

Hegemonic stability theory: an empirical assessment

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Hegemonic stability theory, which argues that international economic openness and stability is most likely when there is a single dominant state, is the most prominent approach among American political scientists for explaining patterns of economic relations among the advanced capitalist countries since 1945. It has provided a research programme for scholars, both as a positive guide and as a foil against which to test alternative theoretical explanations.

The basic contention of the hegemonic stability thesis is that the distribution of power among states is the primary determinant of the character of the international economic system. A hegemonic distribution of power, defined as one in which a single state has a predominance of power, is most conducive to the establishment of a stable, open international economic system.¹

In the mid-1970s Charles Kindleberger, Robert Gilpin and Stephen Krasner presented similar descriptions and explanations for patterns of international economic relations since the nineteenth century.² All viewed Britain in the late nineteenth century as a hegemon that provided stability and encouraged liberalization in the international economy, and saw the United States as holding a similar status and performing similar functions in the first decades after the Second World War. All interpreted the instability and closure in international economic relations in the inter-war period as a result of the absence of a hegemon; Britain had lost the ability and willingness to act as a hegemon, while the United States was unwilling to assume the role of hegemonic leader. Finally, all three warned that the United States had lost its hegemonic status by the mid-1970s, and predicted the erosion of international economic liberalization and the emergence of greater instability.

This paper is an attempt to assess the empirical validity of the hegemonic stability thesis as an explanation for trends in the international political economy since 1945. A decade and a half have passed since the initial statements of this thesis were first published. Many studies of the international political economy informed by (or written in reaction against) the hegemonic stability thesis have been published in the interim. We will draw on some of these, but this is not a literature review. It is a study of trends in the international political economy at a high level of aggregation. We examine first the power capabilities of the United States, and then look in some detail at developments in the areas of international trade and finance.

With regard to the independent variable, power capabilities, the position of the United States weakened from 1945 until about 1970, but has stabilized since. In aggregate terms the capabilities of the United States remain formidable compared to any other state in the international system, and compared with Britain in the nineteenth century, although in some specific issue areas its position has clearly deteriorated.

With regard to the dependent variable, international stability and openness, the international economic system has performed well. International trade has continued

to grow more quickly than aggregate economic activity. There have been dramatic increases in the relative importance of international financial flows. While aggregate economic growth has slowed since 1970, and there has been instability in certain areas, most notably oil prices and exchange rates, the international economic system has clearly not collapsed.

The hegemonic stability thesis: two versions

The hegemonic stability thesis draws on two distinct theoretical traditions to explain the inherent instability of non-hegemonic systems and the stability of hegemonic systems. Kindleberger, a liberal economist, bases his explanation on insights from game theory and, in particular, the 'logic of collective goods'. He argues that international economic stability is a public, or collective, good, since all countries benefit from it regardless of whether or not they contribute to its production. Small and medium-sized countries are unlikely to contribute to the production of this public good, since they know that their individual contributions will have little impact on the probability that it will be produced. Instead, they will be sorely tempted to free-ride, pursuing private national interests and hoping that others will produce the public good. But in a world of only small and medium-sized countries, all face the same temptations, and the public good of international economic stability will be underproduced.³ Only a hegemon has sufficient power and motivation to provide the public good of international economic stability by its own actions. Kindleberger concludes, therefore, 'that for the world economy to be stabilized, there has to be a stabilizer, one stabilizer'.⁴

Gilpin and Krasner accept the collective goods argument,⁵ but their own explanations for the instability of non-hegemonic systems put greater emphasis on the implications of international economic interactions for state power and national security.⁶ When the distribution of power is hegemonic the dominant state can promote liberalization without jeopardizing essential security objectives. This is because an open system increases the income, the growth, and the political power of the hegemonic state without seriously affecting its social stability, and because the hegemonic state 'has symbolic, economic, and military capabilities that can be used to entice or compel others to accept an open trading structure'.⁷

There are fundamental differences between these two versions of hegemonic stability theory. The collective goods version assumes that all countries would benefit from international economic liberalization and stability, but they are unable to achieve this common interest (in the absence of a hegemon) because of the institutional and strategic, in the game theoretic sense, obstacles to the provision of collective goods. The security version of the hegemonic stability theory, in contrast, does not assume that states have a common interest in international economic liberalization and stability. Even though an open system may raise the absolute level of welfare of all participants, some states will gain relative to others. If the pattern of relative gains threatens the security of powerful states, international economic liberalization will be restricted even though those states could have increased their absolute welfare by participating in a more open system.

The most important security conflict in the post-war period has, of course, been between the United States and the Soviet Union. The initial statements of the security version of the hegemonic stability theory did make some reference to this, but it did not play a central role in these analyses. Gilpin noted the difference between the bipolar context in which US hegemony was exercised, and the unipolar context in which British hegemony was exercised.⁸ The existence of bipolarity did not, in

Gilpin's formulation, explain patterns within the capitalist bloc. Krasner also noted that US hegemony was exercised in a bipolar political-security context, and argued that this structure did help to explain relations within the US led bloc. In particular, the United States accepted western European and Japanese departures from international economic liberalization in order 'to make sure that these areas remained with the general American sphere of influence'.⁹ But the bipolar security context within which the United States functioned was not given much emphasis in subsequent analysis.

The collective goods version of the hegemonic stability thesis has dominated subsequent academic debate. For example, Robert Keohane's influential 1984 book *After Hegemony*,¹⁰ focuses exclusively on the collective goods version in accepting US hegemony as a partial explanation for patterns of international economic relations in the 1950s and 1960s and in criticizing declining US hegemony as an explanation for subsequent patterns. The security implications of international stability and liberalization in an era of presumed US decline have been largely ignored. Discussions associated with hegemonic stability theory have largely assumed that what is at stake is absolute gains, and have ignored relative gains which are at the heart of the security analysis. Similarly, debates have focused almost exclusively on relations among the capitalist countries, ignoring the existence of a largely independent and adversarial Soviet bloc. In the conclusions we will return to the security implications of trends in US hegemony in the bipolar context, and will argue that further refinements of the thesis in line with the underlying logic of the security version of the argument can help to explain why trends in international economic liberalization have not been very consistent with the predictions of the early versions of the hegemonic stability thesis.

In both the collective goods and security versions of the hegemonic stability thesis, in order to maintain an open system, the hegemon must perform certain functions. It must take the lead in organizing trade liberalization and in keeping its market open in times of recession. It must manage the international monetary system, supplying the international currency, providing liquidity to the system (especially in times of crisis), and managing the structure of exchange rates. Finally, it must supply investment capital and otherwise encourage development in the peripheral areas of the system.

In short, the core sets and enforces the rules of economic exchange and development. These rules are accepted by the periphery in part owing to the power of the core and in part because the system generates growth for both core and periphery.¹¹

A hegemon must be very powerful relative to other states in the system if it is to perform these functions. Early versions of the hegemonic stability thesis focused on measures of the aggregate capabilities and levels of development of states as indicative of their potential power.¹² By these criteria, the United States was clearly a hegemon in the first decades after the end of the Second World War, and during these years the United States behaved as a stabilizing and liberalizing hegemon.

At some point between 1960 and the mid-1970s, the United States lost the margin of power required to successfully perform the hegemonic functions. Other countries (particularly the Soviet Union, West Germany, and Japan) had increased their military and economic capabilities faster than had the United States, narrowing the relative lead upon which US hegemony depended. Different authors dated the decline of US hegemony differently. Kindleberger believed that the United States had ceased to be a hegemon at some point between 1963 and 1971.¹³ Gilpin stated that the decline of US hegemony began 'sometime after the mid-1960s', and that certainly by the

mid-1970s the United States had lost much of its ability to function as a hegemon.¹⁴ Krasner dated the beginning of serious US hegemonic decline as early as 1960. These authors all predicted a decade-and-a-half ago that the decline of US hegemony would lead to instability and closure in the international economic system.¹⁵ Joint action by the United States, the EEC and Japan would not be sufficient to maintain the stability and openness of the system.

US power: measuring the independent variable

This section will review some evidence on trends over time (and especially since the 1970s) in the international distribution of power resources identified in various versions of the hegemonic stability thesis. These indicators (and the previously cited studies in which they have been used) are:

1. The aggregate size of the US economy relative to its main competitors (Gilpin, 1975; Krasner, 1976; Kindleberger, 1973);
2. Per capita income in the United States relative to that in its main competitors (Krasner, 1976);
3. Relative economic growth rates (Gilpin, 1975; Krasner, 1976);
4. US share of world trade, compared to the shares of its main competitors (Krasner, 1976; Kindleberger, 1973);
5. US share of international investment (Krasner, 1976; Gilpin, 1975);
6. US share of world monetary reserves (Gilpin, 1975).

1. Relative aggregate size of the US economy

Table 1 presents data on US GDP and GNP relative to major competitor countries from 1953 to 1986. The data reveal that the relative size of the US economy did fall sharply between the early 1950s and the early 1970s. However, the relative aggregate size of the US economy has remained stable since the early 1970s. The US share of total OECD GDP has remained approximately 40 per cent, as its size relative to some major OECD countries has increased while its size relative to Japan has declined moderately. Since 1975, the gap between the United States and the much smaller Soviet Union has increased significantly. Declining hegemony arguments written in the early and mid-1970s correctly described the trend in this power indicator up to that point, but erred in implicitly extrapolating past trends into the future. The United States remains the largest economy in the world by a very large margin; in 1984, it was almost twice the size of the Soviet Union, its nearest competitor.

2. Relative per capita incomes

Table 1 also presents data on US output per capita relative to that in major competitor countries. A similar pattern to that in aggregate size is evident. The US lead over other countries fell sharply in the 1950s and 1960s, but has remained relatively stable since the early 1970s. Only Japan has continued to catch up to the United States, while the US lead over the Soviet Union, Britain and West Germany has actually increased in recent years. This pattern does not support those advocates of hegemonic stability who maintain that the position of the dominant power is bound to decline. If purchasing power parities rather than current exchange rates are used to measure per capita income then the United States has maintained the highest standard of living throughout the post-war period.¹⁶

TABLE 1. US output compared to output of major competitors, in per cent

	1953	1960	1970	1975	1980	1986
1. US output as % of output in:						
USSR	316 ^a	201	180	172	184	187 ^b
OECD	57.7	53.4	40.4	39.0	38.9	39.8
UK	791	714	554	558	604	641
W. Germany	839	712	487	494	492	538
Japan	1719	1161	345	315	290	278
2. US output per capita as % of:						
USSR	420 ^a	238	214	205	214	217 ^b
UK	251	207	150	145	149	151
W. Germany	257	219	144	141	133	136
Japan	929	601	175	162	148	140

Notes: Comparisons with USSR (all years) and OECD countries (all years except 1960) are made at purchasing power parities; 1960 comparisons with OECD countries are made at current exchange rates. US-USSR comparisons are based on GNP; US-OECD comparisons are based on GDP.

^a 1951.

^b 1984.

Sources: US-USSR comparisons 1960-84 from CIA, *Handbook of Economic Statistics*, 1985; US-USSR comparison for 1951 from Krasner, 'State Power', p. 346. US-OECD comparisons 1960-86 based on OECD, *National Accounts 1960-1986. Volume I: Main Aggregates* (1988), pp. 130-1, 145. US-OECD comparisons 1953 calculated from UN *Yearbook of National Accounts Statistics 1965*.

3. Relative growth rates

Table 2 presents comparative data on real growth rates. US growth rates were slower than those of its main competitors and slower than the developed market economy countries as a group during the 1950s, 1960s and early 1970s. Since the mid-1970s, US growth rates have matched or exceeded those of its main competitors, with the exception of Japan, and that of the developed market economy countries as a group. Recent US growth rates may be a sign of weakness, however, since they have been underwritten by massive fiscal deficits financed by borrowing from abroad.

TABLE 2. Average annual economic growth rates, in per cent

	1953-60	1961-70	1971-75	1976-80	1981-84	1985-87
US	2.6	3.8	2.2	3.3	2.5	3.7
USSR	5.7 ^a	5.1	3.7	2.7	2.7	n.a.
DME total ^b	3.6	4.8	2.9	3.4	2.1	2.8
Japan	7.9	11.7	4.4	5.0	3.8	3.5
W. Germany	8.5	4.5	2.1	3.4	1.0	1.7

^a 1951-60.

^b All industrialized countries as classified by IMF.

Sources: USSR data from CIA, *Handbook of Economic Statistics 1985* (for 1980-84) and CIA, *USSR: Measures of Economic Growth and Development 1950-1980* (1982) (for 1951-79). All other data calculated from International Monetary Fund, *International Financial Statistics*, various issues.

TABLE 3. US shares of world trade, international investment, and world monetary reserves, in per cent

	1948	1955	1960	1970	1975	1980	1986
1. (a) US share of world exports plus imports	33.2	28.3	26.8	25.8	24.0	23.6	27.9
(b) closest competitor's share	23.7	19.4	17.0	20.1	18.6	18.9	20.2
	UK	UK	UK	Ger	Ger	Ger	Ger
2. US share of FDI outflows from DMEs	n.a.	n.a.	58.6	57.1 ^a	43.7 ^b	-9.7 ^c	30.8
3. (a) US share of DMEs' outward stock of FDI	n.a.	n.a.	n.a.	53.6 ^d	48.0	46.7	43.8 ^e
(b) closest competitor's share (UK)	n.a.	n.a.	n.a.	16.6 ^d	11.9	17.0	16.9 ^e
4. US share of FDI inflows into DMEs	n.a.	n.a.	4.3	16.4 ^a	26.2 ^b	41.9	51.1
5. (a) US share of world monetary reserves ^g	50.1 ^f	42.4	32.3	15.5	13.1	17.6	14.0
(b) closest competitor's share ^g	7.1 ^f	5.6	11.7	14.6	12.9	10.8	10.6
	UK	Ger	Ger	Ger	Ger	Ger	Ger

^a Annual average, 1967-69.

^b Annual average, 1973-75.

^c 1982. This year is shown because in it the US experienced a net repatriation of FDI by American companies equal to 9.7 per cent of FDI outflows from other DMEs. In 1980, the US share of FDI outflows from DMEs was 36.3 per cent.

^d 1967.

^e 1983.

^f 1950.

^g Gold in reserves is valued at 35 SDRs per ounce up to 1970, is valued at current market values for 1975, 1980, and 1986. Data exclude countries which are not members of the IMF (i.e., the Soviet bloc and Taiwan, which has accumulated enormous reserves in the 1980s).

Sources: 1(a) and 1(b) from: UN, *Yearbook of International Trade Statistics 1960 and 1970-71*; UN, *1984 International Trade Statistics Yearbook*; GATT, *International Trade 1986/87*.

2 and 4: 1960 data from UN, *Multinational Corporations in World Development* (1973), pp. 144-5; 1967-69 and 1973-75 data from UN, Commission on Transnational Corporations, *Transnational Corporations in World Development: A Re-examination* (1978), p. 238; 1980, 1982 and 1986 data from IMF, *Balance of Payments Statistics Yearbook*, Volume 38, Part 2 (1987), p. 68.

3(a) and 3(b): 1967 data and 1975 outward stock data from UN, Commission on Transnational Corporations, *Transnational Corporations in World Development: A Re-examination* (1978), pp. 236-7; 1975 inward stock data, 1980 and 1983 data from OECD, *International Investment and Multinational Enterprises: Recent Trends in International Direct Investment* (1987), pp. 63-5.

5(a) and 5(b): IMF, *International Financial Statistics Yearbook 1987*, and IMF, *International Financial Statistics* (August 1988).

FDI = Foreign Direct Investment.

DME = Developed Market Economy.

4. *Shares of world trade*

1(a) and 1(b) of Table 3 show that the US has accounted for a larger proportion of international trade than any other country throughout the post-war period. The US share fell sharply in the late 1940s and early 1950s, and then more gradually until the early 1980s. By 1986 it had increased again to the level of the late 1950s, although the composition of its share has changed dramatically. In the 1950s, the US share of world exports was greater than its share of world imports as it ran large trade surpluses; in the 1980s, the US share of world imports was greater than its share of world exports (and West Germany accounted for a larger share of world exports in 1986 [11.5 per cent] than did the US [10.3 per cent]) as it ran large trade deficits.

The power implications of trends in the US share of world trade are mixed. A declining share of world exports is conventionally interpreted as a sign of eroding competitiveness and power. On the other hand, the rising US share of world imports implies that the US market is becoming a more important market for foreign exporters, a potential source of leverage.

5. *Shares of international investment*

2, 3 and 4 of Table 3 present data on the US share of international direct investment. The US share of FDI outflows from developed market economy countries has declined substantially since the 1960s, although there has been considerable recovery from the low point reached in 1982. In part as a result, the US share of the developed market economy countries' outward stock of FDI has also fallen, though not so dramatically. The United States still has by far the largest stock of outward FDI of all countries. Presumably, the US share has continued to fall since 1983 (the latest year for which comparative data are available), as FDI inflows into the United States have continued to grow rapidly. The US share of FDI inflows into developed market economy countries has risen sharply from less than 5 per cent in 1960 to over 50 per cent in the mid-1980s.

6. *Shares of world monetary reserves*

5(a) and 5(b) of Table 3 show that the US share of world monetary reserves fell between 1950 and 1970, and has remained at around 13 to 17 per cent since that time.¹⁷ Low reserves have not, however, constrained the United States as they would other countries. The United States is the only country that is able to create money that foreigners are willing to hold because of its near-universal use as the world's primary reserve and transactions currency, and it is the only country that is able to borrow substantial amounts from foreigners in its own currency.¹⁸

In sum, virtually all of the indicators surveyed reveal a decline in US power resources from the early 1950s to the early 1970s, but since the early 1970s, the overall US position has changed little, and it still remains by far the world's largest economy.

In some specific issue areas, however, the power capabilities of the United States have declined more dramatically. As a major debtor rather than creditor it has less ability to influence the policies of borrowers even if it can still hold its lenders hostage. The United States no longer has, as it did before 1970, surplus crude oil production capacity that could be used to offset production cutbacks by Third World oil exporting states. Japan has effectively challenged American global economic dominance of many high technology sectors. The Soviets have achieved parity in the area of nuclear weapons.

Liberalization: measuring the dependent variable

In the following pages, we will investigate trends in international trade and international investment, examining both government policy and international flows.

i. International investment and capital movements

1 and 2 of Table 4 show that international flows of FDI have remained at high levels throughout the 1970s and 1980s. Flows have been much greater in the 1980s (after a setback around 1982 due to the world recession and the Third World debt problems) than they were in the 1960s. 3 and 4 of Table 4 show that outward and inward stocks of FDI among the developed market economy countries continued to grow strongly in the 1970s and 1980s. 2, 3 and 4 of Table 3 reveal that flows have become more balanced: the US role as a supplier of FDI has declined while its role as a host for FDI has become much more important.

It should be noted, however, that FDI has never accounted for a very high share of total investment in the advanced capitalist countries. In 1970–71 FDI inflows accounted for only 3.5 per cent, and FDI outflows only 1.8 per cent (unweighted average) of gross fixed capital formation in the developed market economy countries. In 1982–83, FDI inflows accounted for 2.7 per cent, and outflows for 2.2 per cent, of gross fixed capital formation in these countries.¹⁹

Trends in international banking and international bond financing are quite clear, with most measures indicating that the volume of these flows has increased sub-

TABLE 4. Flows and stocks of foreign direct investment by developed market economy countries, 1960–1986, in billions of dollars or SDRs^a

	1960	1967	1975	1980	1982	1984	1986
1. Outflows from DMEs	2.9 (\$)	9.1 ^b (\$)	26.3 ^c (\$)	40.8 (SDR)	20.7 (SDR)	38.7 (SDR)	78.8 (SDR)
2. Inflows into DMEs	2.3 (\$)	5.5 ^b (\$)	14.5 ^c (\$)	31.0 (SDR)	26.2 (SDR)	36.6 (SDR)	41.1 (SDR)
3. Outward stock of FDI from DMEs	n.a.	\$106	\$259	\$458 ^d	n.a.	\$516 ^{de}	n.a.
4. Inward stock of FDI in 5 major DMEs ^f	n.a.	\$40	\$94	\$235	n.a.	\$282 ^e	n.a.

^a Before 1971, 1 SDR = \$1. SDR valuation for more recent data eliminates some of the distortions created by dollar exchange rate fluctuations. SDR values have been used wherever available.

^b 1967–69 annual average.

^c 1973–75 annual average.

^d Does not include Switzerland, which has substantial holdings of FDI abroad.

^e 1983.

^f Canada, West Germany, Japan, UK, US.

Sources: 1980–86 flows data from IMF, *Balance of Payments Statistics Yearbook*, Volume 38, Part 2 (1987), p. 68. 1967–69 and 1973–75 flows data, 1967 inward stock data, and 1967–75 outward stock data from UN, Commission on Transnational Corporations, *Transnational Corporations in World Development: A Re-examination* (1978), p. 238. 1960 flows data from UN, *Multinational Corporations in World Development* (1973), pp. 144–5. 1975–83 inward stock and 1980–83 outward stock data from OECD, *International Investment and Multinational Enterprises: Recent Trends in International Direct Investment* (1987), pp. 63–5.

stantially in the 1970s and 1980s; indeed, in retrospect it appears that the growth of these markets had only just begun in the 1960s. Net international bank credit has grown from \$12 billion in 1964 to \$122 billion in 1972, \$810 billion in 1980, \$1240 billion in 1983, and \$1485 billion in 1985, for a compound annual growth rate of 25.8 per cent, far higher than the compound annual growth rate of 10.4 per cent for world GDP or the rate of 12.4 per cent for international trade in goods and services.²⁰ Lending to foreign residents has grown sharply as a percentage of total loans made by banking offices based in the major industrialized countries. In the United States, it rose from 2.4 per cent in 1962 to 16.8 per cent in 1985; in the United Kingdom, it rose from 11.3 per cent in 1963 to 54.3 per cent in 1983; in West Germany, from 2.7 per cent in 1962 to 8.5 per cent in 1985; and in Japan, from 3.1 per cent in 1973 to 7.4 per cent in 1985.²¹

Foreign-owned banking institutions have become much more important players in financial markets in the major industrialized countries. Between December 1970 and June 1985, the percentage of total bank assets (i.e., loans) held by foreign-owned banks rose from 5.8 per cent to 12.0 per cent in the United States, from 37.5 to 62.6 per cent in the United Kingdom, from 1.3 to 3.6 per cent in Japan, from 1.4 to 2.4 per cent in Germany, and from 12.3 per cent to 18.2 per cent in France.²² Finally, international placements of bonds have increased at an enormous rate; whereas issues and placements of bonds in foreign markets and in the Eurobond market amounted to \$3.3 billion in 1965, in 1986 their value was \$227 billion.²³

The Third World debt crisis and the recession of the early 1980s did not permanently impede the growth of international capital markets.

The trend towards greater liberalization of international investment and international capital markets in the 1970s and 1980s is also apparent in government policies. No summary statistics are available, but governments throughout the developed market economy countries have substantially relaxed controls on international capital movements in recent years. The trend towards liberalization in policies began with the return to convertibility in the late 1950s, but the most significant and difficult (in terms of opening domestic financial industries to foreign competition) steps were taken in the 1970s and 1980s.

The recent liberalization of international investment and of international capital markets as measured by flows and by government policies presents a problem for the hegemonic stability thesis, a fact that has been recognized by some proponents of the theory.²⁴

ii. International trade

Krasner identified three measures of trade liberalization in his early application of the hegemonic stability thesis to international trade liberalization. These measures were the ratios of trade to national income for different countries (increasing ratios indicate increasing openness), tariff levels, and the concentration of trade within regions composed of states at different levels of development (lesser regionalization indicates greater liberalization). In this section we will use these measures as a starting point, updating and modifying them to accord better with changes in trade policy and in regional patterns of trade.

Regarding trade proportions, international trade has grown faster than world output continuously throughout the period since 1945, as shown in Table 5.

Table 6 presents data on long-term trends in trade proportions for the seven largest developed market economy countries. Caution should be used in making comparisons across periods, since the coverage and reliability of the statistics vary.

Nevertheless, the data are indicative. Another indicator of liberalization of trade flows is regional patterns of international trade. Declining regionalization indicates increasing openness. Krasner presented data on the period up to the mid-1960s which indicated that regionalization in trade patterns had declined since 1945.²⁵

TABLE 5. Average annual growth rates of volume of world trade (merchandise exports) and world commodity output (volume), in percent, and elasticities of trade growth relative to output growth

	1949-53	1954-59	1960-69	1970-79	1980-87
1. World trade	5.9	6.3	9.0	6.0	2.9
2. World output	4.9	5.0	6.2	4.3	2.1
3. Elasticity	1.20	1.26	1.45	1.40	1.38

Source: Calculated from world trade and world commodity output indexes in GATT, *International Trade*, various issues.

TABLE 6. International trade (exports plus imports^a) as a proportion of national output,^b 1840s to 1987,^c in per cent

	1840s	1880s	pre- WWI	1920s	1952	1960	1970	1980	1985	1987
US	15	13	12	12	9.8	9.5	11.2	24.5	20.4	21.7
UK	26	49	52	38	51.3	43.9	46.1	52.2	57.0	53.4
Japan	n.a.	13	33	41	23.2	21.6	20.3	30.7	29.1	21.6
Germany	13	34	38	31	29.4	44.0	40.1	57.1	65.8	57.5
France	18	29	54	51	28.6	27.9	32.2	44.3	47.2	41.6
Italy	10	26	34	30	23.2	29.6	35.0	43.8	43.3	36.3
Canada	n.a.	30	36	50	41.5	36.2	44.0	54.7	53.8	51.1

^a Goods and services, except goods only for UK (1920s), Germany and France (1840s, 1880s, pre-WWI, 1920s), and Canada (1880s).

^b GDP for all countries 1952-87 and for Japan, earlier years. GNP for US, UK, Italy and Canada for earlier years. Physical product for France, earlier years, and net total uses for Germany, earlier years.

^c For years prior to WWII, we have selected the years closest to the date indicated for which data are available in Kuznets. Exact years covered can be obtained from the authors.

Sources: For 1920s and earlier data, Simon Kuznets, 'Quantitative Aspects of the Economic Growth of Nations: X. Level and Structure of Foreign Trade: Long-Term Trends', *Economic Development and Cultural Change*, 15(2), (Part II), (January 1967), Table 4 and Appendix Table 1. For 1952-70 data, OECD, *National Accounts Statistics, 1951-1980. Volume I: Main Aggregates* (1982). For 1980-87 data, OECD, *Quarterly National Accounts* No. 1 1988.

Table 7 presents data on the importance of regional trade flows since the early 1960s. The concentration of trade within regions composed of states at different levels of development is shown by data on trade between the major developed regions (North America, the EEC and Japan) and the developing regions with which they are most closely associated as a proportion of the developed regions' total trade. Since the early 1960s, there has been concern outside of the EEC that the EEC itself is becoming a closed trading bloc. In the 1980s, with the negotiation of the Canada-US Free Trade Agreement, similar concerns have been raised about North America. The Table therefore also shows trends in the importance of intra-regional trade for the EEC and North America over time.

TABLE 7. Regional trade as a proportion of total trade, by major developed market economy regions and with associated developing areas, in per cent

	1963	1970	1980	1986
1. North America–Latin America	15.6	12.2	14.1	9.6
2. Japan–Asian LDCs	21.5	19.6	23.4	22.2
3. EEC–Africa	7.0	5.9	6.2	3.9
4. EEC–EEC	23.5	26.4	26.9	29.3
5. North America–North America	14.1	17.6	12.9	15.2

Notes: In each case, the figure given is the per cent of the developed region's total world trade that is conducted with the named developing or developed region.

Source: Calculated from GATT, *International Trade 1986–87*.

Trade within regions composed of states at different levels of development has generally fallen between the early 1960s and the mid-1980s, indicating greater liberalization in international trade. Trade within the EEC has increased somewhat as a proportion of the total trade of the EEC members, but the change is fairly small, and trade within North America as a proportion of total American and Canadian trade does not exhibit any clear trend. Overall, trade has not become more regionalized since the early 1960s, and there are some indications of declining regionalization.

Data on state policies regarding trade liberalization are less easy to interpret. Trade barriers in the form of tariffs have been cut to the point that they no longer constitute significant barriers to trade among the industrialized countries.

Non-tariff barriers (NTBs) have become increasingly salient as tariff barriers have ceased to have substantial effects on trade flows. Estimates of the incidence of NTBs across countries are available only for the 1980s, which poses a huge problem for our analysis because it means that the overall level of protection imposed by NTBs in the 1980s cannot be directly compared with the overall level of protection imposed by NTBs and tariffs in the 1950s and 1960s. The best estimates of the incidence of NTBs that we have found are presented in Table 8.

The World Bank Staff estimates presented in Table 8 are roughly comparable with OECD estimates. According to the OECD, products restricted by NTBs accounted in 1980 for 6 per cent of total manufactured imports into the United States and 11 per cent in the EEC; by 1983 the share of products restricted by NTBs had increased to 13 and 15 per cent in the United States and the EEC, respectively. Products restricted by NTBs accounted for 20 per cent of total consumption of manufactured goods in OECD countries in 1980, and for 30 per cent in 1983.²⁶

Finally, it is worth noting that NTBs are concentrated in a small number of sectors, the most important of which are agricultural products, textiles, mineral fuels, and iron and steel.²⁷ Non-tariff barriers in these areas are not new. Formal agreements restricting textile trade, for instance, were initiated in the mid-1950s. Likewise, the international automobile trade has also been affected by non-tariff barriers during almost all of the post-war period.²⁸

Summing up, international trade has continued to grow faster than output throughout the period since 1945. Furthermore, there has been no significant decline in the ratio between the growth of merchandise exports and the growth of merchandise production since the 1960s (see Table 5). International trade has continued to grow as a proportion of output for the major developed countries. Trade flows (including trade in manufactures) are now at the highest level in

TABLE 8. Extent of industrial countries' NTBs, by country, 1983, in per cent

	Own import coverage ratio ^a		Frequency ratio ^b	
	1983	Change since 1981	1983	Change since 1981
EEC	22.3	+2.5	13.8	+1.5
France	57.1	+2.7	24.0	+2.0
W. Germany	12.4	+2.8	12.5	+1.5
Italy	6.9	+1.0	9.7	+1.6
UK	14.3	+3.6	13.8	+1.2
Japan	11.9	0.0	9.3	+0.1
USA	43.0	+1.3	7.0	+0.1
17 DMEs ^c	27.1	+1.5	12.8	+0.3

^a Per cent of the country's own imports in 1981 that were subject to NTBs in 1983.

^b Per cent of items on national commodity import lists that are subject to NTBs.

^c The 17 DMEs covered are the 10 EEC members plus Australia, Austria, Finland, Japan, Norway, Switzerland and the USA.

Source: Julio J. Nogues, Andrzej Olechowski and L. Alan Winters, *The Extent of Nontariff Barriers to Imports of Industrial Countries*, World Bank Staff Working Paper Number 789 (1986), pp. 16, 61.

proportion to national output ever recorded for most developed market economy countries. Regional trade patterns eroded during the 1950s and 1960s and have not revived. The trend towards greater trade liberalization as measured by trade flows was consistent with the hegemonic stability thesis in the 1950s and early 1960s, since this was the period in which the United States has been described as hegemonic. Whether continued liberalization in more recent years is inconsistent with the theory depends upon a judgement about the independent variable, whether or not the United States should still be regarded as hegemonic.

Summarizing data on trade policies is more difficult. Tariff liberalization in the 1960s and 1970s eliminated tariffs as a significant barrier to trade among the advanced industrialized countries. The Tokyo Round, which finalized this achievement, reached agreement on tariff cuts in the late 1970s after American relative power had peaked. At the same time, however, the Non-Tariff Barrier Codes of the Tokyo Round moved away from unconditional most favoured nation treatment because only the signatories of the codes were entitled to their benefits. NTBs have become a more salient trade issue in recent years in part because tariffs have become almost irrelevant, but there is no systematic evidence that would enable us to determine whether NTBs in the 1980s are more restrictive than tariffs and NTBs in the 1950s and 1960s.

Conclusions

This paper has not attempted to traverse the entire literature that has grown up around the concept of hegemonic stability. Rather, it has focused on empirical developments in the areas of international trade and finance, and on the question of whether the United States should still be regarded as a hegemon. What conclusions can be drawn?

First, there is ambiguity about how the United States should be classified. Aggregate measures of American capabilities declined until the 1970s, but have stabilized since. The United States is still far larger than any of its competitors, and far larger than Britain was at the peak of its power in the nineteenth century.²⁹ In some specific issue areas, however, such as oil, share of world exports and international credits, the American position has continued to deteriorate and declined to the point where its capabilities are, at best, equivalent to those of some other states.

Second, the international economic system has not fallen apart over the last two decades, and in some areas openness has increased. With the exception of a few recessionary years, trade has continued to grow faster than aggregate economic activity. There is no indication of strong regionalization of trade patterns. While non-tariff barriers may have increased in recent years, and even here the evidence is ambiguous, there has been no resurgence of tariffs, which are at historically very low levels. Global financial activity has increased dramatically since the mid-1970s.

This is not, however, to say that all has been smooth sailing. If other empirical referents are examined the situation is more mixed. Overall economic performance has declined since 1970: growth rates are slower, and unemployment and inflation are higher. Some aspects of the international economic system, especially exchange rates, are less stable. While global oil prices have, at least temporarily, both stabilized and declined, the sharp increases in prices during the first and second oil crises were a major source of disruption for the world economy. The debt burden of some Third World countries has precipitated a major absolute decline in their standard of living.

Some of these negative aspects of international economic performance are clearly associated with the declining power of the United States. While Arab exporting states tried and failed to impose a production cutback and embargo after the 1967 Middle East war they succeeded after the 1973 war because in the interim the United States had become a net importer of crude oil: it no longer had the spare capacity to counter even a modest production cutback. The Third World debt crisis began as a result of the need of international banks to recycle petro-dollars, and inflation in the United States which made real interest rates negative during the late 1970s. Changes in the international monetary system were unilaterally initiated by the United States in August 1971, and American policymakers accepted the demise of the fixed exchange rate system in 1973.

Nevertheless, if the hegemonic stability thesis is understood to mean that stability is only possible if there is a hegemonic power and that the United States is no longer a hegemon, then recent empirical developments are not consistent with the theory. Despite setbacks and difficulties, the world economy has performed too well, and remained too open.

Can the theory be defended, reformulated, or resurrected? The most obvious defence is to maintain that the United States is still a hegemon, albeit a waning one. Such an argument would be consistent with empirical developments in the last four decades; growing instability, although not collapse or closure, has been associated with declining but still formidable American power.

Even if the United States is no longer seen as a hegemon, hegemonic stability theory could also be defended by recognizing that initial proponents of the theory pointed out that there would be lags between changes in the distribution of power and changes in international transactions. Vested societal interests, legal strictures, and international arrangements persist even after international power has declined. But it must be noted that no systematic analysis of lags has yet been offered.

Even if recent developments are not consistent with the proposition that stability and openness is only possible if there is a hegemon (a proposition that was, for

instance, not advanced by the second author of this article), power based arguments could still provide an explanation for recent developments. David Lake, for instance, has argued that co-operation is possible if there are two dominant actors in the system.³⁰ If power is desegregated, issue specific analyses do offer a plausible explanation for developments in some areas such as oil and the exchange rate regime.

Kindleberger's arguments might not yet have been truly tested. Kindleberger was primarily, although not exclusively, concerned with the problem of maintaining rather than creating a stable open system. The real test of hegemonic leadership arises in times of crises. In recent years, the international economic system has weathered some major shocks. To the extent that they have posed the need for a lender and market of last resort, the United States has continued to effectively play such roles keeping its market open for goods and providing emergency financing for major Third World debtors in the early 1980s. Whether the United States, having become the world's largest debtor, will be able to play such a role in the future remains to be seen.

Finally, and perhaps most important, a greater emphasis on the security aspects of hegemonic stability arguments provide a better explanation for developments within the western bloc and between the East and the West than analyses that ignore the implications of international economic transactions for relative power capabilities. The United States has functioned in a bipolar world since 1945. International economic liberalization and co-operation has involved only countries that are members of the US-led 'pole'. The countries most deeply involved in international economic co-operation and interdependence are all members of a military alliance (NATO plus Japan). These states need not be so concerned with relative gains from international economic co-operation with their alliance partners. Thus, a traditional obstacle to international co-operation and commerce was eliminated in the case of the advanced capitalist countries. The conviction that absolute gains for alliance members enhance rather than undermine national security has facilitated co-operation and market integration throughout the period.

The contrast between US foreign economic policy towards its capitalist allies and its policies toward the Soviet bloc is instructive. For political and strategic reasons, the US government has sought to prevent commerce between the advanced industrialized market economy countries and the Soviet bloc in goods and services that could accelerate Soviet economic growth and enhance its military power. This policy has been pursued even though it has hurt US exporters whose west European and Japanese competitors face less restrictive controls on trade with the Soviet bloc, and even though it has generated considerable tension between the United States and its allies. The desire to prevent the Soviet Union from gaining economic or military advantage relative to the United States has made top American leaders willing to sacrifice absolute gains in exports and growth for the US economy. In contrast, the United States has pursued relatively open trade and finance policies with respect to its western allies and Japan. The US economy has undoubtedly benefited in absolute terms from these policies, but as the data presented in the first section of this paper indicate, allied countries also gained relative to the United States at least until the 1970s (and up to the present in the case of Japan) in terms of growth and per capita output. The importance of bipolarity as an explanation for the post-war international political economy supports the basic orientation of the security versions of the hegemonic stability thesis even as it helps to explain why the specific analytic arguments associated with this approach have not been sustained by recent empirical evidence; international capital flows and much of international trade in the post-war period have been dependent upon the security system established under US leader-

ship to serve US security interests. The implications of international economic relations for the bipolar conflict not only led the United States to follow open-handed policies during the immediate post-war period, they also have continued to vitiate concerns about relative gains among alliance members.

References and notes

1. Although some analysts have argued that hegemonic stability asserts that openness is possible only with a hegemon, this is not the position taken by the original progenitors of the theory. Kindleberger was concerned not with the creation of openness but sustaining openness in the face of crisis. Krasner noted that other distributions of power, such as a system with many small states, could also produce an open system. See, for instance, Krasner, 'State Power and the Structure of International Trade', *World Politics*, xxviii (1976), p. 321 and Chart 1.
2. Charles Kindleberger, *The World in Depression* (Berkeley, 1973); Robert Gilpin, *U.S. Power and the Multinational Corporation* (New York, 1975); and Stephen D. Krasner, 'State Power'.
3. Charles P. Kindleberger, 'Dominance and Leadership in the International Economy: Exploitation, Public Goods, and Free Rides', *International Studies Quarterly*, xxv (1981), pp. 247, 249–50.
4. Kindleberger, *The World in Depression*, p. 205.
5. See especially Gilpin, *U.S. Power and the Multinational Corporation*, p. 40.
6. These authors also focus more on liberalization than does Kindleberger, who focuses on stability. However, Kindleberger implicitly considers a substantial degree of liberalization as a defining characteristic of 'stability'.
7. Krasner, 'State Power', p. 322.
8. Gilpin, *U.S. Power and the Multinational Corporation*, pp. 104–6. For an analysis emphasizing the way in which what we have called the collective goods version of the hegemonic stability thesis departs from the traditional realist analysis see Joseph M. Grieco, 'Anarchy and the Limits of Cooperations: A Realist Critique of the Newest Liberal Institutionalism', *International Organization*, xlii (1988).
9. Krasner, 'State Power', p. 337.
10. Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton, 1984).
11. Gilpin, *U.S. Power and the Multinational Corporation*, p. 48; see also Kindleberger, 'Dominance and Leadership in the International Economy', p. 247.
12. Gilpin, *U.S. Power and the Multinational Corporation*; and Krasner, 'State Power'.
13. Kindleberger, 'Dominance and Leadership in the International Economy', p. 247.
14. Gilpin, *U.S. Power and the Multinational Corporation*, pp. 42, 46.
15. Charles P. Kindleberger, 'Systems of International Economic Organization', in David Calleo (ed.), *Money and the Coming World Order* (New York, 1976), pp. 33–6; Kindleberger, 'Dominance and Leadership in the International Economy', pp. 248, 250, 252–3; Gilpin, *U.S. Power and the Multinational Corporation*, pp. 42, 72–3, 255–62; and Krasner, 'State Power', pp. 332, 340–3.
16. OECD, *National Accounts 1960–1986. Volume I: Main Aggregates*, p. 145. OECD data for 1987, which show that the US lead continues, are given in graphic form in *Economist*, 27 August 1988, p. 89.
17. The volume of foreign exchange and gold in many countries' monetary reserves has remained quite stable in the late 1970s and 1980s, with fluctuations accounted for in large part by fluctuations in gold prices and exchange rates for various reserve currencies. This raises doubts about the validity of share of world monetary reserves as an indicator of power resources additional to that raised in the text.
18. Susan Strange, 'The Persistent Myth of Lost Hegemony', *International Organization*, xli (1987), pp. 568–9.
19. The shares for individual countries varied around these averages (for example, FDI inflows accounted for 0.5 per cent, and outflows for 4.1 per cent, of gross fixed capital formation in the US in 1970–71, and for 4.1 and 2.6 per cent respectively in 1980–81), but the averages do appear to reflect broad trends accurately. See: UN Centre on Transnational Corporations, *Trends and Issues in Foreign Direct Investment and Related Flows* (1985), pp. 19–20.
20. World figures exclude Soviet bloc, and all figures are based on current prices and exchange rates (i.e., they are not adjusted for inflation). 'Net' international bank credit means net of interbank lending. Source: BIS and IMF data reported by Ralph C. Bryant, *International Financial Intermediation* (Washington, 1987), p. 22.
21. Calculated from Bryant, *International Financial Intermediation*, Tables 3–7, 3–9, 3–10, 3–12.
22. BIS, *Recent Innovations in International Banking* (April 1986), p. 152.
23. IMF, *International Capital Markets: Developments and Prospects* (1981), p. 52 and (1988), p. 73.
24. Gilpin, *The Political Economy of International Relations* (Princeton, 1987), p. 252.

25. Krasner, 'State Power', pp. 329–31.
26. OECD, 'Costs and Benefits of Protection', *OECD Observer*, No. 134 (May 1985), pp. 18–23.
27. *Ibid.*, p. 17.
28. James Dunn, 'Automobiles in International Trade: Regime Change or Persistence?' *International Organization*, xli (1987), pp. 225–53.
29. The argument that the United States is still a hegemon is forcefully made by Bruce Russett, 'The Mysterious Case of Vanishing Hegemony: Or, Is Mark Twain Really Dead?' *International Organization*, xxxix (1985).
30. David A. Lake, 'Beneath the Commerce of Nations: A Theory of International Economic Structures', *International Studies Quarterly*, xxviii (1984) and 'International Economic Structures and American Foreign Economic Policy, 1887–1934', *World Politics*, xxxv (1983).