to the problem of free riding.

Robert Gilpin states that

Since the Industrial Revolution, the two successive hegemonic powers in the global system (Great Britain and the United States) have sought to organize
political, territorial, and especially economic relations in terms of their respective security and economic interests (Gilpin 1981: 144).

He further states that the hegemonic power supplies public goods, particularly security, in exchange for revenue (Gilpin 1981: 144–145). It is thus clear that for Gilpin the primary motivation for the hegemon to stabilize the political economy is that this enhances its own economic and security positions. In this context he further notes that economic and technical transfers to developing countries are motivated primarily by political and military considerations rather than by the specific needs of the recipient countries (Gilpin 1981: 143). Nonetheless, Gilpin does not see the structural relationship between the hegemon and underdeveloped societies as being detrimental to the latter to the same degree as do dependency theorists and world systems theorists. This will be discussed in greater detail below.

Stephen Krasner, like Kindleberger and Keohane, states that at the height of its power, the hegemonic state will disproportionately supply collective goods for the system. This supply will decline as the hegemon declines in power, relative to that of other states. Krasner notes that a declining power is less willing to sacrifice particular advantages in order to serve international principles and norms (Krasner 1985: 78). Nonetheless, this does not mean that Krasner sees the role of the hegemon as a benevolent one. For example, after stating that the U.S. was the primary force in creating the international organizations after World War II, he notes: "For a hegemonic power, the purpose of such organizations is to legitimize its preferences and values" (Krasner 1985: 10). Of course, such
preferences and values need not, in all cases, run counter to the needs and preferences of other states. It is clear that most preferences and values will run counter to those of some states, and in support of those of others.

Krasner makes it completely clear that the international regimes that have been fostered by the U.S., in their present form, largely run counter to the interests of most less developed countries. It should further be noted that in many cases, the form of these regimes has been supported by most other industrialized countries, in addition to the U.S. Therefore, this is a case where the interests and preferences of the U.S. were generally in accord with those of other industrialized states, but contrary to those of less developed countries. Indeed, Krasner states that

Relations between industrialized and developing areas
are found to be conflictual because most Southern countries cannot hope to cope with their international vulnerability except by challenging principles, norms, and rules preferred by industrialized countries (Krasner 1985: 3).

We have already seen that world systems theorists describe a variance in the world system between periods when the distribution of power among core states is unicentric, with one hegemonic state, and periods when the distribution is multicentric. Chase-Dunn and Richard Rubinson, and Albert Szymanski, state that when the system is unicentric, the role played by the hegemon allows other core states to avoid the overhead costs of maintaining stability in the system (Chase-Dunn and Rubinson 1977: 464; Szymanski 1973: 1–14).
Chase-Dunn and Rubinson summarize the world systems theory position on unicentricity vis-a-vis system stability as follows:

Unicentric periods are characterized by relatively peaceful economic competition in a relatively integrated world economy supported by the institutional framework based on the hegemonic core state in international agreements (Chase-Dunn and Rubinson 1977: 464).

This is virtually identical to the role description of the hegemon, and the concept of unicentric stability, held by Robert Keohane, Robert Gilpin, and Stephen Krasner. In fact, on a basic level, the general description of hegemony varies little between any of the aforementioned scholars, or between these scholars and world systems theorists. Their understandings of the operation of hegemony are nearly identical. This includes their work on the movement of the world system between unicentric and multicentric periods, the basic factors which cause this movement to take place, and the way in which the hegemon operates to stabilize the system. It is quite striking that this should be so, given the differences in perspective between these scholars, and particularly between these scholars and world systems theorists. The differences of perspective lie not in the descriptions of the operation of hegemony, but in the specific results of hegemony.

I will here summarize the basic perspectives of the scholars discussed above regarding hegemonic stability. As we have seen, Kindleberger and Keohane hold that more benefits accrue to a system with a hegemon than to a system without one. The general position is that all states will tend to benefit from this form
of system organization, regardless of their level of development. This does not imply that all are affected in the same manner. For example, developed states are purported to pay more maintenance costs than others. Also, Keohane states that the hegemon does derive some benefits as a result of its particular role in the system. Nonetheless, benefits are said to accrue to all members of the system. For Krasner, the benefits are instead asymmetrical. Developed states tend to benefit somewhat at the expense of others under hegemony.

For world systems theorists, the modern world system in general is structured in a manner that benefits the core states to the detriment of the peripheral states. This is true whether or not the system is dominated by a hegemon. There is a cycle which moves from unicentricity to multicentricity, and back again. Under both unicentric and multicentric orders, the core states gain at the expense of the peripheral, and often the semi-peripheral, states. The difference between the forms of organization is that under hegemony, or unicentricity, the system is held to be more stable. There are fewer conflicts among core states, and trade is generally open.

In conclusion, all of the major theorists who discuss hegemonic stability describe the operation of hegemony itself under the same basic terms. This is quite astounding, given the radically different perspectives the theorists represent. The basic conditions under which a hegemon will rise or fall are similar for all of these theorists. All maintain that the system will be most stable when there is a hegemon. Nonetheless, on the matter of who benefits, and to what extent, there are indeed deep divergences. This matter will be discussed in greater detail in Chapter Five.
A Case-Study Examination of Hegemonic Stability Theory

One of the problems in examining hegemonic stability theory is that there is no systematic data on the trade policies of states, in terms of the degree to which they are open or closed (this problem will be discussed more fully in Chapter Three). However, it is generally possible, through careful research, to determine the general commercial posture of individual states, or individual ports. One potentially promising way to test hegemonic stability is through such an analysis of the trade policies of specific states or ports over time. The trade policies may then be viewed in terms of the extent to which the world system is dominated by a hegemon. If the theory of hegemonic stability is correct, the commercial policies of the states or ports should be relatively open when the world system is dominated by a hegemon, and relatively restricted, or closed, when it is not.

An obvious problem with the method outlined above is that the results of such an analysis may not be generalized for the system as a whole, unless a rather large group of states or ports are included in the analysis. Unfortunately, this would indeed be quite a major task. Nonetheless, such a study, even of a small group of states or ports, could provide a useful beginning, which could then be followed with the application of the same method to the commercial policy of additional states or ports.

Fred Lawson has endeavored to undertake such a study. Specifically, Lawson set out to test the theory of hegemonic stability by examining the nineteenth
century trade policies of three Arabian port-cities: Muscat, Aden, and Mocha. Although he does not make it completely clear why he chose these three particular ports as the focus of his study, he does point out that all three were important trading centers between 1800 and 1905, with "extensive relations with European powers throughout this period" (Lawson 1983: 321). It is Lawson's contention that the relationship between hegemony and free trade in the commercial affairs of these states was not what the theory of hegemonic stability (or the mercantilist perspective, as Lawson also calls it) suggests.

I will examine Lawson's findings and conclusions for each of the three ports, beginning with the Omani port of Muscat. Lawson states that the years in which "an open international trading order operated around Muscat do not coincide with either period (see below) of British predominance in the area" (Lawson 1983: 322), offering the following summary of commercial affairs during the course of the 1800s:

1800–1825: years of British–Omani condominium or perhaps indirect British predominance in the Arabian Sea accompanied by substantial controls on Oman's foreign and domestic trade.
1825–1845: years of persistent and growing challenges to Britain's position in the area with some relaxation of commercial restrictions in Omani territories.
1860–1885: years of considerably greater competition at Muscat among Western commercial powers associated with the gradual abandonment of trading controls and the granting of most-favored-nation status to virtually all foreign interests.
1870–1885: years in which an open international trading structure was in place at Muscat.
1890–1905: years of growing British predominance and a gradual constriction of foreign commerce at the port.
I will not question Lawson's summary that is presented above, but rather his conclusions. His statement regarding British predominance in the area misses the point. By his own definition, hegemonic stability theory, or the mercantilist perspective, holds that

whenever there is no single clearly predominant power in the world but rather a number of different countries that are relatively equal in terms of economic capabilities and level of technological development...trade will be generally restricted and states will tend to adopt a variety of more or less protectionist measures in their dealings with each other (Lawson 1983: 317).

Herein lies a major discrepancy. Lawson considers openness in the mercantilist perspective to be predicated upon the existence of one clearly predominant power in the world. Yet, as we have seen, his analysis of the commercial policy of Muscat, as well as that of Aden and Mocha, is based upon changes in the periods of "British predominance in the area," not upon Britain's position in the world relative to that of other powers. Lawson's own definition of the mercantilist perspective is not based upon "predominance in the area," but rather upon predominance in the world. He does indeed provide substantial evidence that trade openness decreased as British predominance in the area increased, but this does not run counter to the mercantilist perspective as he suggests.

I will briefly reexamine the trade policy of Muscat, utilizing the historical information presented by Lawson, but substituting Lawson’s own definition of
the mercantilist perspective, rather than his later used concept of predominance in the area: 1800–1825. British power was increasing rapidly, but had not reached the levels it would later in the century. Substantial controls remained on trade in the Omani territories. 1825–1845. British power was increasing relative to that of other major powers; some relaxation of commercial restrictions in Omani territories took place. 1860–1885. British power reached its height in this period (the period around 1870 is generally considered to have been the time at which British power reached its apex). An open trading structure was in place at Muscat. 1890–1905. British power began a gradual decline relative to other powers after the early 1870s, and by the early 1890s had lost substantial ground to other states, particularly the U.S., and France. A gradual constriction of foreign commerce at the port took place.

The historical evidence presented by Lawson for Muscat thus may be interpreted as supporting the theory of hegemonic stability, rather than contradicting it. At the height of British world power, an open trading structure was in place at Muscat. As British power in the world waned, Britain began restricting trade at the port, as it set up trade agreements that better served British interests, with much of the previous British competitive advantage now gone.

Lawson's analysis of the ports of Aden and Mocha produced results very similar to those for Muscat. He notes that from 1839 to 1850, there was "substantial restriction" on the commerce of Aden, despite strong British predominance. By contrast, he notes that in the period of 1850 to 1890, restrictions were gradually relaxed, although there were growing challenges to British predominance (Lawson 1983: 327–328). Again, the restrictions were
relaxed when British power was highest, at least in the period from 1850 to 1870. In the case of Mocha, Lawson states that from 1820 to 1830, Britain dominated the port's commercial affairs; sometimes restricting trade and sometimes opening it up. However, he states that from 1845 through 1880, years of renewed Western competition, the port maintained restrictive trade practices.

Lawson concludes that for both Aden and Mocha, as for Muscat, no relationship could be "found between the presence of a hegemonic power and the existence of an open trading structure..." (Lawson 1983: 328). It is true that for Aden, as well as for Muscat, the trading structure was indeed not open when the British presence in the area was strongest, but was generally open when British power in the world was greatest. Therefore, as was the case with Muscat, the trading policies of Aden seem to give support to the theory of hegemonic stability, rather than the contrary as Lawson suggests. By contrast, Lawson's findings for Mocha do indeed seem not to be in accord with the theory. The trading structure was closed at the time when British power in the world was greatest.

Lawson sums up his findings as follows:

First, it does not appear that the presence of a predominant military--economic power is required in order for unrestricted commercial orders to be established or maintained. Free trading arrangements among countries do not seem to demand the existence of a strong actor willing and able to provide the collective goods that mercantilists claim are necessary if such orders are to function effectively. On the
contrary, on the basis of the historical data reported here it seems considerably more likely that open trading structures will emerge under conditions of regional or global competition than that they will be associated with political hegemony (Lawson 1983: 330).

As I have shown through my reinterpretation of the trade information for three Arabian ports, Lawson's assertion that open trading structures seem more likely to be in place where there is not hegemony is not wholly tenable on the basis of these cases. Indeed, the preponderance of evidence seems to run in the other direction; free trading structures were most often in place for the ports when British power in the world was greatest. Nonetheless, this reinterpretation of Lawson's study does not provide sufficient evidence to conclude that hegemonic stability theory is, in fact, correct in its most basic tenant; that free trade structures are most likely (or perhaps only possible) under hegemony. It does, however, provide sufficient evidence to conclude that Lawson's findings are not in themselves a sufficient basis upon which to include that hegemonic stability theory is invalid. The data may be interpreted quite differently from Lawson's interpretation. The evidence is inconclusive. Lawson's work amply demonstrates the difficulties involved in determining through systematic means exactly what the relationship is between hegemonic power and system openness.

In Chapter Three I will discuss some of the basic predictions derived from hegemonic stability as to what affect the erosion of U.S. hegemony is likely to have on the international economy, particularly with regard to market openness.
Also, some of the central aspects of the international trade regime in the post World War II world are discussed.
Chapter Three

In this chapter, I will consider the predictions of advocates of hegemonic stability theory with regard to the structure of the world economic order after the fall of a hegemon. As I have noted above, there are some noteworthy differences among the specific versions of hegemonic stability theory advocated by various theorists. As would be expected given this fact, predictions for the future based upon the utilization of hegemonic stability theory as a predictive tool vary considerably.

This chapter will also present a brief examination of U.S. international economic policy in the post World War II period, particularly with regard to the maintenance of an open international economic order. An understanding of the basic direction of U.S. international economic policy during this period is essential, not only in understanding the nature of American hegemony, but also to making predictions about the future of the international economic order.

Predictions of Hegemonic Stability Theorists for a Post–Hegemonic World

Robert Keohane (Keohane 1984: 9) and Robert Gilpin both point out that hegemonic powers have in each case been the result of a world war.\footnote{Nonetheless, it is not the case that every major international war will result in the emergence of a new hegemon. World War I, for example, did not result in such an emergence. Nonetheless, it is sometimes maintained that the World War I and World War II were actually both part}
example, Great Britain became a hegemon only with the end of the Napoleonic
wars. The U.S. became a hegemon after, and partly as a result of, World War
II. Whether or not the U.S. could have, or would have, become a hegemon had
World War II not occurred is a matter for scholarly debate. Nonetheless, it is
doubtless the case that the U.S. would not have dominated the world political
economy nearly so thoroughly as it did had the war not taken place. Certainly,
the European powers would have remained as much larger and potent powers,
particularly economic powers, during the period running roughly from the end of
the war until the early 1970s, when the U.S. was predominant by a large margin.
This, in turn, would have resulted in the U.S. not having been as readily able to
shape the international economic order according to its own terms.

Robert Gilpin states that

Through history the primary means of resolving
disequilibrium between the structure of the international
system and the redistribution of power has been war,
mores particularly, what we shall call a hegemonic war
(Gilpin 1981: 197).

A hegemonic war is one which drastically alters the relative standings of the
powers in the international political/economic system. Gilpin ultimately concludes
that it is not inevitable that the present world order will eventually disintegrate

of one protracted struggle for system realignment; utilizing this perspective,

it could be argued that these wars together ultimately led to the emergence
of a new hegemon. In this regard, it needs to be noted that World War
I played an important role in strengthening the position of the U.S. vis-
a-vis the large European powers, although the U.S. did not emerge as a
hegemon at the end of the war.
into hegemonic war, although noting that it is certainly a strong possibility. While he does suggest that there are various factors that may serve to stabilize the system over the coming decades, he does not directly address the question of how stability may be maintained in the long-term (Gilpin 1981: 234–244). After making a strong structural argument to demonstrate that hegemonic war has always been the major means of system adjustment, he suggests that this may be avoided, but does not make it at all clear how this might be accomplished.

Keohane argues that while there is some validity to the proposition that hegemony can facilitate a certain type of cooperation, ... there is little reason to believe that hegemony is either a necessary or a sufficient condition for the emergence of cooperative relationships (Keohane 1984: 31).

Indeed, Keohane maintains that a central tenant of hegemonic stability theory is erroneous, arguing that cooperation does not necessarily require the existence of a hegemonic leader after international regimes have been established. Post-hegemonic cooperation is also possible (Keohane 1984: 32).

This assertion represents an interesting twist in the conventional understanding of hegemonic stability theory. The phrase quoted above "...after international regimes have been established" is key in this context. Keohane is here asserting that cooperation can take place without the presence of a hegemon, but nonetheless
maintains that this is the case only if international regimes have already been established. The clear implication is that such regimes may be established only through the leadership of a hegemon. Therefore, in Keohane's version of the theory, a hegemon is necessary for the establishment, but not the maintenance, of cooperation.

Not surprisingly, given his version of hegemonic stability theory as stated above, Keohane believes that there is at least a possibility of continued cooperation in the world today. Despite the fact that the U.S. no longer serves as a hegemon, and despite his realization that no other nation is in a position to fill this role, he believes that the extent regimes may be a sufficient basis upon which cooperation may be continued.²

Of course, it is impossible to fully determine whether this is the case, except in hindsight, given that regimes, such as the extent international trade regime, may continue to work in the short term vis-à-vis the maintenance of stability, but nonetheless gradually break down. It should be remembered in this context that, as I noted in Chapter Two, different regimes certainly may have an affect upon one another; thus, it may well take the maintenance of a number of regimes in order for stability to be maintained in any given issue area, such as the area of international trade.

² For example, with regard to international trade, Keohane maintains that the presently existing international trade regime, incorporating components such as the International Monetary Fund, the World Bank, and the General Agreement on Tariffs and Trade, may provide a sufficient basis upon which cooperation may be maintained. His assumption is that an open international economic policy would be a central result of such cooperation.
Finally, two important points need to be made. First, as we have seen, regimes may be captured by various parties in order to serve aims that are quite different from those that were originally intended. Whether this is good or bad varies, of course, from case to case; generally the question of "good for whom?" must also be asked. For example, the United Nations Educational, Scientific, and Cultural Organization (UNESCO) initially was strongly supported by the U.S. The major powers, particularly the U.S., exercised a considerable degree of control over the policies of this organization. However, in recent years, the large group of non-aligned, less developed states in the United Nations have come to wield substantial influence over the direction of UNESCO policy. This change is viewed very positively by most of the less developed states, but very negatively by most of the more developed states. The Reagan Administration even went so far as to discontinue U.S. support for UNESCO due to its dissatisfaction with UNESCO policies resulting from the influence of less developed countries.

Second, while there may be regime lag due to inertia, such that regimes may outlast the structural conditions of the world political economy under which they were established, regime lag and regime perpetuation are two entirely different matters. The institutions and patterns of behavior established by a hegemon may linger for some time after the fall of a hegemon, but it is not clear how long they may last. Whether or not regimes may last in the long term without the presence of a hegemon remains an open question.

The views of Charles Kindleberger regarding a post-hegemonic world differ considerably from those of Keohane. Kindleberger, by contrast with Keohane, sees little possibility in there being a stable world political economy without one
nation, the hegemon, acting as the stabilizer through the exercise of a "leadership" role. He briefly discusses several other potential bases of economic organization, but ultimately concludes that none of these forms are likely to work properly.

First, Kindleberger considers the possibility of the international system being stabilized through altruism on the part of the states. This, he concludes, is not tenable, principally due to the problem of free riding:

...unfortunately, the temptation to free ride is omnipresent, and when some critical number or proportion of countries yield to it, the production for the public good ceases (Kindleberger 1976: 19).

For example, in the present world, international monetary policy cannot be managed readily, due, in large part, to the extreme volatility of the international currency markets. Kindleberger argues that most countries are not willing to bear any of the costs of changing this situation. He thus concludes that the pressure of self-interest is ultimately too strong for countries, although particularly for poor countries (Kindleberger 1976: 20). As we saw in Chapter One, Kindleberger's western bias is quite strong indeed.

Kindleberger also briefly discusses the possibility of the international system being organized on the basis of "enlightened self-interest," but concludes that this also cannot work, primarily due to states seeking short-term advantage. Again, Kindleberger makes an implicit assumption that all states, including what he calls the poor states, should favor various principles of liberal economics, particularly free trade. Although he does not make the point directly, it is clear that in his view not to do so is act irrationally.
Kindleberger further suggests the possibility of an "international economy managed by rules," but concludes that this form of organization will not work, principally for two reasons. There "may be difficulties: first in agreeing on explicit rules or the content of the implicit rules, and second in their application to particular cases" (Kindleberger 1976: 22). Kindleberger also discusses the possibility of organization through regional blocs, citing, for example, the European Economic Community, but determines that this cannot work, primarily due to the fact that "the regional-bloc notion fails to take account of the world scale of economic issues" (Kindleberger 1976: 31). Kindleberger clearly is correct in this assertion.

Ultimately, Kindleberger determines that "leadership" is the only basis upon which the international political economy may be stabilized. He does suggest that there is an intuitive possibility of a multiple leadership, such as a tripartite leadership in the coming decades consisting of the U.S., West Germany, and Japan. In such an event, these countries would stabilize the system by "uniting their currencies by fixed exchange rates and coordinating monetary policies" (Kindleberger 1976: 36).

Nonetheless, Kindleberger states that this type of leadership is unlikely to work, for two reasons. First, the leader countries may have too much trouble coordinating policy with other powers; he cites France as an example of a power that may well prove difficult in terms of policy co-ordination. In all fairness, such problems could well be encountered with a number of states.

Second, the different members of the tripartite group would be too likely to pursue national interest – private goods, at the expense of public goods. He
therefore concludes that leadership by a single country, i.e. a system of hegemony (such as the system of American hegemony after World War II), is probably necessary in order for a system to be stable. Unfortunately, given this view, it is not at all clear to Kindleberger at what time another state will be both able and willing to serve as the leader. He ultimately concludes

Even if the emergence of a leader is slow, efforts to evolve a system of rules and organizations should not be, though their success is questionable. At the least, perhaps, one can prevent the old order from disintegrating completely, even though one cannot construct a strong new one (Kindleberger 1976: 38).

Stephen Krasner argues that the conditions that kept the system relatively stable in the 1960s cannot be recreated in the 1980s, due to the decline in American power relative to that of other states. He states that the decline of American power has two implications for the world economy. "First, the international order is becoming messier" (Krasner 1982: 30). General norms and rules no longer serve as the basis for many decisions. Instead, behavior is often according to ad hoc calculations of interest. Second, the system is more fragile; it is less able to absorb unexpected shocks. For example, no state now functions as a lender of last resort (Krasner 1982: 30). This function was exercised by the U.S. until the early 1970s. Krasner further notes that even if all of the states in a multipolar world believe it is in their best interest to maintain an open regime, they may still not be willing to pay the costs of maintenance. Particularly when a shock occurs in the system, such as the shock
resulting from the 1973 OPEC oil boycott, states are too likely to work to secure their own short-term interests (Krasner 1982: 30). Nonetheless, Krasner maintains that the system is not necessarily doomed to collapse (Krasner 1982: 31).

U.S. Economic Policy Post World War II

In order to comprehend the current state of the international political economy, it is essential to understand the basic direction of U.S. economic policy after World War II.

The two paramount goals of American international economic policy in the late 1940s and early 1950s were the economic reconstruction of Western Europe and Japan and the formation of an open international economic order premised on liberal economic principles (Rapkin and Avery 1982: 5).

The U.S. set about putting in place the institutions it believed could serve to stabilize the international political economy in a manner in accord with its perceived interests. Of course, the dominant ideology among American decision-makers was such that they maintained that the American world vision was in the best interest not only of the U.S., but in the world at large. The institutions thus established included, most importantly, the International Bank for Reconstruction and Development (the World Bank), and the International Monetary Fund. The IMF was originally designed to help countries overcome short term
balance of payments difficulties. The International Bank for Reconstruction and Development, as its name implies, was originally designed to provide capital to facilitate long term reconstruction and development (specifically in Europe). Ultimately both of these institutions came to serve purposes rather different from their initial missions. The IMF is heavily involved to loans to less developed countries that have financial problems that cannot by any stretch of the imagination be described as being short term balance of payments difficulties. The World Bank never was provided with sufficient funds to provide for the reconstruction and development of post World War II Europe. Highly industrialized countries were major clients of the bank until the mid 1960s (Krasner 1985: 142), but the major clients since that time have been less developed countries. It is clear that even from the first the international economic institutions pushed by the U.S. after the end of the second world war did not work in accord with their designs. Nonetheless, the U.S. had such an overwhelming economic advantage over the war–torn European states that it was still in a position to determine the basic terms under which the international economic order would operate, particularly vis–a–vis the question of openness. The inability of the World Bank to foster the reconstruction of Europe eventually led to the advent of the Marshall Plan.

William Avery and David Rapkin note that the creation and maintenance of an open international economic order, promoting the free movement of goods and capital, itself served to greatly increase interdependence. They conclude that "...the effects of interdependence on the United States have been inversely related to the extent of its dominance of the international economic system (Avery and
Rapkin 1982: 5). It is important to consider that the hegemon establishes a system over which it never has anything close to complete control.

In Chapter One, it is indicated that in order for the system to be maintained, the hegemon ultimately requires the support of additional powers. In particular, the support of strong secondary powers, such as West Germany, France, Great Britain, and Japan, in today's world, is essential. Additionally compliance is needed among a number of smaller states. However, it has already been noted that an order, once established, takes on its own dynamics, many of which may not be in accord with the intentions of the hegemon. Other states, of course, are even less in a position to have the order be even close to a direct reflection of their particular preferences. Thus there is clearly a circular relationship between the states and the order that they form. The collective actions of the states, and particularly those of the hegemon, form and maintain the order. However the order, due to its great complexity, may not be completely controlled, and thus it, in turn, acts back upon the individual states, constraining and partially shaping their behaviors. Additionally, it has already been noted that international regimes may be purposively co-opted for particular purposes that are different from those for which they were initially designed. Certainly, for example, the U.N. General Assembly serves a far different purpose than that which the U.S. and other major powers initially intended, particularly due to the increased influence of less developed countries in that body.

Avery and Rapkin note that

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3 Nonetheless, the major powers are still able to wield considerable control over U.N. policy, particularly effective policy, through the use of Security Council veto powers.
...the United States, as the country with the largest economy, and as the most prosperous and most competitive member of the system, had the greatest stake in long-term stability and order and, hence, also the greatest incentive to invest in and sacrifice for the creation and maintenance of a stable and open international regime (Avery and Rapkin 1982: 9).

After World War II, the United States sometimes undertook policies that sacrificed short term gains in the name of long term stability. It was believed that such a policy would be most advantageous in the long term interests of the U.S., in security and economic terms. The Marshall plan is perhaps the most important policy implemented upon the basis of this reasoning. Another example is American acceptance of the protectionist stance of Japan, at a time when the U.S. was the world’s major advocate of free trade. It was understood that Japan would be unable to develop without its domestic market being protected against the importation of more efficiently produced goods from the U.S. and Europe. Therefore, the short term profit interests were subordinated to long term factors.

It is clear that American policymakers are now less willing to sacrifice short term interests. U.S. economic policy is now oriented much more strongly toward matters related to short term, primarily domestic interests, than was the case in the 1950s and 1960s. For example, almost all major decisions regarding American fiscal policy are now made on the basis of domestic considerations; this is quite different from the situation when the U.S. was serving as a lender of last resort in the preceding decades.
As the U.S. has lost economic ground relative to other core states, particularly in terms of the balance of trade and aggregate size of the economy, the U.S. has gradually moved to a stance where it often violates its previously held principles of a liberal economic order, particularly with regard to trade policy. Specifically, tariffs have been enacted against the importation of a number of goods that threaten domestic firms. Additionally, the use of import quotas is becoming more commonplace.

It is important to realize that the systemic factors that lead to the decline of hegemonic states are largely resultant from the policies of the hegemonic states themselves. In particular, the hegemon undertakes policies which serve to diffuse its production technologies throughout the system. This in turn serves to erode the dominant economic position of the hegemon. Ironically, in this manner the open international order created by the hegemon serves as an instrument of its demise. Further, for both Great Britain in the nineteenth century, and the United States in the twentieth century, the failure to invest sufficiently in physical plant modernization played a major role in the erosion of hegemony.

**Direct Foreign Investment**

Direct foreign investment has figured prominently in the economic strategy of the United States since World War II. The U.S. has increasingly relied upon direct foreign investment for purposes of meeting foreign competition, earning foreign exchange, and solving domestic economic problems (Gilpin 1975: 8). The use of direct foreign investment has major implications, both for the maintenance
of hegemony, and for the degree to which international trade is likely to increase or decrease.

As Robert Gilpin notes, an essential question which must be asked is whether the U.S. is repeating a major error made by other, once great economic powers, such as The Netherlands in the seventeenth century and Great Britain in the nineteenth, "...of overinvesting abroad to the detriment of the home economy?" (Gilpin 1975: 8). As I will discuss below, the large-scale use of direct foreign investment by U.S. - headquartered firms after World War II represents a major difference from the British investment pattern during the period of British hegemony. This is significant, because it means that there is a substantial difference in this context between the organization of the international political economy of the late nineteenth and early twentieth centuries, the last period before the present witnessing the fall of a hegemon, and the present international political economy. As I discuss in Chapter Five, this may be an important factor in determining the prospects for the decline or continuation of an open international order.

International investments made by corporations based in other countries take two major forms: portfolio investments and direct foreign investment. Portfolio investments are investments in which the investing firm makes equity investments in other firms, where the amount of the investment is not sufficient to give the investing firm a controlling interest, or makes various types of loans to foreign firms. In each case, control over the firms receiving the investment or loan remains with those firms. In the case of direct foreign investment, the investing firm either begins a new subsidiary in a foreign market, with the parent
firm holding controlling interest, or purchases controlling interest in a firm that is already in existence. Of key importance here is the question of control; with direct foreign investment, control is held by the parent company. Therefore, the ability of the governments of the host countries to regulate those firms is much more limited than would be the case if controlling interest were held within the host country. For example, it is quite difficult for the government of a host country to exercise sufficient control over repatriation of profits. In general, regulation of multinational corporation subsidiaries in peripheral countries is made difficult due to the fact that there is often an implicit (and sometimes explicit) threat that the company will relocate if it does not get its way. This threat may carry substantial weight in countries that are actively engaged in seeking foreign investment. Obviously, there are specific types of cases where this threat is not particularly strong; situations where there are certain national endowments that make corporate operation in a country particularly desirable (such as specific natural resources), or an unusually strong internal market.

Although Great Britain did make some direct investments in the nineteenth century, the majority of its investments were in the form of portfolio investments and loans. The large international banks based in London were at the center of the greatest portion of British investments. In general, direct foreign investment was much less common in the nineteenth century than has been the case in this century, particularly since the end of World War II. The growth of direct foreign investment has been strongly tied to the development of technology. Direct foreign investment became practical for many concerns only with the advent of rapid transportation and communications, making it possible for a firm
headquartered in a given country to coordinate even the day-to-day operations of subsidiaries around the world.

Gilpin notes that by the early 1970s, direct foreign investment accounted for more international economic exchange for the U.S. than did exports (Gilpin 1975: 17). In 1969, the foreign subsidiaries or U.S. based multinational corporations produced approximately $140 billion worth of goods, more than the entire production of goods of any other country except the U.S. and the Soviet Union (Gilpin 1975: 18).

While it is true that direct foreign investment has become an increasingly common form of investment for core countries in general, until quite recently it has particularly been favored by U.S.-based firms. Portfolio investments continue to represent a larger portion of overall foreign investment for corporations based outside of the U.S, than is the case for U.S. based corporations. Nonetheless, this probably will not be the case in the near future, as many foreign concerns are engaging in increasingly high levels of foreign direct investment. Indeed, a number of European firms, particularly ones headquartered in Great Britain, West Germany, and France, and Japanese firms, are now regularly making large-scale direct foreign investments in the United States. The increasing use direct foreign investment by corporations based outside the U.S. is certainly one of the most significant global economic trends of the past decade. Perhaps most importantly, the global increase in the use of direct foreign investment has acted as a major catalyst in increasing global interconnectedness.

It is important to note that the largest portion of direct foreign investment is in the form of investments by one highly developed state in another highly
developed state. Obviously, this type of direct foreign investment is generally undertaken for different reasons than is the case for core investment in peripheral countries. Labor costs in all core countries are high, so investment will generally not be for this purpose. Japan, for example, now receives little investment due to labor advantages, with it now being a full core member, whereas such investment was common there twenty years ago. Instead, the major purpose is to manufacture goods, or provide services for the well-developed internal markets of the countries themselves, or to given regions. Corporate subsidiaries are considered as being domestic enterprises in the countries in which they are located. Therefore, goods produced by those subsidiaries are not subject to tariffs in the host country. The advantages accrued by a corporation by locating in a particular area may be particularly strong where there are tariff exemptions that extend beyond one given country. For example, there is a major advantage in many U.S. corporations establishing at least one manufacturing facility in Europe. Goods produced within the European Economic Community nations may be moved from member to member without being subject to the higher tariffs to which they would be subjected were they coming from outside. The result of this is that the location of a plant in any member nation provides access to a huge market with reduced barriers. This is one of the chief benefits to core countries of the maintenance of a free trade regime.

Direct foreign investment in peripheral countries represents roughly one-third of all foreign direct investment. It is important to recognize that in most cases, direct foreign investment represents a substantially larger portion of aggregate economic activity for peripheral countries than is the case for core countries.
Also, we have already noted that it is generally particularly difficult for the governments of peripheral countries to regulate multinational corporation subsidiaries. In some cases the multinational corporation, taken as a whole, has greater annual revenue than the entire gross national product of the country in which it has a subsidiary. For all of these reasons, multinational corporations may often wield substantially more control over peripheral countries than is the case with regard to less developed countries. This is a major point of contention for a number of less developed countries.

Industrial Decline

It is important to consider the question of why a hegemon eventually loses many of the advantages that are central to hegemonic ascendance. I have already noted that some decline of the U.S. economic position relative to that of other powers was virtually inevitable in the past few years, given the result of the European economies gradually recovering after World War II. Nonetheless, both Great Britain in the nineteenth century, and the United States in the twentieth century, made decisions (or did not act at all) that had extremely negative ramifications for their economies, and that served to hasten their relative decline.

Initially, a hegemonic power has a huge lead as a result of its technological advantages. However, in time, other core states are able to develop more advanced physical plants and infrastructures. In many cases they are able to do so utilizing technology diffused from the hegemon as the base. The steel industry provides one of many excellent examples. After World War II, the U.S. steel
industry, with its more efficient production, rapidly outstripped the performance of the British steel industry. The British plants were considerably older and less advanced than their American counterparts. Therefore, it was easy for U.S. firms to sell steel below the cost of British firms. It has often been remarked that Britain was extremely unfortunate not to have had more steel plants destroyed during World War II; this would have necessitated the building of new plants, which would doubtless have taken advantage of technological advances. By contrast, the Japanese steel capacity was largely destroyed in the war. As a result, it gradually rebuilt the industry utilizing technological advancements. This is a clear case where the diffusion of technology from the hegemon ultimately led to the relative decline of one of the hegemon's industries.

A central problem for the most highly developed states is that the amount of fixed capital is so high that there is substantial resistance to mass replacement. Business interests, particularly in the U.S., have a strong tendency to base decisions upon a short, rather than a long, term calculus. Under such a calculus, diversification tends to be favored over plant modernization. This has been one of the major causes of the U.S. losing ground to other countries in the exportation of goods. Nevertheless, this problem is present to at least some degree in all countries; it merely has been more severe in some countries than in others. This factor probably has not served to reduce the overall level of international trade, since one country's loses tend to be balanced by other country's gains.

The General Agreement on Tariffs and Trade and the Tokyo Round
Before proceeding to a test of hegemonic stability theory, the general direction of recent international trade policy needs to be addressed. In particular, what is the likely result of recent international trade policy in terms of market openness? I will begin with a brief discussion of The General Agreement on Tariffs and Trade (GATT), which is the most important coordinator of international trade policy.

The General Agreement on Tariffs and Trade was one of the cornerstones upon which the post World War II international economic order was built. GATT, as originally drafted in 1946 was primarily an attempt to lower tariffs. This was a response to the high tariffs that were enacted in the 1930s (de C. Grey 1982: 7). In general, tariffs were successfully lowered in accordance with GATT provisions. Nevertheless, GATT has not worked completely in the manner originally intended. The drafters of GATT apparently did not recognize the extent to which lowered tariffs would be replaced by other mechanisms designed to limit competition from foreign goods. The increasing emphasis of the U.S. upon "fair trade," beginning especially in the early 1970s, was aimed at such limitations. The anti–dumping provisions of the Trade Act of 1974 provides a direct example of the implementation of policy on the basis of a "fair trade" doctrine (de C. Grey 1982: 7).

The Tokyo round of multilateral trade negotiations, held in 1973, with nearly one hundred nations participating, had an important impact upon policies regarding international trade policy. At the meetings, a declaration calling for renewed efforts to remove impediments to international trade was approved. The declaration asserted that the participating nations would work to secure "the
expansion and ever-greater liberalization of world trade." This was to be accomplished through tariff reductions and through weakening other policies that served to give unjustified protection to domestic producers (Quinn and Slayton 1982: XV).

The Tokyo Round declaration is heavily based upon a system of contingency protection. For example, under the Tokyo Round Code on Subsidies and Countervailing duties, there are two provisions presented to enable governments to deal with subsidies of other governments. The first states that a country may offset subsidies on foreign goods through the use of countervailing duties. The second enables country's to file complaints with the code's Committee of Signatories in order either to have the subsidy changed, or to give a right to take retaliatory measures against its negative effects (Barcelo III: 121). The fact that the country's participating in the Tokyo negotiations found these provisions to be necessary is in itself a tacit admission that there have been major breaks the free trade regime.

GATT tariff Reductions apply principally to manufactured goods. Many agricultural goods are either not covered, or at least are not covered fully. This has been and remains a major point of contention between the wealthy countries of the North and the poor Southern countries (Rangarajan 1984: 137, 138). The trade preferences of poor countries often run exactly opposite to those of the wealthy countries in this regard; they wish to have there be more protections against manufactured goods, but less against primary commodities, as their exports tend to be principally primary commodities. Import duties in the rich countries
are usually zero for unprocessed material, but increase sharply in accordance with the degree to which the material is processed (Rangarajan 1984: 141).

Non-Tariff Barriers

The principles of GATT continue are being undermined more and more by the use of various non-tariff mechanisms, or barriers. A non-tariff barrier may be defined as

any measure (public or private) that causes internationally traded goods and services, or resources devoted to the production of these goods and services, to be allocated in such a way as to reduce potential real world income. Potential real world income is that level attainable if resources and outputs are allocated in an economically efficient manner (Baldwin 1970: 5).

In recent years, GATT principles have particularly been undermined by the increasing use of various "voluntary restraints" or quotas. A good example of such a "voluntary restraint" is Japan's so-called voluntary restraint on the export of cars to the U.S.; a result of strong American pressure. This runs directly counter to GATT provisions which disallow any quotas on imports from specific countries. It would appear that, taken together, the increased use of non-tariff barriers would serve to decrease international trade.
The steel industry provides a good example of an industry which has increasingly been subjected to non-tariff import controls by the U.S. in late 1983, the U.S. steel concerns persuaded the Reagan administration to impose an import ceiling of 20 percent of the 100 million ton market for approximately twenty varieties of steel. At that time, imported steel accounted for roughly twenty-seven percent of the metal sold in the U.S. The U.S. then proceeded to get twenty-nine exporters to accept quotas roughly proportionate to their recent share of total U.S. sales, by threatening to file various anti-dumping and anti-subsidy suits. Such "voluntary restraint agreements" (VRAs) now cover semiconductors, automobiles, textiles, machine tools, clothing, and sugar, in addition to steel (Peter Passell 1988).

In conclusion, there is a trend in international trade policy that is not in accordance with a liberal international economic order. According to hegemonic stability theory, this is the direct consequence of the decline of the hegemon, in the present case, the U.S. Taken together, VRAs and other non-tariff mechanisms should serve to depress the level of international trade, or, at the very least, should depress the level of increase of international trade. Whether or not mechanisms that have been put in place are, in fact, sufficient to cause trade levels to decline in absolute terms will be addressed in Chapter Five.

In the following chapter, I will first discuss some of the problems involved in testing the central premise of hegemonic stability theory, that the decline of hegemony leads to a decline in system openness. I will then present a statistical test of this premise.
Before undertaking an examination of the international economic system, it is essential to determine what does, and what does not, constitute this system. Specifically, is all international commerce regarded as taking place within a single system? With this regard, most political economists draw a sharp distinction between a capitalist trading system, and a trading system of states with command-based, or centralized economies. The communist states comprise the states in this latter category. There is a reasonable justification for this distinction, at least vis-a-vis certain issue areas. Communist states have generally followed a strategy of removing themselves from the international trading system (aside from trade among themselves, particularly in the form of trade among CMEA members). What trade does take place with other states represents a comparatively small portion of the aggregate economic activity of the communist states. This situation continues to the present, although some states, such as Hungary, are gradually beginning to become more highly integrated into the capitalist international trading system, with more trade taking place. Nonetheless,

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1 This is the only distinction that political economists generally draw between countries in terms of global trading systems. Reference is sometimes made to specific bloc trading systems, such as the European Economic Community or the Council for Mutual Economic Assistance, but these are each, in turn, grouped into the larger capitalist or non-capitalist systems.
the effect of these states on the trading policy of the major core states remains relatively minor.

It must further be remembered that Hegemonic Stability Theory is particularly concerned with the matter of market openness. The purpose of market openness is to facilitate trade operating on the basis of a "free market" structure. This is entirely different from the basis upon which trade decisions are made in states with command-based economies. Most of the trade decisions in these states are made on the basis of long-term planning and are executed by governmental agreements. Therefore, the communist states are not included in the statistical analysis that is presented in this chapter.

The Determination of System Openness

Trade controls including, but not limited to, tariffs, and the question as to how much impact these trade controls actually have on international trade, are of paramount importance to hegemonic stability theory. Indeed, the central premise of hegemonic stability theory is that openness will increase with the ascendence of a hegemon, and will decrease with the decline of a hegemon. In this chapter, I present an operationalization of hegemony. Next I present a measure to determine the degree to which the level of hegemony affects the levels of international trade for industrialized countries. In order to proceed, it is necessary to establish exactly what constitutes market openness on a functional level.

On a historical basis, "openness" is used to describe a period when tariffs are substantially lowered. It is assumed that, all things being equal, lowered
tariffs will result in increased trade. However, as Stephen Krasner has noted, tariffs alone are not a good indicator of structure (Krasner: 1976: 324). Other factors are also important. Various non–tariff barriers to trade can substitute for duties. For example, product quotas serve as impediments to trade. Also, an undervalued exchange rate may serve to make imports too expensive and therefore work as a protective mechanism for the domestic market.

Even if one is able to determine the specific level of tariffs does not by itself allow one to determine the degree to which trade will be facilitated or impeded. Tariffs do not have to be high in all cases in order to be effective. Where factor costs are similar, even an extremely low tariff may be a major impediment to trade. On the other hand, where factor costs are greatly dissimilar, even a tariff well of 100% may have little affect. This is discussed more fully in Chapter Five. Raymond Vernon has argued that tariffs, more than ever, are now a poor indicator of trade:

With the tariffs reduced to tolerable levels, the ascendant problems in the 1970s included the proliferation of public subsidies in all their obvious and subtle forms: governments' demands on selected enterprises (usually foreign owned) in their territories that the enterprises should limit their imports and increase their exports, the procurement practices of state entities, and the unilateral application of quotas by importing countries (Vernon 1982: 482).
Further, it should be noted that there are no reliable sources that systematically report tariff data over a significant period of time. The same is true with regard to product subsidies and quotas. Therefore, the use of tariffs or subsidies as the basis for a measure of system openness would not be tenable.

Krasner suggests that because of the problems outlined above, a behavioral measure might be a better indicator of openness. He advocates the use of trade proportions for this measure: the ratios of trade to national income for different states. The world economy may be said to be increasingly open when these ratios are increasing across time for most states (Krasner 1976: 324). This measure has an important advantage over other potential measures. Even were accurate systematic data on tariffs, trade subsidies, quotas, etc. available, this data would not of itself be sufficient to provide a basis for the determination of whether the international trading system is structured in a manner that facilitates international trade. The important question is whether the degree to which openness is maintained is sufficient for international trade levels to increase, or, at the very least, not to decrease.

Despite the substantial scholarly attention devoted to the theory of hegemonic stability, little has been done to date in terms of systematically testing it. Most of the work to present has instead focused upon theoretical discussions of the workings of the world political economy under hegemonic control (see Gilpin 1981; Keohane 1980, 1984). Even Stephen Krasner, who has suggested the use of specific behavioral measures in the analysis of hegemonic stability, has not undertaken a systematic statistical test of the theory.
It is entirely possible that the relationship among the factors theoretically associated with openness, and system openness itself, will be found not to be statistically significant. This in itself would be an important finding, as it would indicate that hegemonic stability theory is incorrect in its most basic premise. At the very least, it would provide empirical evidence that, even if the premise is correct, the lag time is quite considerable.

Due to the fact that hegemonic stability theory is most concerned with preponderance of economic power, the inclusion criteria for states to be examined in this analysis are based upon two important economic factors: per capita GNP and aggregate GNP (with the exception that states with centrally planned economies have been omitted from the analysis). The countries used were those with the highest average per capita GNPs throughout the years included in the analysis, with the following exceptions:

1. Very small states with high GNPs, such as Luxembourg and Lichtenstein, were omitted, as their overall effect on the world political economy is small.
2. States that are not highly industrialized that have high per capita GNPs due to the sale of a single commodity (specifically oil), such as Saudi Arabia, were omitted. The larger population states included in this analysis also have the largest aggregate GNPs of all countries. Additionally, all of the smaller population states that are included are among the largest states in terms of aggregate GNP (though behind the large population states in the analysis) due to their large per capita GNPs. Nonetheless, there are a few states that are not included due to their lower per capita GNPs, that do have larger aggregate GNPs than the smaller
states that are included. Specifically, smaller states that are included are Norway, Denmark, Sweden, Finland, Switzerland, Belgium, Australia, and Austria.

Spain is an example of a state with a relatively large aggregate GNP, that was not included due to its relatively low per capita GNP. Italy must also be noted in this context, as it presents a special case. During the years included in the analysis, Italy, although classified as a highly industrialized country, had a decidedly smaller per capita GNP than the other states that were included. Nonetheless, its per capita GNP was decidedly larger than that of any of the other states that were not included (excluding the very small states such as Lichtenstein that were omitted). It was decided not to include Italy, due to the large difference in per capita GNP level. Indeed, this difference remains currently, with Italy's per capita GNP currently being approximately three thousand dollars lower than that of any of the states that are included.

In addition to the United States, the following countries are included in the analysis (each country is followed by a listing of its national currency): Australia (dollar), Austria (Schilling), Belgium (Franc), Canada (Dollar), Denmark (Kroner), Finland (Markkaa), France (Franc), Great Britain (Pound), Japan (Yen), The Netherlands (Guilder), Norway (Kroner), Sweden (Kronor), Switzerland (Franc), and West Germany (Mark).

Data and Operationalizations

The data source for this analysis is the International Financial Statistics Yearbook, published by the International Monetary Fund. This is generally
considered to be one of the most accurate sources for general international financial statistics, including trade statistics. Indeed, the collection of such data is one of the central functions of the IMF. The years for which data are included are 1957 through 1983. These are the dates for which continuous data are available in the 1985 edition of the International Financial Statistics Yearbook. In the 1988 edition, 1983 is still the last date for which all of the data are available for all of the countries included in this analysis (the 1983 edition is used here because it includes continuous data for dates beginning three years earlier than the 1988 edition). This span of time is excellently suited for a test of hegemonic stability theory. In 1957 the U.S. was firmly in place as the hegemonic power. By the early 1970s, the U.S. had lost its position as hegemon; thus, by 1983, at least ten years had elapsed with the U.S. no longer being in the role of the hegemon. Further, the U.S. loss of position had continued during this period.

It is important that the levels of trade be calculated as a proportion of national income for each state, because without the inclusion of aggregate economic activity, highly spurious results might ensue. For example, a severe drop in trade for a given state in a given year may be interpreted as indicating that there is increased restriction of trade. However, the drop in trade may be due to a different factor, such as a national recession resulting in a general decrease in the

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2 There is not complete agreement among scholars as to exactly when U.S. hegemony ended; this is not at all surprising, as hegemony lies on a continuum, rather than having absolute thresholds. Nonetheless, most scholars agree that the period of clear U.S. hegemony ended in the early 1970s. Many scholars pinpoint 1971 as the specific year, citing the collapse of the Bretton Woods monetary accord as the breaking point.
level of economic activity, including trade. Therefore, ratios of trade to national income are an excellent measure for the present purposes. They offer the advantage of allowing the international trade states to be examined, while controlling for the effects of short-term domestic factors. This will constitute the dependent variable.

The independent variable will be the distribution of potential economic power among the core states. Three state attributes will be used as a measure of state power. These are aggregate economic size, per capita Gross National Product, and relative share of core states' trade. Aggregate economic size must be included, as it is one of the major determinants of the extent to which a state may influence the world political economy. It is important to note in this context that some of the most highly developed states, such as Switzerland, are rather small in terms of aggregate economic size, particularly in relation to the larger core powers. Per capita income is extremely important, because it is generally considered to be the best single measure of the level of economic development of a state (certain oil producing nations that currently have high levels of per capita GNP are an exception to this, but this is a rare anomaly historically). Share of core states' trade is a crucial factor, as the rise or fall of the hegemon's share is a major determinant of how the hegemon will act with vis-à-vis trade policy, particularly with regard to matters of system openness or restrictedness. The three independent variables are used separately, with one equation for each variable, as they are all three more highly correlated with one another than with the dependent variable; thus there is a major multicollinearity problem combining the three in a single equation.
Although no measure of military power will be included in the statistical analysis, it needs to be remembered that the U.S. remained by far the predominant Western military power throughout the years under consideration. This predominance of military power is held to be a necessary, though not solely sufficient for hegemony to be maintained.

In each case, the economic power attribute will be expressed as a ratio of the American value to the next highest (or highest, where applicable), expressed as a percentage. The American value will be used as the baseline here, because it is with the economic power of the U.S. (the hegemon) relative to that of the other major core powers with which we are concerned for the period following World War II. However, in a few cases, the U.S. value will not be the highest. In later years included in the analysis, the U.S. did not have the highest per capita income of the industrialized nations. This itself is one major indication of the decline of hegemony.

In the *International Financial Statistics Yearbook* many of the statistics are given only in national currency units for each country; only select statistics are presented in U.S. dollars. For example, gross national product figures for each country are given in the respective national currency units. Indeed, there is currently no data source which systematically reports GNP for all of the core countries in time series in U.S. dollars. Obviously, it is necessary to work with figures that are all based upon a single monetary standard. Since various figures for the U.S. are used in all parts of the present analysis due to the U.S. role as the hegemon, it was most practical to convert all figures to U.S. dollars. Of course, the rates of currency conversion vary over time. Indeed, they may change
from day to day. Needless to say, it is not practical to use a different conversion factor for each day. Indeed, even international agencies such as the World Bank and International Monetary Fund do not find this to be a practical approach. The International Monetary Fund provides average rates of exchange for each year. Therefore, in the analysis, a different conversion rate was used for each country, for each year that is included.

For all of the countries included in the analysis other than Australia and Great Britain, the International Financial Statistics Yearbook supplies figures in period averages (by year) of exchange rates in units of national currency per U.S. dollar. For Australia and Great Britain, figures are given in period averages of exchange rates in U.S. dollars per unit of national currency (IMF 1985: 6). For this analysis, the figures for Australia and Great Britain were converted to the former expression: period averages of exchange rates in units of national currency per U.S. dollar, in order to facilitate the conversion of all national currency units to U.S. dollars.

One important operational question that has to be addressed was the question as to whether the data should be in the form of inflated or deflated dollars. If comparisons are to be made from year to year in terms of whether absolute values of a given factor, such as absolute trade levels, are increasing or decreasing, deflated dollars are been a necessity. However, for the present analysis, the use of deflated dollars is not only unnecessary, but actually presents a disadvantage. The concern in this analysis is with changes over time in terms of the relationship of hegemonic power to the level of trade. Thus for each year, the power of the hegemon is being compared with international trade. One year
is compared with another only in terms of the ratios described above, not in absolute terms. The key here is that both sides of the regression equations have to be treated the same. So long as this is the case, the ratios thus derived should theoretically be the same whether the dollars are inflated or deflated. The only difference is that there may be a small amount of additional error introduced by the use of deflators if deflated dollars are utilized. Thus deflated dollars are not used in the time series analyses.

It is important to emphasize that the focus of this research lies with the international political economy taken as a whole, rather than with the individual states comprising the system. To the extent that we are interested in the individual states, it is on a comparative basis, especially in terms of their relative levels of economic power; specifically, the power of the hegemon relative to that of the other core states. The focus is thus on the system as a whole. Obviously, the question arises as to whether our inquiry actually addresses the system as a whole given that the dependent variables in the statistical tests are individual states.

This may addressed with two specific points. First, by examining a number of individual states relative to one another, we are able to determine much about the constitution of the system as a whole at a given time. Looking at one state alone would tell us little about the international system, but looking at a number of states can reveal much. In this context, Charles Ragin points out that in comparative social science, a distinction must be drawn between observational units and explanatory units. In the present analysis, the larger system is the explanatory
unit, but individual states may nonetheless be used as data units (Ragin 1987: 8).

Second, our primary interest lies with shifts in the structure of the system over time. If we make certain determinations about the system for a number of years, we may compare the characteristics of the system over time (Chase–Dunn 1979: 611). For our purposes, for example, we may determine how the overall ratios of trade to national income vary among system members (core members within the context of the present analysis) over time.

Time is an essential component of hegemonic stability theory. One dependent variable, system openness (expressed as the ratio of trade to national income) is examined over a period of time. The present study thus takes the form of a diachronic, or longitudinal study. Time-series analysis is a statistical technique which allows us to analyze the international system with points of time as the units of comparison (Hibbs 1974). The years that are included represent the basic system comparison points. Time series analysis thus allows for the comparison of the system with itself over a period of time.

The best technique for calculating a precise linear trend is least-squares regression. Following is the regression formula used in this analysis:

\[ Y_t = a + bX_t + e_t \]

where:

- \( Y_t \) = the ratio of trade to national income
- \( a \) = a constant term
\( X_t = \) the measure of U.S. power (Trade Ratio, Per Capita Ratio, and Aggregate Ratio; each used separately in one equation)

\( e_t = \) a random disturbance term

**Findings**

To simplify the presentation, I have given shortened names to each of the independent variables. The ratios of the trade level of the state with the highest level of trade, to that of the state with the second highest level of trade, are called "Trade Ratios." The ratios of the per capita GNP of the state with the highest GNP, to that of the GNP of the state with the second highest GNP, are called "Per Capita Ratios." The ratios of the aggregate GNP of the state with the highest aggregate GNP to that of the GNP of the state with the second highest GNP are called "Aggregate Ratio."

First the relationship between Trade Ratio and the ratios of trade to national income for each country included in the study will be examined. The ratio of trade to national income for each country was regressed on Trade Ratio. The U.S. accounted for the greatest level of international trade throughout the years included; the United Kingdom was next highest from 1958 through 1961, and Germany was the next highest for all remaining years (see Appendix One). For all but four of the countries, Japan, Australia, The Netherlands, and Denmark, there is a strong statistically significant (throughout this analysis, significance signifies \( p \leq .05 \)) negative relationship between Trade Ratio and the ratios of trade to national income. The R squares range from a high of .49763 for France,
to a low of .24967 for Germany. For the remaining four countries, there is not a statistically significant relationship between Trade Ratio and the ratios of trade to national income. Throughout the time span for which data are included, the ratio of the level of U.S. trade to that of the country with the next highest trade level decreased. According to the theory of hegemonic stability, this should result in lowered ratios of trade to national income. Exactly the opposite is the case. In general, the ratios of trade to national income increased in absolute terms throughout the time period under consideration. This runs directly counter to the theory of hegemonic stability.

TABLE ONE HERE

Next the relationship between Per Capita Ratio and the ratios of trade to national income for each country will be examined. The ratio of trade to national income for each country was regressed on Per Capita Ratio. For this

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3 The R Squares are reported for comparative purposes only.
Table One

Trade Ratio

<table>
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<th>Country</th>
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<th>Beta</th>
<th>Significance</th>
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<td>.0027</td>
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<td>.47629</td>
<td>-.69013</td>
<td>.0001</td>
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<td>.2545</td>
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<td>Finland</td>
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<td>France</td>
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<tr>
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</table>

\[ Y_t = a + bX_t + e_t \]

where:

- \( Y_t \) = the ratio of trade to national income
- \( a \) = a constant term
- \( X_t \) = the measure of the ratio of U.S. trade to that of the next highest
- \( e_t \) = a random disturbance term
variable, the U.S. did not have the highest value throughout the period as was the case for Trade Ratio, having lost ground during the time period under consideration. From 1958 through 1961, the U.S. had the highest per capita income, followed by Canada. From 1962 through 1972, the U.S. had the highest per capita income, followed by Sweden. In 1973 and 1974, Switzerland had the highest level, followed by Sweden. From 1975 through 1977, Sweden was highest, followed by Switzerland. From 1978 through 1980, Switzerland was highest, followed by Sweden. In 1981, Switzerland remained highest, but Norway was in second place. In 1982 and 1983, Switzerland was highest, followed by the U.S. (See Appendix Two).

For all but one of the countries included in the analysis, with the exception of Denmark, there is a strong statistically significant relationship between Per Capita Ratio and the ratios of trade to national income. The R squares vary from a high of .49031 for Norway to a low of .18454 for Australia. For Denmark, there is not a statistically significant relationship between Per Capita Ratio and the ratio of trade to national income.

The U.S. level of per capita income, decreased in general relative to that of the other countries throughout the period (despite a slight increase in 1982 and 1983). Yet, as is mentioned above, the ratios of trade to national income increased in general throughout the period. The negative relationship between Per Capita Ratio and the ratios of trade to national income runs directly counter to the theory of hegemonic stability.
Table Two

Per Capita Ratio

<table>
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<th>Country</th>
<th>$R^2$</th>
<th>Beta</th>
<th>Significance</th>
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<tr>
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<td>.0043</td>
</tr>
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<td>.0001</td>
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<td>.0009</td>
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<td>.0078</td>
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<tr>
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<td>.0002</td>
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<tr>
<td>United States</td>
<td>.39487</td>
<td>-.62839</td>
<td>.0006</td>
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</table>

$Y_t = a + bX_t + \epsilon_t$

where:

$Y_t =$ the ratio of trade to national income

a = a constant term

$X_t =$ the ratio of U.S. per capita GNP to that of the next highest

$\epsilon_t =$ a random disturbance term
Next the relationship between Aggregate Ratio and the ratios of trade to national income for each country will be examined. For each country, the ratio of trade to national income was regressed on Aggregate Ratio. From 1958 through 1960, the United Kingdom had the second highest level of aggregate income of all of the countries included in the analysis. From 1961 through 1966, Germany had the second highest level. From 1967 through 1983 (and up to the present time) Japan was in second place. Additionally, it should be noted that Japan continued to narrow the gap with the U.S. throughout this period, as it still is doing (see Appendix Three).

There is a strong statistically significant negative relationship between Aggregate Ratio and the ratios of trade to national income for all of the countries except Australia and Denmark. For the latter two countries, there is not a statistically significant relationship between Aggregate Ratio and the ratios of trade to national income. For all of the other countries, the findings again run directly counter to the theory of hegemonic stability. The R Squares vary from a high of .89101 for Canada, to a low of .44194 for Japan. As U.S. power measured in terms of its level of aggregate income relative to that of other industrial countries decreased, the ratios of trade to national income increased for these countries.
Table Three

Aggregate Ratio

<table>
<thead>
<tr>
<th>Country</th>
<th>$R^2$</th>
<th>Beta</th>
<th>Significance</th>
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<tr>
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<tr>
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<tr>
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<td>-.92989</td>
<td>.0000</td>
</tr>
</tbody>
</table>

$Y_t = a + bX_t + e_t$

where:

$Y_t = \text{the ratio of trade to national income}$

$a = \text{a constant term}$

$X_t = \text{the ratio of U.S. GNP to that of the next highest}$

$e_t = \text{the random disturbance term}$
Altogether, the results seem to provide substantial evidence that runs counter to hegemonic stability theory. As U.S. power, particularly economic power, declined, international trade levels continued to increase; this is exactly the opposite of what would be predicted on the basis of hegemonic stability theory. This is the case not only in terms of hegemonic stability theory in general, but also vis-à-vis Robert Keohane's version of the theory which focuses upon individual regimes. Even when limiting the focus to international trade specifically (as is done in the regression utilizing Trade Ratio), the results run counter to what would be expected utilizing hegemonic stability theory as the basis for analysis. Analysis of a sample of countries for which data are available through 1987 revealed no basic changes in these findings.

The final chapter presents a discussion of these findings. The question of their validity is examined. Finally, the implications of the findings for the international economic order of the coming decades will be discussed.
In this chapter, the findings derived from the statistical test of hegemony that is set forth in Chapter Four will be discussed. First, the question as to whether the findings are valid will be examined. Second, a brief section on prospects for the United States over the coming several decades, in terms of its position in the international political economy, is presented. This is of central importance to the international political economy and the question of market openness as a whole, since the United States is still the largest economic player in the world, despite the relative decline that has taken place. Finally, the manner in which current macro political/economic trends are likely to affect the question of market openness and system stability over the coming several decades is examined.

Validity of Findings

The finding that ratios of trade to national income increased for the industrialized countries, as American economic power declined, suggests four distinct possibilities. The first is that the measurement devices utilized in this analysis do not accurately measure that which they were intended to measure. The second is that currency exchange rates are skewing the data in a particular direction that obscures the picture of what actually is happening in the
international political economy. The third possibility is that hegemonic stability theory is, in fact, largely valid, but that the period of time required for the decline of a hegemon to lead to a decline in international trade is much greater than the forty plus years since the end of World War II, when the U.S. first emerged as the hegemonic power. The fourth possibility is that hegemonic stability theory simply is invalid; that it is incorrect even in its most basic premise.

Measurement Suitability

It is, of course, always possible that the measurement devices employed in an analysis do not measure the intended target, or at least that they do not do so accurately. Although this possibility can rarely be completely discounted, I will argue that it is highly unlikely that the findings in the present study are due either to unsuitability of the devices employed, or due to measurement error.

All three of the independent variables that were utilized, the level of the hegemon's trade relative to that of the next highest, the level of the hegemon's Gross National Product relative to that of the next highest, and the hegemon's level of per capita income relative to that of the next highest, are considered to be primary measures of hegemonic power within the context of hegemonic stability theory. Indeed, all three of these variables are widely used in general as measures of the economic strength of states. For this study all of these figures were taken from the International Financial Statistics Yearbook, published by the International Monetary Fund, which is generally considered to be the most reliable source for such figures. Although no figures of the sort employed here are
perfect, it is highly unlikely that any errors present in these data are of sufficient magnitude to lead to incorrect results.

The central tenant of hegemonic stability theory holds that international trade will decline as a percentage of aggregate economic activity, as the hegemon loses its position. In fact, some versions of the theory hold that trade levels decline on an absolute level, and not simply as a percentage of aggregate economic activity. As the present analysis demonstrates, at least for the period under consideration not even the more conservative proposition that international trade as a percentage of aggregate economic activity declines as the hegemon loses its position is shown to be valid. The important point here is that the ratios of trade to national income are clearly appropriate as the dependent variables. This is a direct measure of the level of a state's international trade as a proportion of its aggregate economic activity.

Again, the data are derived from the International Monetary Fund's International Financial Statistics Yearbook, a highly reliable source. It should further be noted that the data for both the independent and the dependent variables are for major industrial societies. This is noteworthy due to the fact that economic data from the industrialized countries tend to be more accurate than that from less developed countries, since the industrial nations generally have the best systems for the collection and processing of data.

Finally, time series analysis utilizing multiple regression analysis is highly appropriate for the task for which it is utilized here. For a more full discussion, see Chapter Three. Taken together, the factors discussed above make it highly
unlikely that the basic findings in the analysis are incorrect due to measurement error.

**Currency Exchange Rates**

It is possible that currency exchange rates have operated in a manner that skew the data in a given direction that may readily lead to misleading conclusions. All data for this analysis has been in U.S. dollars, and therefore the analysis is certainly sensitive to this factor. Nonetheless, it is unlikely that the currency exchange rates are leading to erroneous findings in this case.

It needs to be noted that the method of setting currency exchange rates changed drastically during the period of years for which data are included in this analysis. For the first years of the data, 1957 through 1970, all conversion rates were at a "fixed" rate, under the terms of the Bretton Woods monetary accord. All currencies were pegged to the value of the U.S. dollar, which was itself pegged to the rate of gold. In 1971, the Nixon Administration removed the U.S. from the gold standard, and the Bretton Woods monetary regime collapsed. 1971 began with fixed exchange rates still in place, but ended with a system of "floating" exchange. Under this latter system, exchange values are constantly fluctuating in accordance with the perceived meaning of various economic indicators for each state, such as the growth rate, inflation rate, size of the money supply, etc.

Only a drastic exchange value problem could cause the findings in the present analysis to be invalid. Such a value problem would have to exist between the
U.S. dollar and the currencies of virtually all of the other nations included in this analysis, given that the findings generally hold for almost all of the countries. Furthermore, there is complete scholarly agreement about two basic points. First, U.S. economic power has declined relative to that of other major states. Second, the level of international trade has continued to increase. Thus, any exchange valuation problems that may be present are not sufficient to alter the basic direction of the findings.

Regime Lag

Next I will discuss the possibility that hegemonic stability theory is valid, but that the erosion of hegemony leads only quite slowly to a decrease in the level of trade will be discussed. Hegemonic stability theorists have themselves suggested that there may be a considerable lag between changes in the relative power level of the hegemon and changes in the level of international trade. This argument is predicated upon the existence of international regimes that stay in place for a considerable amount of time even after the conditions under which they were created have been greatly changed.

As discussed in Chapter Three, a major focus of U.S. policy in the immediate post World War II period was the establishment of an open international trade regime. There was a strong policy orientation toward doing whatever was deemed necessary in order to increase international trade. Institutions such as the International Bank for Reconstruction and Development (World Bank) and the International Monetary Fund were initially designed to
play major roles in the facilitation of such trade. It is, after all, a truism that sufficient liquidity must be present if states are to be viable economic actors, capable of buying and selling in substantial quantities on the international market.

While it is true that these institutions did not serve the purpose of supplying such liquidity particularly well, the U.S. did serve as the lender of last resort during this period, and thus did provide much of the liquidity necessary to begin increasing trade levels. Most importantly, the U.S. was able to get the then secondary powers, particularly France, Great Britain, and West Germany, to adopt relatively open market stances. Under the international trade regime thus established, trade levels have increased markedly, as we have seen. At least to some degree, this regime has outlasted the period of American hegemony. There have been some notable blows to the regime, such as the contingency provisions of GATT and the increased use of quotas or voluntary restraints (see Chapter Three), but nonetheless the market remains relatively open. Trade levels have continued to increase.

It remains possible that the erosion of the trade regime, to some degree begun by the restrictions noted above, will continue. While the erosion thus far has not been sufficient to stop the growth of international trade, this may well not be the case if the erosion continues. As there is currently a general tendency toward the increased implementation of restrictive mechanisms, it is quite plausible that this erosion could, in fact, continue to the point where the growth of international trade may slow; eventually international trade levels may decline in absolute terms. If this happens, it will support the basic premise of hegemonic
stability theory. It will merely have to be noted that the regime lag is quite substantial.

Is the Theory of Hegemonic Stability Invalid?

The fourth possible explanation behind the finding that international trade has continued to increase during a period in which American economic power has been in continual decline is that hegemonic stability theory is simply incorrect in its most basic premise. A strong possibility that must be considered within this context is that hegemonic stability theory may be valid vis-à-vis the world of the eighteenth and nineteenth centuries, but not for the present world. Certainly the structure of the international political economy is vastly different in the last quarter of the twentieth century from its form in the eighteenth and nineteenth centuries.

The decline of British hegemony in the nineteenth century was accompanied by (and at least to a certain extent caused) a last major wave of colonization. Great Britain itself was, of course, a major player in this process. In turn, a series of restrictive trade arrangements was established within colonial groups that were each headed by a single dominant country. This led to a fractionalization of the international market. A return to colonialism in the present world is indeed highly unlikely. It is made so both by the nature of East–West relations, which would make recolonization quite difficult, and also by the extremely high level of interconnectedness between the industrial states. Many scholars argue that
colonialism has ceased entirely to be a viable form of organization (Bergesen and Schoenberg 1980: 263).

In lieu of a return to colonial organization, it has generally been suggested (within the context of hegemonic stability theory, as well as by World Systems Theorists and Cycle Theorists) instead that the decline of a hegemon would lead to some form of regional encapsulations. Specifically, this refers to a situation wherein the larger industrial states enter into exclusionary trade arrangements with those states with which they are most predominant in terms of trade, thus forming a series of relatively closed trading systems. Aside from the geopolitical realities that would make a return to colonialism difficult, this form of organization, with dominant states having a preponderance of economic control over weaker states, but without direct political control (taken to be unnecessary given the indirect political control resulting from sufficiently tight economic control) is much more efficient than colonialism in that it accomplishes the same basic goals without the much higher costs inherent in the maintenance of colonial relationships. This type of arrangement is generally referred to as neo-mercantilism.

Nonetheless while some form of regional encapsulation is certainly a possibility, there are structural constraints in the present international political economy that make this rather unlikely, at least in the relatively near future. Perhaps the single most important economic difference between the nineteenth century world and that of the late twentieth century is the degree to which the major states and economies of the world are interconnected. Although it is certainly true that there has to some degree been an integrated capitalist world economy since the seventeenth century, the degree of interconnection that exists
today between legally autonomous states is unparalleled in world history. Further, the degree of interconnectedness continues to increase. This results in a degree of interdependence that is quite far removed from the form of the international political economy of the nineteenth century.

The increased levels of trade that have been noted are themselves indicative of the increasing interconnectedness of the world's economies, making it difficult to even speak in terms of single economies in a meaningful sense. It is also important to consider the fact that most trade takes place between the industrialized states, rather than between industrialized and non-industrialized states. Trade between industrialized and non-industrialized states, while certainly important, represents a small portion of world trade. (It is interesting to note that a much higher portion of U.S. trade is with non-industrialized states than is the case for any of the other industrialized states. Therefore, even if regional encapsulation becomes technically possible, this will not be sufficient to maintain the levels of trade to which the industrialized states have become accustomed, and, indeed, are dependent upon.

Multinational corporations have played a major role in increasing the interconnectedness of the economies of the industrialized states. This, of course, is not something that the corporations set out to do intentionally, but rather is an unplanned consequence of the collective actions of corporations in fostering an international business system within weak geographical boundaries. Obviously this would not have been possible without at least some degree of cooperation by governments of the industrial states. On the part of the U.S. in particular in the post World War II period, there was an intentional effort to forge this type of
an international environment. Multinational corporations have served to increase interconnectedness in two basic ways. First, the increased level of international trade that they have engendered has led to greater interconnectedness, given the increase in regularized contacts, exchanges, and thus interdependence this entails. Second, there has been a dramatic increase in the number of international firms for which direct foreign investment represents a major portion of their economic activity. Few of these firms could exist as viable entities with sizes anywhere near their current levels were they forced to rely principally upon a single home market and perhaps a few markets in less developed countries. Given the strong symbiotic relationships that often exist between large firms and governments, and given the large portion of the national economies represented by the multinational firms, there is a strong impetus for governments to support at least a relatively open international economic order, rather than to move toward the establishment of closed trading blocs.

Clearly the degree to which the constituent components of a system are or are not integrated is one of the central determinants of the level of stability of the system. For a political system, there is not a clear-cut answer as to whether increasing interconnectedness will serve to act a stabilizing or a destabilizing attribute of the system. Nonetheless, the possibility that it may serve to increase stability certainly needs to be considered. At the very least, a high level of interconnectedness along an economic dimension makes the costs of system failure considerably higher than would otherwise be the case. If trade levels decrease significantly, it will have a strongly deleterious affect upon all of the industrial countries. There simply cannot, for the foreseeable future, be sufficiently large
increases in trade between industrial and non-industrial countries to offset significant losses in trade among industrial countries. The non-industrial countries do not have sufficient amounts of capital to make this possible. Therefore, a significant decrease in trade among industrial states will result in a substantially reduced level of aggregate trade.

Prospects for the U.S.

It was virtually inevitable that the U.S. would experience some decline in its relative economic position in the world in the past two to three decades. After the end of World War II, the U.S. was left in an unusually strong position relative to the other major states, which had been devastated by war. As the U.S. lost position, major structural adjustments have taken place in the world economy. The U.S. ability to manage international economic policy has been greatly altered as a result. Nowhere is this more evident than in the case of the international monetary policy.

In the international monetary regime the U.S. fostered after World War II, the currencies of major countries were valued in terms of U.S. dollars, and could readily be converted to dollars or other currencies, as well as gold. The U.S. dollar itself was pegged to gold at a fixed rate. This arrangement caused there to be distinct advantages and disadvantages for the U.S. The primary disadvantage was that it made it extremely difficult for the U.S. to adjust its currency value (Jacobson and Sidjanski 1982: 26). This could be particularly troublesome for the U.S. when the U.S. dollar was overvalued, thus making exporting difficult.
Other countries generally did not want any devaluation of the U.S. dollars for two specific reasons. First, it would make American goods yet more competitive than they already were in the world market. Second, since the U.S. dollar was the principal reserve currency of the Western world, any devaluation of the dollar would have had an extremely negative affect on the reserves of the other countries.

On the positive side for the U.S., the U.S. was able to (and did) run balance of payments deficits without having to borrow. This was made possible by the fact that corporations and governments would hold U.S. dollars as reserve assets (Jacobson and Sidjanski 1982: 26). The U.S. dollar no longer serves this function. It is true that governments and corporations still hold some U.S. dollars as reserve assets, but this is also true for other major international currencies such as the British Pound, the German Mark, the Swiss Franc, and the Japanese Yen. The U.S. government now does have to borrow to finance its deficits. Significantly, an increasingly large portion of the borrowing is taking place in foreign markets. This is important in that borrowing in foreign markets has a decidedly different effect upon the home market than borrowing from domestic sources. Interest paid on domestic borrowing remains in the domestic economy, and much of it is likely to be recirculated in some form of spending. A much smaller portion of interest paid to foreign sources will be recirculated within the U.S. in this manner. Given the immense size of the current U.S. cumulative debt (approximately two trillion dollars), this will constitute an immense drain on U.S. capital. In turn, this will further limit U.S. economic power, and will thus give the U.S. even less ability to determine international economic policy than it has currently. This decline of the U.S. economy will further limit the ability of the
U.S. to maintain an open international economic order (whether or not it will even attempt to do so, is another matter, which will be addressed below).

The relative decline of U.S. economic strength will also diminish the ability of the U.S. to shape the economic policy of less developed countries. This includes, of course, policies related to market openness. As a result of the declining relative economic strength of the U.S. there has been a precipitous decline in the percentage of its GNP that the U.S. gives in the form of official development assistance. In 1965, the U.S. ranked third among the industrialized countries in terms of the percentage of its GNP it gave as official development assistance, with .58%, below only Belgium (.60%) and France (.76%). By 1986, the U.S. had fallen to second to last in this category among the seventeen industrialized nations (as classified by the World Bank), with only .23% of its GNP going as official development assistance.

It has already been noted that direct foreign investment is on the rise for a number of highly developed states. Investment by non-U.S. based firms is likely to increase in less developed countries faster than investment by U.S. based firms. This will further erode U.S. control over the economic policies of the less developed countries. Taken together with the decline in development assistance, this will lessen U.S. economic influence in these countries, including in the area of trade policy.

Europe 1992
One factor that should have a significant impact upon international economic relations is the unified European market that is planned for 1992. This plan calls for all barriers to the free movement of goods, services, capital, and workers to be removed by the twelve European Economic Community member states. The barriers would only be dropped vis-à-vis movement among the twelve member states. If this arrangement is fully implemented, the effect will be to create a single, unified market. This would make the EEC the largest market in the world. It is important to remember that most of the EEC member countries are highly developed core states. Those that are not, Spain and Portugal (Italy is discussed specifically in Chapter Three), are nonetheless states of a middle level of development (semi-peripheral), and are more developed than the majority of the world's countries.

The mere fact of the existence of a single market this large will itself have a major impact upon the structure of the international political economy. One likely result will be the emergence of more European companies as strong international competitors. Since domestic firms in each EEC member state will no longer be protected in their home markets, it will be necessary for many firms to either merge with other firms or to enlarge through other means simply in order to be able to compete in their home markets. Further, firms will expand to take advantage of their new ability to compete on an even footing in other European markets. It is interesting to note in this context that at the present, 1988, the beginnings of a merger wave in the EEC may already be seen, with firms stating outright that they are merging in order to protect or enlarge their market positions through preparation for the changes anticipated for 1992. The
result will be the collapse or submergence of numerous smaller firms, and the concomitant emergence of larger firms with greatly increased international marketing and investment capabilities. This will give European firms a considerably greater degree of influence in the international market, thus, in turn, strengthening, at least to some degree, the positions of the European governments in terms of international economic policy. To the extent that the European Parliament is able to increase its authority within the EEC, this increased centralization of power will be likely to strengthen yet further the European position. This latter point, however, brings up a crucial issue.

In order for the unified market to advance from a theoretical level to that of practice, numerous specific pieces of legislation must be enacted by the EEC member governments. There are two central obstacles to this occurrence. First, there is considerable fear by some, both in government and business in each country, that enterprises in their own countries will suffer too much at the hands of the resulting increase in competition by firms from other EEC member states. Second, the opening of the market will remove a great deal of authority from the member governments. In the process, the European Parliament will doubtless increase its authority, although to what degree is not yet clear. This will result in loud cries from some, of the loss of national sovereignty. A strong precursor to this was seen in a recent speech by Margaret Thatcher, in which she decried the loss of sovereignty that she maintains will occur is the blueprint of the European Parliament for 1992 is strictly followed. Thus, even given the assumption that all of the initial necessary legislation is passed, there will continue to be tension between the desire of governments, on the one hand, to build a
strong centralized market, and on the other, to reassert whatever authority they are losing. If the latter sentiments win out, the concept cannot succeed.

Another question that is central to the plans for 1992 is whether or not a unified European market, if it becomes a reality, will remain open to goods from outside, or whether various barriers to outside goods will be erected. Up to the present, members of the European Economic Community have been able to erect such barriers under the terms of Article 115 of the European Economic Community treaty. For example, under this provision the Italian government currently limits Japanese auto imports to 2,000 per year. Under the current proposal for a unified European market, restrictions on goods from outside the bloc would be ruled out.

There is some concern that nationalist sentiments in some of the EEC member countries will eventually cause the bloc as a whole to place restrictions on exports from outside. Indeed, a number of companies from outside the bloc are quickly opening subsidiaries in a member country precisely for this reason. Goods produced within the bloc by these subsidiaries, of course, would not be subject to such barriers. A number of leading European politicians have expressed concerns about such nationalist sentiments. For example, Otto Lambsdorff, the head of West Germany's Free Democratic Party, and a partner in Helmut Kohl's coalition government, himself a proponent of a completely open market, has warned that strong nationalistic and protectionist sentiments, particularly in France and Italy, could eventually lead to the erection of trade barriers. Therefore, two clear questions remain. First, will the integrated European market become a reality? Second, if it does become a reality, will it maintain an open trade policy
vis–a–vis good from outside? Regardless of the answer to the second question, one thing is quite clear. An integrated European market will be the largest in the world, and this fact will mean that the balance of global economic power will be significantly altered. To the extent that EEC policy comes to be controlled more and more by the European Parliament, rather than by individual national governments, this will increase further still the EEC's position. This will result in a further erosion of American economic influence.

The Future of GATT

The future of the General Agreement on Tariffs and Trade remains unclear at the present time. It has already been noted that the Tokyo Round resulted in an increase in the use of non–tariff barriers to trade. There is some indication that this aspect of GATT policy will soon be redressed. This is quite noteworthy, particularly given that this should not happen according to hegemonic stability theory, given that the system currently has no hegemon.

The next stage of GATT policy is in the process of formulation at the present time. At the Uruguay Round of trade negotiations of GATT, now in progress, there is a strong movement toward the dismantling of non–tariff barriers to trade (Leonard Silk 1989). It is perfectly clear to all participants that many tariff barriers have been replaced by non–tariff barriers, and a majority of the major participants seem to favor the removal of these barriers. If this effort is successful, it will certainly have a positive affect upon the level of international trade.
The New International Economic Order

In 1974, the United Nations General Assembly declared the need for a "New International Economic Order." This declaration, drafted and pushed by the Group of 77 (an organization of non-aligned states now numbering well over one hundred members), presents a rough blueprint for a future world order with a structure quite different from that of the present. As would be expected, the general goal of the NIEO is to increase the self-determination of the LDCs, and to decrease the disparities between LDCs and MDCs (Reubens 1981: 1).

The call for a New International Economic Order rests upon the concept that the present world order is structured in such a manner that the gap between LDCs and MDCs will continue to widen, rather than to narrow. Many advocates of the NIEO argue that this problem is caused primarily by willful exploitation of agents in the MDCs. They cite such practices of MNC firms as the charging of overly high interest for loans to LDCs, undervaluing of LDC resources in transfer prices*, and interference of foreign actors in local affairs. However, a number of advocates maintain that even to the extent that such abuses occur, they are largely the result of larger structural forces. For example, it is argued that the market is structured such that there is competition for primary products from LDCs, thus depressing prices, while MDC products incorporating higher levels of processing or manufacturing tend to be controlled by oligopoly (Reubens 1981: 8). Regardless of whether their focus is more upon individual agents or upon the market as a whole, all proponents of the NIEO agree that the market needs
to be reorganized. With regard to many products, there is a preference for authoritative allocation, rather than for allocation according to "free market" principles.

Not surprisingly, the MDCs have been singularly unsympathetic toward the NIEO Demands. Representatives from MDCs generally insist that authoritative allocation must be rejected, as this is anathema to the principal of a "free market." It is maintained that the free market remains the most efficient means for the distribution of global resources. Of course, the question of "most efficient for whom" is generally left out of this equation. There seems to be little chance that most LDCs will, within the foreseeable future, be able to significantly increase their position in the global international stratification system through participation in the extent market system. This would be the case even were free trade really in place, given LDC competitive disadvantages, but is even more so given that there are so many protective barriers against processed goods from the LDCs. This argument between MDCs and LDCs over the means of resource allocation to be utilized will doubtless remain the most contentious issue in North–South relations.

Hegemonic War

In the past, the dissolution of a hegemonic system may well have led to a system disequilibrium that would be solved only by a hegemonic war. Robert Gilpin is certainly correct in his assertion, quoted in Chapter Two, that throughout history war has been the primary means for resolving system disequilibrium and
for redistributing power. Although hegemonic war still must be considered as a very real possibility, it no longer may reasonably be considered by decision-makers as a viable means of power redistribution. Without question, the advent of nuclear war has drastically altered the utility of hegemonic war for such purposes.

Conclusions

A major change has taken place in the international political economy over the past two to three decades. The United States has rapidly declined in economic power relative to other major states. This decline is continuing to the present. Indeed, in 1988, for the first time since the end of World War II, the U.S. fell from first place even in terms of the aggregate amount of exports for which it accounts. West Germany is now the largest exporter. This is an astounding fact, given that this represents approximately four times the level of exports per capita as that accounted for by the U.S.

This loss of economic power has been accompanied by a loss of political power, such that the U.S. is not able to dictate international policy to the same degree that it was able to in the recent past. There is no significant evidence to suggest that this trend will change over the coming decades.

The world of the coming decades will be one with a multipolar structure. In terms of the West, The U.S., West Germany, Japan, France, and the U.K. will remain the dominant powers, followed by the smaller highly developed European
states, Canada, Australia, and New Zealand. If current trends continue, power will continue to be diffused more and more among this group of states.

It is difficult to determine the degree to which the international market will be open in such a multipolar world. As has been shown, despite movement toward the implementation of some restrictive mechanisms, the level of world trade has continued to increase up to the present. Contrary to hegemonic stability theory, there seems to be at least a reasonable chance that the market will remain relatively open. The decline of U.S. power has not led to a decline in world trade.

There will definitely be strong forces in favor of closing the market. In the U.S., for example, there are, and will doubtless continue to be, increasing calls for the implementation of protectionist policies as American firms face increased competition in the home market from foreign firms. If such policies are implemented on a large scale, other countries will doubtless reciprocate. Further, the question of European market openness, particularly in light of the uncertainties over the proposal for an integrated European market, remains.

It seems likely that East-West trade will continue to increase, to the point where it will truly represent a significant portion of the international trade in which Western countries are involved. It is, of course, impossible to predict with any reasonable degree of certainty what specific effects this is likely to have on the basic structure of the international economy. However, it is reasonable to assume that it will, at least to some degree, increase the aggregate level of international trade, and along with this, the level of interconnectedness.
Regardless of the direction in which the international economy travels in the coming decades, there seems to be a reasonable chance that the market will remain relatively open. Certainly recent trade figures are positive with this regard: in 1988, world trade increased by over eight percent, a figure that far exceeds that of overall world economic growth. There is evidence, presented in this analysis, that a hegemon may not be essential in order to foster the cooperation necessary to maintain a world with an open international economic order, and, indeed, with other cooperative regimes.
Bibliography


Appendix One

International Trade (Highest and Next Highest)

<table>
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Appendix Two

Per Capita GNP (Highest and Next Highest)

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### Appendix Three

**Aggregate GNP (Highest and Next Highest)**

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VITA
Victor E. Sachse

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Ph.D. 1989 Louisiana State University, Baton Rouge
   Major: Political Science
   Minor: Sociology

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   Major: Political Science

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   Major: General Studies

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International Studies Association
Southern Political Science Association
Southwestern Social Science Association
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Teaching Assistant, Department of Political Science, Louisiana State University; taught Introduction to International Relations and Introduction to Comparative Politics, 1985–86

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POLITICAL

Work in numerous campaigns. Includes fundraising and coordination of media events in Louisiana, New Jersey and Rhode Island.

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THESES AND DISSERTATIONS


PAPERS


Two additional papers in progress.

BOOK REVIEWS


COMPUTER SKILLS

SPSS, TSO, Microcomputers
DOCTORAL EXAMINATION AND DISSERTATION REPORT

Candidate: Victor E. Sachse

Major Field: Political Science

Title of Dissertation: Hegemonic Stability Theory: An Examination

Approved:

[Signatures and titles]

Dean of the Graduate School

EXAMINING COMMITTEE:

[Signatures]

Date of Examination:

April 19, 1989