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6 *British and American hegemony compared: lessons for the current era of decline*

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America's decline has gained new prominence in the current political debate. There is little doubt that the country's economic competitiveness has, in fact, waned since its hegemonic zenith in the 1950s. The immediate post-Second World War era was anomalous; with Europe and Japan devastated by the war, the United States enjoyed a period of unchallenged economic supremacy. As other countries rebuilt their economies, this lead had to diminish. Yet, even in the 1970s and 1980s, long after the period of 'catch up' had ended, America's economy continued to weaken relative to its principal trading partners.[1]

Popular attention has focused on the appropriate policy response to this self-evident decline. One critical issue, which cuts across the traditional liberal–conservative spectrum, is America's relations with its allies. Should the United States maintain a policy of free trade premised on broad reciprocity as in the General Agreement on Tariffs and Trade (GATT), or must it 'get tough' with its trading partners, demand equal access industry-by-industry to foreign markets, balance trade between specific countries, and retaliate if others fail to abide by America's understanding of the international trade regime? This is a question which all present and future American governments will have to address — and the answer is by no means ideologically predetermined or, for that matter, clear.

The issue of American decline is not new, despite the recent attention devoted to it. It has been a topic of lively academic debate for almost twenty years — a debate which, while not directly focused on such issues, can shed considerable light on the question of America's relations with its trading partners. The so-called theory of hegemonic stability was developed in the early 1970s to explain the rise and fall of the *Pax Britannica* and *Pax Americana*, periods of relative international economic openness in the mid-nineteenth and mid-twentieth centuries respectively. In its early form, the theory posited that hegemony, or the existence of a single dominant economic power, was both a necessary and sufficient condition for the construction and maintenance of a liberal international economy. It followed that once the hegemon began to decline, the international economy would move toward greater conflict and closure.[2] The theory has since been refined and extended, with nearly all revisions concluding that a greater potential exists for non-hegemonic international economic cooperation than was allowed for in the original formulation.[3] All variants of the theory of hegemonic stability suggest, nonetheless, that Britain's relative decline after 1870 is the closest historical analogy to the present era and a fruitful source of lessons for American policy. Many have drawn pessimistic predictions about the future of the liberal international economy on the basis of this comparison, with the implication that a more nationalist foreign economic policy is necessary to halt the breakdown of the open international economy into a series of regional trading blocs.[4] To understand and judge this, one must recognize and begin with the parallels between the *Pax Americana* and the *Pax Britannica* and their subsequent periods of decline. Yet, one must also recognize that the differences between these two cycles of hegemony are just as important as the similarities. The two periods of declining hegemony are similar, but not identical — and the differences have tremendous import for the future of the liberal international economic order and the nature of American policy.

The historical analogy

From the sixteenth to the eighteenth centuries, the international economy was dominated by mercantilism — a pervasive set of state regulations governing the import and export of goods, services, capital, and people. Britain was no exception to this general trend and, in fact, was one of its leading proponents. While restrictions on trade may have been adopted largely as a result of rent-seeking by domestic groups, they also stimulated home production and innovation and allowed Britain to build an industrial base from which to challenge Dutch hegemony.[5]

With the industrial revolution, and the resulting economic take-off, Britain slowly began dismantling its mercantilist system. Various restraints were removed, and by the 1830s few industrial tariffs and trade restrictions remained. Agricultural protection persisted, however, until industry finally triumphed over landed interests in the repeal of the Corn Laws in 1846.[6] Britain's shift to free trade ushered in a period of international economic liberalization. For reasons discussed below, the repeal of the Corn Laws facilitated the rise of free trade coalitions in both the emerging Germany and the United States. Moreover, Britain finally induced France to join in the emerging free trade order in 1860, trading its acquiescence in France's military excursions into Northern Italy for lower tariffs in a bargain which underlay the important Cobden–Chevalier Treaty.[7] Interlocking trade treaties premised on the unconditional most-favored-nation principle then served to spread these reductions throughout Europe.[8]

British hegemony peaked in approximately 1870, after which its national product, trade and labor productivity — while continuing to grow in absolute terms — began to shrink relative to its principal economic rivals. With Britain's decline, the free trade order began to unravel. The United States returned to a policy of high protection after the Civil War. Germany adopted high tariffs in its coalition of Iron and Rye in 1879. France followed suit in the Meline Tariff of 1892.[9]

Just as Britain had used mercantilism as a weapon against Dutch hegemony, the United States and Germany used protection to build up their infant industries, which were then able to challenge and defeat British industry in global competition. Despite a large measure of protectionist rent-seeking by various uncompetitive groups in both countries, this strategy of industrial stimulation was successful. By the late 1890s, the United States surpassed Britain in relative labor productivity and other key indicators of industrial production. Germany also emerged as a major threat to British economic supremacy, particularly in the race for colonies in the developing world.[10]

Despite these threats, Britain continued to dominate and manage the international economy until the outbreak of the First World War. With its industrial base slipping, Britain moved into services — relying on shipping, insurance and international finance to offset its increasing trade deficits. The British pound remained the international currency and the City of London the core of the international financial system.[11]

British weakness, however, was revealed and exacerbated by the First World War. Britain sold off many of its overseas assets to pay for the necessary wartime supplies. As a result, repatriated profits were no longer sufficient to offset its trade deficit. Moreover, the war generated several deep and insidious sources of international economic instability — war debts, German reparations, America's new status as a net creditor nation, and, at least partly through Britain's own mistakes, an overvalued pound.

Eventually, the international economy collapsed under the weight of its own contradictions, despite futile efforts at joint Anglo–American international economic leadership in the 1920s.[12] American capital, previously channeled to Germany, which in turn used its international borrowings to pay reparations to Britain and France, was diverted to the stock market after 1927, feeding the speculative fever and precipitating a wave of bank closures in Austria and Germany. As the banking panic spread across Europe and eventually across the Atlantic, the stock market became its own victim.[13] While the crash of 1929 did not cause the Great Depression, it certainly exacerbated the underlying instabilities in international commodity markets. As the depression worsened, each country turned inward upon itself, adopting beggar-thy-neighbor policies in a vain attempt to export the pain to other states.

The roots of American hegemony lie in the period following the Civil War.[14] With the defeat of the South, government policy shifted in favor of the North and industrialization. By the First World War, the United States had emerged as Britain's equal. The two competed for international economic leadership (and occasionally for the abdication of leadership) throughout the inter-war period.

The United States began the process of liberalization in 1913 with the passage of the Underwood Tariff Act. While pressure for freer trade had been building for over a decade, this was the first concrete manifestation of reform. This nascent liberalism, however, was aborted by the war and the international economic instability it engendered; tariffs were raised in 1922 and again in 1930. The United States returned to international liberalism in the Reciprocal Trade Agreements Act of 1934. While free trade remained politically tenuous throughout the 1930s and early 1940s, it was locked securely in place as the centerpiece of American foreign economic policy by the end of the Second World War.

Like Britain, the United States was the principal impetus behind international economic liberalization.[15] It led the international economy to greater economic openness through the GATT, the International Monetary Fund (IMF), the World Bank, and a host of United Nations-related organizations. The United States also made disproportionately large reductions in its tariffs and encouraged discrimination against its exports as a means of facilitating economic reconstruction. Real trade liberalization was delayed until the 1960s, when the Kennedy Round of the GATT substantially reduced tariffs in all industrialized countries. This success was soon followed by the equally important Tokyo Round, which further reduced tariffs and rendered them essentially unimportant impediments to trade.

Despite these successes, and in part because of them, challenges to international liberalism began to emerge in the late 1960s. As America's economic supremacy receded, the exercise of international power became more overt and coercive. This was especially true in the international monetary arena, where the series of stop-gap measures adopted during the 1960s to cope with the dollar overhang were abandoned in favor of a more unilateral approach in the appropriately named 'Nixon Shocks' of August 1971. More importantly, as tariffs were reduced and previously sheltered industries were exposed to international competition, new pressures were placed on governments for trade restrictions. These pressures have been satisfied, at least in part, by the proliferation of non-tariff barriers to trade, the most important of which take the form of 'voluntary' export restraints by foreign producers. While the net effect of reduced tariffs and increased non-tariff barriers to trade is difficult to discern, it is clear that domestic political support for free trade in the United States and other advanced industrialized countries has eroded.[16]

In summary, during their hegemonic ascendancies, both Britain and the United States played leading roles in opening the international economy. And in both cases, brief successes were soon followed by increasing challenges to global liberalism. The parallels are clear. The historical analogy suggests a period of increasing economic conflict, a slide down the 'slippery slope of protection', and a return to the beggar-thy-neighbor policies of the inter-war period.

The historical reality

Despite the plausibility and attractiveness of this historical analogy, it is deeply flawed. The similarities between the *Pax Britannica* and *Pax Americana* have over-shadowed the differences, but those differences may in the end prove to be more important. The points of contrast between the two periods of hegemony can be grouped into four categories.

I. International political structures

In the nineteenth century, and throughout the period of British hegemony, the United Kingdom, France, and then Germany all pursued empire as a partial substitute for trade within an open international economy. No country relied entirely on intra-empire trade, but as the international economy became more competitive in the late nineteenth century all three countries turned toward their colonies. This stimulated a general breakdown of the international economy into regional trading blocs and substituted government legislation and regulations for international market forces.

At the height of its hegemony, for instance, Britain pursued an open door policy within its colonies. Parliament repealed the mercantilist Navigation Laws in 1828 and soon thereafter opened the trade of the colonies to all countries on equal terms. Despite the absence of formal trade restrictions in the colonies, however, Britain continued to dominate their trade through informal means, counting on the ties between colonial administrators and the home state to channel trade in the appropriate directions.

Beginning in the late 1890s, however, Britain began to accept and, later, actively to promote preferential trade measures within the empire.[17] While the earliest preferences took the form of unilateral reductions in colonial tariffs on British exports, by the First World War, Britain, under pressure from the colonies, began to reciprocate. The McKenna Duties, passed in 1915, and the Safeguarding of Industry Duties, enacted after the war, all discriminated against non-empire trade. In 1932, Britain returned to protection and adopted a complete system of Imperial Preference. In short, as its economic strength deteriorated in the late nineteenth century, even Britain, the paragon of international liberalism, turned inward to its empire.

Since 1945, on the other hand, formal imperialism has all but disappeared. Instead of a system of geographically dispersed empires, there now exists a system of sovereign states. As the American-dominated 'Dollar bloc' of the 1930s attests, a formal empire is not necessary for the creation of a regional trade bloc. Yet the present international system is less likely to break down into regional economic blocs for two reasons.

As Hobson, Lenin and other theorists of late nineteenth-century imperialism correctly pointed out, imperialism is a finite process, the end point of which is determined by the quantity of available land.[18] Once the hinterland is exhausted, countries can expand only through the redistribution of existing colonies. Thus, the quest for imperial trading blocs transforms exchange, at least in part, from a positive into a zero-sum game and increases the level of economic conflict endemic in the international system. Despite the decline of American hegemony, the gains from trade today are both more visible and less exclusive, helping to make the liberal international economy more durable than in the past.

In addition, colonies are not fully sovereign and have, at best, abridged decision-making powers. As a result, intra-imperial trade and trade agreements are not subject to the same possibilities for opportunism as are trade arrangements between independent states. Today, even if two countries undertake a bilateral trade treaty, as in the case of the United States and Canada, each remains fully sovereign and capable of cheating and exploiting the other. Indeed, as regional specialization expands, the quasi-rents potentially appropriable by either party will also increase, thereby raising the gains from opportunism.[19] The higher the gains and, therefore, the risk of opportunism, the less likely it is that two countries will enter into binding bilateral relationships. As a result, trade blocs between sovereign states will always be more fragile, less beneficial and, it follows, less prevalent than those based upon imperial preference.

II. International economic structures

A. THE BASES OF BRITISH AND AMERICAN HEGEMONY

While both Britain and the United States enjoyed a position of international economic dominance, the bases of their economic hegemony differed in important ways. Britain's share of world *trade* was substantially larger than that obtained by the United States, while America's share of world *product* was far larger than Britain's.

In 1870, Britain controlled approximately 24 per cent of world trade, declining to less than 15 per cent by the outbreak of the First World War. The United States, however, accounted for only 18.4 per cent of world trade in 1950, and its share fell to less than 15 per cent by the mid 1960s. Collective goods theory suggests that Britain had a stronger interest in acting as a benevolent hegemon and, specifically, in regulating and maintaining an open international economy.[20] This interest in providing the international economic infrastructure, furthermore, was reinforced by Britain's higher dependence on trade, which reached 49 per cent of national product in 1877–85 and 52 per cent in 1909–13. For the United States, trade accounted for only 17 per cent of national product in the 1960s, although this ratio has risen in recent years.[21] These figures indicate that Britain also faced a considerably higher opportunity costs of international economic closure.

While British hegemony was based upon control of international trade, the United States — still the largest trader of its era — relied on the relatively greater size of its domestic economy. Throughout its hegemonic rise and decline, the British economy (measured in terms of national product) was relatively small compared to its trading rivals, and to that of the United States at a similar stage in its hegemonic cycle. In 1860, Britain's economy was only three-quarters the size of America's. Conversely, in 1950, the domestic economy of the United States was over three times larger than the Soviet Union's, its next largest rival.[22] This difference between British and American hegemony, while highlighting variations in the opportunity costs of closure, also have important implications for the international political processes discussed below.

B. THE TRAJECTORIES OF DECLINE

Not only were the economic bases of British and American hegemony different, but their respective declines have also followed alternative trajectories. In the late nineteenth century, Britain was confronted by two dynamic, vibrant and rapidly growing rivals: the United States and Germany. Perhaps because of its latecomer status or its geographical position in Europe, Germany was singled out as Britain's principal challenger for hegemony. With the eventual assistance of the United States, Germany was defeated in war and eliminated as an important economic actor.[23]

The waning of British hegemony thus found the United States and the United Kingdom in roughly equal international economic positions. In the years immediately before the First World War, an economic *modus vivendi*, grounded in substantial tariff reductions in the United States, appeared possible between these two powers. Yet, Anglo–American cooperation and the potential for joint leadership of the international economy were cut short by the war and its aftermath. The breakdown of the international economy during the war created difficult problems of reconstruction and generated high international economic instability, which shortened time horizons in both the United States and Britain and rendered post-war cooperation substantially more difficult.[24] In the absence of such cooperation, the conflicts over reconstruction were insoluble, and the international economy eventually collapsed in the Great Depression.

The decline of American hegemony has occurred primarily through a general levelling of international economic capabilities among the Western powers. Today, the international economy is dominated by the United States, the Federal Republic of Germany, France, and Japan, all substantial traders with a strong interest in free trade, even if they desire some protection for their own industries. The greatest structural threat to continued cooperation is not the absence of partners capable of joint management, but too many partners and the corresponding potential for free riding that this creates.

Despite the instability generated by the oil shocks of the 1970s, moreover, these four economic powers have successfully managed the international economy — or at least muddled through. They have coped with a major change in the international monetary regime, the rise of the Euromarkets, and the Third World debt crisis. The most immediate threats to continued cooperation are the large and, apparently, endless budget and trade deficits of the United States. Barring any further increase in international economic instability, however, even these problems may be manageable.

III. International political processes

A. THE THREE FACES OF HEGEMONY

Elsewhere, Scott James and I have distinguished three 'faces' or strategies of hegemonic leadership.[25] The first face of hegemony, as we define it, is characterized by the use of positive and negative sanctions aimed directly at foreign governments in an attempt to influence their choice of policies. Through inducements or threats, the hegemon seeks to alter the international costs and benefits of particular state actions. Economic sanctions, foreign aid and military support (or lack thereof) exemplify the strategic use of direct and overt international power central to this first face.

In the second face, the hegemon uses its international market power, or the ability to influence the price of specific goods, to alter the incentives and political influence of societal actors in foreign countries. These individuals, firms, sectors, or regions then exert pressure upon their governments for alternative policies, which — if the hegemon has used its market power correctly — will be more consistent with the interests of the dominant international power. This is a 'Trojan Horse' strategy in which the hegemon changes the constellation of interests and political power within other countries in ways more favorable to its own interests.

The third face focuses on the hegemon's use of ideas and ideology to structure public opinion and the political agenda in other countries so as to determine what are legitimate and illegitimate policies and forms of political behavior. In other words, the hegemon uses propaganda, in the broadest sense of the word, to influence the climate of opinion in foreign countries.

In the mid-nineteenth century, Britain used its dominance of world trade to pursue an essentially second face strategy of hegemonic leadership. By repealing its Corn Laws, and allowing unfettered access to its markets, Britain effectively restructured the economic incentives facing producers of raw materials and foodstuffs. Over the long term, by altering factor and sector profit rates, and hence investment patterns, Britain augmented and mobilized the political influence of the interests within non-hegemonic countries most amenable to an international division of labor. All this was premised on complementary production and the free exchange of primary goods for British manufactures. Thus, in the United States, repeal of the Corn Laws facilitated the rise of a free trade coalition between Southern cotton growers, the traditional force for international economic openness in the American politics, and Western grain producers who had previously allied themselves with the more protectionist North-Eastern industrialists. This South–West coalition was reflected in almost two decades of freer trade in the United States, begun with the passage of the Walker Tariff in 1846. A similar process can be identified in Prussia, where the repeal of the Corn Laws reinforced the political power and free trade tendencies of the Junkers. This is not to argue, of course, that Britain relied exclusively on the second face of hegemony, only that it was an important theme in British trade policy and international leadership.

The United States, as noted above, has never dominated international trade to the same extent as Britain, but instead bases its leadership and influence upon its large domestic market. American strategy follows from this difference. Where Britain used its trade dominance to pursue a second face strategy, the United States relies to a larger extent on a first face strategy, trading access to its own market for reciprocal tariff reductions abroad. Accordingly, the United States did not unilaterally reduce tariffs, except for the period immediately after the Second World War, but instead linked reductions in, at first, bilateral treaties under the Reciprocal Trade Agreements Act and, later, in the GATT.

The explicitly reciprocal nature of American trade policy facilitates greater multilateral openness. British liberalization was spread throughout Europe by the unconditional most-favored-nation principle, but free trade remained fragile. As soon as alternative political coalitions obtained power, as in the United States in the aftermath of the Civil War and in Germany in the coalition of Iron and Rye, liberal trade policies were quickly jettisoned in favor of protection. Committed to free trade, Britain made clear its reluctance to retaliate against new protectionism by its trading partners. As a result, it allowed countries like the United States and Germany to free ride on its leadership — specifically, to protect their domestic industries while continuing to take advantage of British openness.[26] The reciprocal trade policy adopted by the United States has brought more countries into the fold, so to speak, by linking access to American markets to participation in the GATT system. This system of generalized reciprocity, as well as the increasing willingness of the United States to retaliate against unfair foreign trade practices, acts to restrain protectionism in foreign countries. Paradoxically, a trade strategy based upon the first face of hegemony, despite its more overt use of international power, may prove more resilient.

B. INTERNATIONAL REGIMES

A second and related difference in the international political processes of British and American hegemony is the latter's greater reliance upon international institutions and international economic regimes. Britain led the international economy in the nineteenth century without recourse to any formal international institutions and with few international rules governing exchange relations between counties. The nineteenth century, in other words, was a period of weak or, at best, implicit international economic regimes.

In the present period, on the other hand, international economic regimes are highly prevalent, even pervasive. The GATT, the IMF, the World Bank, and many United Nations organizations all give concrete — and lasting — substance to America's global economic leadership. As a result, international liberalism has been institutionalized in international relations.

As Robert Keohane has persuasively argued, international regimes are instruments of statecraft and are created to facilitate cooperation, specifically, by (a) providing a legal liability framework, (b) reducing transactions costs, and (c) reducing uncertainty by providing information and constraining moral hazard and irresponsibility. States comply with their dictates, Keohane continues, because of reputational considerations, because regimes provide a service which is of value, and because they are easier to maintain than to create.[27] For these same reasons, Keohane suggests, international regimes are likely to persist even though the interests which brought them into being change. International regimes are thus important because they create more consistent, routinized and enduring international behavior.[28]

To the extent that this argument is correct, the greater reliance of American hegemony on international regimes can be expected to preserve the liberal international economic order for some unspecifiable period, not only in the United States but throughout the international economy as well. America's hegemonic 'afterglow' may well be longer than Britain's.

C. ISSUE LINKAGE

The 'low' politics of trade have always been linked with the 'high' politics of national security — the views of certain liberal economists notwithstanding.[29] Military issues have been linked with trade treaties, as in the Cobden–Chevalier treaty between Britain and France in 1860. Trade policy also impinges upon economic growth and the basis for long-term military strength.

The free trade order constructed under British leadership bridged the political divide by including both allies and antagonists, friends and foes. In this system, not only was British influence over its military competitors limited, but the free trade order benefited all participants, often stimulating growth in antagonists and undermining the long-term strength of the United Kingdom. As Robert Gilpin noted, perhaps the most important contradiction of a free trade order, and international capitalism more generally, is that it develops rather than exploits potential competitors for international leadership.[30]

The liberal international economic regimes of American hegemony, on the other hand, have been built exclusively on one side of a bipolar political divide.[31] All of America's important trading partners are also its allies. This provides great potential leverage for the United States in trade issues. America's contributions to the public good of common defense can be diplomatically and tactically linked to liberal trade policies.[32] In addition, the greater benefits derived from specialization and the international division of labor are confined to allies of the United States. All economic benefits, in other words, reinforce America's security needs. As a result, challengers to American hegemony are less likely to emerge. And the United States, in turn, may be willing to make greater economic sacrifices to maintain the long-term strength and stability of the Western alliance.

IV. International economic processes

A. THE PATTERN OF SPECIALIZATION

The nineteenth-century international economy was built upon a pattern of complementary trade. Britain, and later a handfull of other industrialized countries, exported manufactured goods and imported raw materials and foodstuffs. To the extent that complementary products were not available within any particular economy, or available only at a substantially higher cost, this system of North–South trade created conditions of mutual dependence between core and peripheral states and, in turn, high opportunity costs of closure. As the Great Depression of the early 1930s clearly demonstrated, the economic costs of international closure were considerable.

The largest and most rapidly growing area of international trade after 1945, on the other hand, has been intra-industry trade — or the exchange of similar commodities between similarly endowed countries.[33] Accordingly, the United States is both a major importer and exporter of chemicals, machine tools and numerous other products. Similar patterns can be found in Europe and, to a lesser extent, for Japan.

This pattern of intra-industry trade creates two important but offsetting pressures, the net impact of which is unclear. First, intra-industry trade has a lower opportunity cost of closure than does complementary trade. The welfare loss of trade restraints on automobiles in the United States, for instance, is considerably less than it would be in the absence of a significant domestic car industry. In short, countries can more easily do without intra-industry trade. Second, the primary stimulus for intra-industry trade is economies of scale in production.[34] To the extent that these economies are larger than the domestic market, and can be satisfied only by exporting to foreign countries, they create important domestic political interest in favor of free trade and international openness. This restraint on protection, of course, will vary across countries, weighing more heavily in, say, Switzerland, than in the United States.

B. INTERNATIONAL CAPITAL FLOWS

In both the mid-nineteenth and mid-twentieth centuries, Britain and the United States, respectively, were the centers of the international financial system and the primary source of foreign investment. Both hegemons invested considerable sums abroad, perhaps at the expense of their own domestic economies.[35] Nonetheless, an important difference exists between the two cases. Britain engaged almost exclusively in portfolio investment; the United States relied to a greater extent upon foreign direct investment.

During the period of British decline, a deep conflict emerged between the City of London, the primary source of international capital, and British manufacturers. As the latter found themselves less competitive within the international economy, they began to demand and lobby for a return to protection. The protectionists, or so-called tariff reformers, had grown strong enough to split the Conservative Party by 1903, costing it the parliamentary election of January 1906. By 1912, the tariff reformers dominated the party and, before the trade issue was displaced on the political agenda by Irish home rule, appeared likely to win the next legislative battle. The City, on the other hand, remained solidly liberal. Increasingly, financial profits depended upon new capital outflows and prompt repayment of loans made to developing countries. With an international horizon stretched before it, the City would bear the costs of protection in the form of higher domestic prices and, more importantly, in the reduced ability of exporting countries to repay their loans, but would receive few if any benefits. Where the manufacturers desired to return to an industrially based economy and a trade surplus, the City was content with the reliance on services and recognized the need for Britain to run a trade deficit for the foreseeable future. This conflict lasted throughout the inter-war period, with the City emerging triumphant with the return of pre-war parity in 1925, only to be defeated on the question of protection in 1932.

Until the 1970s, on the other hand, the United States engaged primarily in foreign direct investment. The export of both capital and ownership alters the nature of America's political cleavages, creating intra-industry and capital–labor conflicts rather than an industry–finance division. The overseas manufacturing assets, globally integrated production facilities, and enhanced trade dependence of multinational corporations reduce the demands for protection by firms engaged in foreign investment, but not by labor employed in those sectors.[36] In this sense, the trade interests of multinational corporations are more similar to those of the international financial community than they are to domestic or non-internationalized firms. While nationally oriented firms and labor may still seek rents through domestic protection, the presence of a large multinational sector creates offsetting trade policy pressures within manufacturing and, indeed, often within the same sector, thereby strengthening the free trade lobby in the United States.[37]

Whither the *Pax Americana*?

The differences between British and American hegemony are considerable, and serve to call into question the appropriateness of the historical analogy. The decline of the *Pax Americana* will not follow the same path blazed by the decline of the *Pax Britannica*. Simplistic historical analogies fully deserve the scepticism with which they are greeted. What then is the likely future of the international economic order? Will openness endure, or is closure imminent?

The international constraints discussed above point in different directions. The absence of formal imperialism, the emerging structure of the post-hegemonic international economy, the moderate (so far) level of international economic instability, greater American reliance on a first face strategy of explicit reciprocity, the institutionalization of liberal international economic regimes, the overlap between the security and economic issue areas, and the importance of foreign direct investment, all suggest that international liberalism is robust and likely to endure. The potential for free riding among the great economic powers, the pattern of economic specialization, and the growing importance of intra-industry trade, are the most important challenges to the liberal international economy — and are a source of caution about the future.

While certainly more fragile than in, say, the 1960s, the open international economy has several underlying sources of resiliency. Even though America's economic competitiveness has declined, relatively free and unrestricted commerce is likely to remain the international norm. The international economy is not being held open simply through inertia; there are real interests supporting international liberalism.

This relatively optimistic view of the future of the international trading order supports continued commitment by the United States to free trade and generalized reciprocity as found in the GATT. Japan or Korea-bashing is unnecessary; other countries share America's interest in maintaining free trade within the international economy. The United States does not carry the burden of maintaining international openness alone.

Narrow policies of reciprocity, which seek equal access industry-by-industry or balanced trade between specific countries, may prove counterproductive, encouraging a decline into bilateralism that will redound to everyone's disadvantage and create the result which pessimists fear. As recent work on iterated prisoners' dilemma shows, cooperation can be sustained best by reciprocating cooperation.[38] To the extent that the United States is perceived as defecting from the open international economy, it encourages similar behavior in others. Economic instability enhanced this problem in the 1920s, but it is inherent in the current system as well.

On the other hand, the United States cannot benefit by being the 'sucker' in international trade. It must make clear that the continued openness of the American market is contingent upon similar degrees of openness in other countries. A broad or generalized policy of reciprocity is sufficient for this task, and promises to calm rather than exacerbate international economic tensions.

Conclusion

Statesmen and stateswomen undoubtedly base their decisions on theories of international politics, even if such theories are so implicit and amorphous as to resemble nothing more than 'world views'. No policy is made in a theoretical vacuum. Rather, beginning from selected assumptions or principles of human action, all policy-makers rely upon means–ends relationships and estimates of costs and benefits either derived from or validated by historical experience. These theories can be quite wrong or poorly understood, in which case the policy is likely to fail. Good theories, well employed, lead to more positive outcomes — or at least one hopes they do.

Scholars are an important source of the theories upon which decision-makers base their policies. This is especially true of the theory of hegemonic stability. Developed just as the first signs of American decline were becoming apparent and long before the pattern and its implications were recognized in diplomatic circles, the theory of hegemonic stability has slowly crept out of the ivory tower and into the public consciousness. It has helped spark a debate on the limits of American power in the late twentieth century. It has also led to demands for more aggressive trade policies under the generally accepted but nonetheless dangerous standard of 'specific reciprocity'.

No theory is widely accepted unless it has some empirical support and intuitive plausibility. The danger is, however, that even theories that meet these criteria may be underdeveloped and inadequately specified by their scholarly progenitors or over-simplified by those who translate academic jargon and subtlety into the language of public debate. The theory of hegemonic stability has been poorly served on both counts, leading to overly pessimistic predications on the future of the international economy and to far too aggressive trade policies which threaten to bring about the results they are supposedly designed to prevent.

Notes

1. The issue of American decline is raised most clearly in the controversy surrounding Paul Kennedy's *The Rise and Fall of the Great Powers* (New York: Random House, 1987). This academic tome has received surprisingly wide circulation. For an alternative view on the extent of American decline, see Bruce Russett, 'The Mysterious Case of Vanishing Hegemony: or, Is Mark Twain really Dead?', *International Organization*, **39**, 2, Spring 1985, pp. 207–31.

2. See Charles P. Kindleberger, *The World in Depression, 1929–1939* (Berkeley: University of California Press, 1973); Robert Gilpin, *US Power and the Multinational Corporation: The Political Economy of Foreign Direct Investment* (New York: Basic Books, 1975); and Stephen D. Krasner, 'State Power and the Structure of International Trade', *World Politics*, **28**, 3, April 1976, pp. 317–47.
3. See Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton: Princeton University Press, 1984); David A. Lake, *Power, Protection and Free Trade: International Sources of US Commercial Strategy, 1887–1939* (Ithaca: Cornell University Press, 1988); and Duncan Snidal, 'The Limits of Hegemonic Stability Theory', *International Organization*, **39**, 4, Autumn 1985, pp. 579–614.
4. See, for example, Gilpin, *US Power*; and Stephen D. Krasner, *Asymmetries in Japanese–American Trade: The Case for Specific Reciprocity* (Berkeley: Institute of International Studies, 1987).
5. On mercantilism and rent-seeking, see Robert B. Ekelund and Robert D. Tollison, *Mercantilism as a Rent-Seeking Society: Economic Regulation in Historical Perspective* (College Station: Texas A & M University Press, 1981). For mercantilism as a weapon against Dutch hegemony, see Charles Wilson, *Profit and Power: A Study of England and the Dutch Wars* (New York: Longmans, Green, 1957).
6. The complex politics of the repeal of the Corn Laws are examined through endogenous tariff theory in Cheryl Schonhardt, 'Politics, Politicians, and Policymaking: Domestic Determinants of the Repeal of the Corn Laws', Ph.D. dissertation, UCLA, forthcoming.
7. A.A. Iliasu, 'The Cobden–Chevalier Commercial Treaty of 1860', *Historical Journal*, **14**, March 1971, pp. 67–98.
8. Charles P. Kindleberger, 'The Rise of Free Trade in Western Europe', *The Journal of Economic History*, **35**, 1, March 1975, pp. 20–55. For a view which questions the importance of British hegemony in creating the free trade regime of the nineteenth century, see Timothy J. McKeown, 'Hegemonic Stability Theory and Nineteenth Century Tariff Levels in Europe', *International Organization*, **37**, 1, Winter 1983, pp. 73–91.
9. See Peter A. Gourevitch, 'International Trade, Domestic Coalitions, and Liberty: Comparative Responses to the Crisis of 1876–1896', *Journal of Interdisciplinary History*, **8**, Autumn 1977, pp. 281–313; and Percy Ashley, *Modern Tariff History: Germany–United States–France* (New York: Dutton, 1920).
10. On the United States, see Lake, *Power, Protection and Free Trade*, pp. 91–118. On the Anglo–German competition, see Ross J. S. Hoffman, *Great Britain and the German Trade Rivalry, 1875–1914* (Philadelphia: University of Pennsylvania Press, 1933).
11. On late nineteenth-century Britain, see Eric J. Hobsbawm, *Industry and Empire: The Making of English Society*, Vol. 2, *1750 to the Present* (New York: Pantheon, 1968).
12. These are reviewed in Lake, *Power, Protection and Free Trade*, pp. 178–82.
13. See Kindleberger, *The World in Depression*.
14. This discussion follows from Lake, *Power, Protection and Free Trade*.
15. For a brief treatment of American hegemony and international openness, see Keohane, *After Hegemony, inter alia*, pp. 135–216.
16. See Edward John Ray, 'Changing Patterns of Protectionism: The Fall in Tariffs and the Rise in Non-Tariff Barriers', *Northwestern Journal of International Law and Business*, **8**, 2, Fall 1987, pp. 285–327.

17. See Lake, *Power, Protection and Free Trade*, pp. 149–52 and 163–6.
18. John A. Hobson, *Imperialism: A Study* (1902; third ed rev., London: G. Allen and Unwin, 1938); V.I. Lenin, *Imperialism: The Highest Stage of Capitalism* (New York: International Publishers, 1939).
19. On asset specificity and opportunism, see Oliver Williamson, *The Economic Institutions of Capitalism* (New York: Free Press, 1985). For an application of this argument to international relations, see my 'Predatory States and the Pursuit of International Security', UCLA, mimeo, 6 April 1988.
20. See Duncan Snidal, 'Limits of Hegemonic Stability Theory', Mancur Olson and Richard Zeckhauser, 'An Economic Theory of Alliances', *Review of Economics and Statistics*, **48**, 3, August 1966, pp. 266–79. I am aware of the criticism that free trade is not a collective good. See John A.C. Conybeare, 'Public Goods, Prisoners' Dilemmas, and the International Political Economy', *International Studies Quarterly*, **28**, 1, March 1984, especially pp. 8–9; and Arthur A. Stein, 'The Hegemon's Dilemma: Great Britain, the United States and the International Economic Order', *International Organization*, **38**, 2, Spring 1984, pp. 355–86. Yet, this criticism mis-reads the theory of hegemonic stability. Kindleberger, in *The World in Depression*, for instance, did not write that free trade was a collective good, but that certain infrastructural needs were — such as a reserve asset, international finance and a market for distress goods. These needs, in turn, have attributes of a collective good — or at least substantial positive externalities — which lead to their under-supply in the absence of a hegemonic leader willing to provide the necessary service. This argument is developed further in my *Power, Protection, and Free Trade*, pp. 33–8.
21. These figures are from Kenneth N. Waltz, *Theory of International Politics* (Reading, MA: Addison-Wesley, 1979), p. 212.
22. Figures are from Krasner, 'State Power and the Structure of International Trade'.
23. On challengers to hegemony, see Mark Brawley, 'Challenging Hegemony: How Cycles of Hegemony, Hegemonic Decline, Major War and Hegemonic Transitions are linked', Ph.D. dissertation, UCLA, 1989.
24. See Lake, *Power, Protection , and Free Trade*, pp. 148–83.
25. See Scott C. James and David A. Lake, 'The Second Face of Hegemony: Britain's Repeal of the Corn Laws and the American Walker Tariff of 1846', *International Organization*, **43**, 1, 1989, pp. 1–29.
26. See Lake, *Power, Protection , and Free Trade*, pp. 91–147.
27. See Keohane, *After Hegemony*.
28. See also Stephen D. Krasner, ed., *International Regimes* (Ithaca: Cornell University Press, 1983).
29. See, for instance, Richard N. Cooper, 'Trade Policy is Foreign Policy', *Foreign Policy*, No. 9, Winter 1972–73, pp. 18–36.
30. Gilpin, *US Power*.
31. See Joanne Gowa, 'Rational Hegemons, Excludable Goods, and Small Groups: An Epitaph for Hegemonic Stability Theory?', *World Politics*, **41**, 3, April 1989, pp. 307–42; and 'Bipolarity, Multipolarity and Free Trade', *American Political Science Review*, **83**, 4, December 1989, 1245–56.
32. See Robert Pahre, 'The Process of Hegemonic Leadership in Economic and Security Affairs', Ph.D. dissertation, UCLA, forthcoming.
33. For a recent review of the political issues created by intra-industry trade, see Charles Lipson, 'The Transformation of Trade: The Sources and Effects of

Regime Change', in Krasner, ed., *International Regimes*, pp. 233–71.
34. See Elhanan Helpman and Paul R. Krugman, *Market Structure and Foreign Trade: Increasing Returns, Imperfect Competition and the International Economy* (Cambridge: MIT Press, 1985).
35. Gilpin, *US Power*.
36. See Helen Milner, 'Trading Places: Industries for Free Trade', *World Politics*, **40**, 3, April 1988, pp. 50–76; and G.K. Helleiner, 'Transnational Enterprises and the New Political Economy of US Trade Policy', *Oxford Economic Papers*, **29**, 1, 1977.
37. See I.M. Destler and John S. Odell, *Anti-Protection: Changing Forces in United States Trade Politics* (Washington: Institute on International Economics, 1987).
38. Robert Axelrod, *The Evolution of Cooperation* (New York: Basic Books, 1984). On the effects of uncertainty, imperfect information and misperception, see George W. Downs, David M. Rocke and Randolph M. Siverson, 'Arms Races and Cooperation', in Kenneth A. Oye, ed., *Cooperation Under Anarchy* (Princeton: Princeton University Press, 1986), pp. 118–46.