The Hegemon's Dilemma: Great Britain, the United States, and the International Economic Order

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Abstract:
Liberal international trade regimes do not emerge from the policies of one state, even a hegemonic one. Trade liberalization among major trading states is, rather, the product of tariff bargains. Thus, hegemons need followers and must make concessions to obtain agreements. The liberal trade regimes that emerged in both the 19th and the 20th centuries were founded on asymmetric bargains that permitted discrimination, especially against the hegemon. The agreements that lowered tariff barriers led to freer trade not free trade; resulted in subsystemic rather than global orders; and legitimated mercantilistic and protectionist practices of exclusion and discrimination, and thus did not provide a collective good. Moreover, these trade agreements (and trade disputes as well) had inherently international political underpinnings and did not reflect economic interests alone. Trade liberalization also required a certain internal strength on the part of the government. Furthermore, only a complete political rupturing of relations, such as occurs in wartime, can destroy such a regime. A hegemon's decline cannot do so alone. These arguments are developed in a historical reassessment of the evolution of the international trading order since 1820. Eras commonly seen as liberal, such as the 1860s, are shown to have included a good deal of protection, and eras seen as protectionist, such as the 1880s, are shown to have been much more liberal than is usually believed.

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In the past decade, the "theory of hegemonic stability" has become the conventional but inadequate wisdom for assessing both international economic relations in the 1970s and 1980s and the broader history of such interactions during the last 150 years.[1] It asserts that a hegemonic power creates a stable international economic order and that the hegemon's decline leads to global instability.[2] As applied specifically to international trade, the

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1. Its major proponents are Charles P. Kindleberger, Robert Gilpin, and Stephen Krasner. For Kindleberger's arguments, see *The World in Depression, 1929–1939* (Berkeley: University of California Press, 1973), "Systems of International Economic Organization," in David P. Calleo, ed., *Money and the Coming World Order* (New York: New York University Press, 1976), and "Dominance and Leadership in the International Economy: Exploitation, Public Goods, and Free Rides," *International Studies Quarterly* 25 (June 1981): 242–54. For Gilpin's arguments, see *U.S. Power and the Multinational Corporation: The Political Economy of Foreign Direct Investment* (New York: Basic Books, 1975), and "Economic Interdependence and National Security in Historical Perspective," in Klaus Knorr and Frank N. Trager, eds., *Economic Issues and National Security* (Lawrence: Regents Press of Kansas, 1977), pp. 19–66. Also see Krasner, "State Power and the Structure of International Trade," *World Politics* 28 (April 1976): 317–47. Robert Keohane coined the phrase now in common use in his application of their work to three current issues; see "The Theory of Hegemonic Stability and Changes in International Economic Regimes, 1967–1977," in Ole R. Holsti, Randolph M. Siverson, and Alexander George, eds., *Change in the International System* (Boulder, Colo.: Westview Press, 1980).

2. It bears some resemblance to A. F. K. Organski's "power transition." Organski disagrees with most international relations theorists and argues that an imbalance of power (i.e., a system with a hegemonic power) is more stable and peaceful than one with a true balance of power. Curiously, most international political economists are unaware of Organski's work. See Organski, *World Politics*, 2d ed. (New York: Knopf, 1968), and Organski and Jacek Kugler, *The War Ledger* (Chicago: University of Chicago Press, 1980). It also resembles George Modelski's "long cycles," which Modelski has applied to explain international economic as well as political orders. See Modelski, "The Long Cycle of Global Politics and the Nation-State," *Comparative Studies*

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argument holds that hegemony leads to open markets and that its decline brings about their renewed closure. Although no author defines hegemony precisely, all agree that Britain provided hegemonic leadership in the 19th century and that the United States played a similar role in the years following World War II. The rise and decline of British hegemony thus explain the existence and collapse of the "era of free trade." Changes in America's relative power not only explain the postwar growth of global trade but also portend the imminent demise of the current trading regime. In this article I provide an alternative formulation of the formation, maintenance, and collapse of liberal trading orders as well as a revised account of the evolution of the global trading order.

Charles P. Kindleberger sparked the current debate with his book *The World in Depression.* He argues that a hegemon can provide the collective good of global stability, and that the absence of such hegemonic leadership worsened the Great Depression. Recognizing that the existence of a hegemon is not in itself sufficient to insure stability, he stresses the selflessness and far-sightedness required if such a leader is to serve world interests. He describes the problems of the 1930s, therefore, as stemming not only from Britain's decline, which made it unable to provide direction, but from the unwillingness of the United States to accept new responsibility by maintaining open markets in a time of economic downturn.

Given his characterization of international economic stability as a collective good, Kindleberger recognizes that various combinations of nations might provide the requisite leadership. He argues, however, that the incentives to cheat and become a free rider are great enough that any international regime which depends on collective provision is inherently unstable. Stability can only be assured when a hegemon both bears the costs of providing the collective good and extracts the support of others.[3] Kindleberger does not deal with the formation of regimes, but his argument that hegemony is prerequisite to international economic stability relies both on his characterization of international economic regimes as collective goods and on the presumption that only a hegemonic provision of a collective good is in itself stable.[4]

Political scientists have both extended and altered his thesis. Kindleberger's emphasis on stability leads him to consider questions about the nature and

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in Society and History 20 (April 1978): 214–35, and "Long Cycles and the Strategy of U.S. International Economic Policy," in William P. Avery and David P. Rapkin, eds., *America in a Changing World Political Economy* (New York: Longman, 1982).

3. In "Systems" and "Dominance and Leadership," he argues that even hegemony is subject to entropy and, therefore, unstable.

4. Kindleberger's "The Rise of Free Trade in Western Europe, 1820–1875," *Journal of Economic History* 35 (March 1975): 20–55, is an exception; its implicit argument is quite at odds with his general thesis. The point is made by John Gerard Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order," *International Organization* 36 (Spring 1982): 385.

substance of the international economic order only implicitly, but they treat these issues far more directly. They have also changed Kindleberger's focus with their explicit interest in the rise and fall of liberal free trade regimes in the 19th and 20th centuries. Most importantly, they argue that hegemons create liberal international economic orders not from altruism but from their own interest in open markets.

Robert Gilpin and Stephen Krasner have contributed most to the evolution of this literature. Both stress the hegemon's interest in and ability to create a liberal trading order. Gilpin argues that there are two dimensions to a hegemon's power: economic efficiency and political and military strength. Having the world's most efficient economy, the hegemon has the most to gain from free trade.[5] Given its political power, it has the resources to force or induce others to adopt liberal practices in their foreign trade. Krasner arrives at the same conclusion somewhat differently. He assesses the set of state interests that are affected by the international trading order and then deduces that only a large hegemonic state would find free trade both desirable and achievable. Thus, for Gilpin and Krasner, hegemony is prerequisite to the emergence of a liberal trade regime.

None of these authors describes how a free trade regime is established, maintained, and abandoned.[6] Kindleberger's focus is on the endurance and breakdown of an extant order rather than on its establishment. Gilpin and Krasner are concerned with regime formation as well as change, but they move from the assertion of a hegemonic state's interest in liberal trade to the presumption of a regime's emergence. All three mention that a hegemon uses inducements and force to create or maintain open markets, yet none provides a sense of how this occurs. Because they argue that a hegemon is essential to the existence of a regime, Gilpin and Krasner see its decline as leading to the collapse of the order.

All three scholars use Britain's international economic role in the 19th century, and America's in the 20th, to illustrate the argument that a hegemon creates an open world and that its decline leads to closure. Yet Gilpin and Krasner recognize the empirical problems with this exercise. The golden age of free trade in the 19th century began decades after Britain's emergence as a hegemonic power. The return to protectionism started in the latter part of the 19th century, when Britain, despite the beginning of a decline in its relative power, was still the hegemon. Global trade reached its greatest levels in the years just preceding World War I, when many European nations had

5. Gilpin draws on the collective goods argument yet believes that only the most efficient nation finds open markets in its interest. David Lake points out that Gilpin must mean relative productivity rather than efficiency, in "International Economic Structures and American Foreign Economic Policy, 1887–1934," *World Politics* 35 (July 1983): 517–43.

6. This point is made by Timothy J. McKeown, "Hegemonic Stability and 19th Century Tariff Levels in Europe," *International Organization* 37 (Winter 1983): 73–91.

supposedly reverted to protectionist policies.[7] The United States emerged from the war as the new hegemon but adopted prohibitive tariffs rather than pursuing free trade. The collapse of the current liberal trading order, predicted in the wake of America's relative decline, has not yet come to pass. Political scientists, to whatever extent they address these anomalies, tend to explain them as peculiar to the specific hegemons.[8]

I argue here that liberal international trade regimes did not, and indeed will not, emerge from the policies of one state. A hegemon cannot alone bring about an open trading order. It can unilaterally reduce its own tariffs, but this does not create an international trading order of lower tariffs. It can impose an open trading regime on weak countries, but this too does not create a global regime. Trade liberalization among major trading states is, rather, the product of tariff bargains. The hegemon must get others to agree to lower their tariffs as well.[9] Without agreements, there can be no regime.[10]

Such accords typically require the hegemon to make important concessions. Indeed, in both the 19th and 20th centuries, the hegemonic power accepted compromises and deviated from the ideal of free trade. Hegemons may lead, but they need followers, and they must make concessions to gain others' assent. In other words, the liberal trade regimes that emerged in both centuries

7. Openness is typically measured by trade flows, liberalization by tariff rates and tariff legislation. The interrelationships among the indicators and the concepts themselves are usually not assessed. These indicators are not always coincident and neither are the constructs. This article, however, is not the place to discuss these issues.

8. Several explanations attempt to deal with these empirical problems. None provides complete alternative explanations for the creation, maintenance, and decline of liberal trade regimes; they address only their decline. Timothy McKeown, for example, sketches a "political business cycle" explanation for foreign economic policies. The theory can explain closure during a hegemon's dominance but cannot explain why (or how) a hegemon pursues openness during good times. A similarly problematic example is the "surplus capacity" explanation of Peter F. Cowhey and Edward Long, who apply the hegemonic stability argument to a specific sector, the automobile industry. But it is not clear that the theory should be seen in sector-specific terms, nor that surplus capacity is independent of hegemonic decline. See Cowhey and Long, "Testing Theories of Regime Change: Hegemonic Decline or Surplus Capacity?" *International Organization* 37 (Spring 1983): 157–88.

9. Lake, "International Economic Structures," argues that medium-size states with high productivity will support a liberal regime, but that medium-size states with low productivity will act as spoilers. He goes on to describe the fitful movement toward lower tariffs by the United States during the latter 19th century and the early 20th. Lake characterizes the United States as a "supporter" of the liberal trade regime, but it never became part of that regime in the 19th century, and it did not adopt an unconditional most-favored-nation clause, which was at the heart of that regime, until the early 1920s. Indeed, the United States continually sought exclusive favors. Often it not only insisted that negotiated concessions were not subject to most-favored-nation treatment but also refused to allow other countries to generalize the concessions they had granted to it. By Lake's criteria, France and Germany were "spoilers" *throughout* the latter 19th century; thus he cannot explain any liberalization among the major European trading states during this period. His argument regarding France and German policy would neither square with the interpretation offered below nor with the standard interpretation of a shift in French and German policy in the 1880s and 1890s.

10. International regimes emerge not from the actions of one power, even a hegemonic one, but from the interactions of major powers, even if they are not even roughly equal in power. Strategic interaction is as important in a hegemonic system as in a balance-of-power one.

were founded on asymmetric bargains that permitted discrimination, especially against the hegemon. The agreements that lowered tariff barriers led not to free trade, but freer trade. In the process, they legitimated a great deal of mercantilism and protectionism.

The hegemon's willingness to accept asymmetric trade agreements is not a function of its economic interests alone. Both trade agreements and trade disputes have inherently international political underpinnings; their foundations are not solely economic. Great Britain and the United States had important political objectives for which they were prepared to make economic concessions.

Yet hegemonic states interested in the economic benefits of liberalized trade and desiring improved political relations with other nations may still cling to tariffs for domestic reasons. An interest in trade liberalization presumes not only certain international economic and political interests but also a certain internal strength on the part of the government. A government that lowers tariffs must have both alternative sources of revenue and either a winning political coalition arrayed in its support or the ability to prevent the coalescence of a blocking one. Domestic interests may not determine a state's foreign economic policy, but they certainly do constrain it.

Just as the existence of a hegemonic power does not necessarily imply the emergence of a liberal trading order, so its decline does not necessarily presage the end of such a regime. The decline of hegemony is a result of differential rates of economic growth, which surely affect the nature of the international trade regime. Markets can change rapidly and alter the nature of goods traded, the price level, and the terms of trade. Domestic and international economic developments thus modify the interests both of groups within nations and of whole nations. Protectionist policies, legitimated and accepted by trade liberalization agreements, will ebb and flow with such economic developments. Tariff bargains can become irrelevant with changing circumstances and may have to be renegotiated. Indeed, 19th-century trade agreements were temporary ones that required periodic renegotiation. (Such renegotiations may also be one result of the decline of hegemony; in any case, they will be marked by jockeying and conflict.) Nevertheless, international trade can be, and historically has been, sustained without a complete political rupturing of relations. When such breaks have occurred, they have typically been a result of major war.

Finally, the international economic orders that have been created by trade agreements have been subsystemic rather than global; not all states became parties to such agreements and many were effectively excluded from them. Moreover, they did not provide collective goods because nonsignatory states could be effectively excluded. At best, subsystemic regimes only indirectly provide collective goods to nonsignatories. The use of a most-favored-nation clause implies the existence of less or least favored nations. Thus the systems allowed for discrimination and exclusion, and cannot be considered to have provided a collective good.[11]

These interrelated arguments are developed below in a narrative reconstruction of the international trading order's evolution since 1820. The analytic arguments recast the hegemon's interests, the role that it plays, the process by which trade relationships change, the nature of those changes, and the implications of hegemonic decline. In developing these analytic points and presenting a historical narrative, I also correct the blithe historical generalizations often made about the evolution of the international trading order.

State strength and the British move to freer trade

My first argument is that the hegemon's ability to adopt openness is an issue not only of its external strength but also of its internal strength. To characterize a nation or state as an economic hegemon is to describe its economic power vis-à-vis other states. Yet an internationally powerful state may still not be able to afford free trade, even when free trade is in its interest, because it needs to control access to its domestic market in order to generate revenue.[12] A fully protectionist state, because it allows no foreign goods at all to cross its borders, must be not only self-sufficient but also able to survive without customs duties. Similarly, a state that permits entirely free trade accrues no revenues from customs. Thus, free trade and no trade are the luxuries of strong states, states able to extract resources from their domestic societies; weak states, on the other hand, often depend on import duties as their primary source of revenue. In order to lower or do away with tariffs, the state must be able to depend on other sources of income.

Although generally considered the prototype of a hegemon that establishes free trade, Great Britain, the globe's leading economic power as it emerged from the Napoleonic Wars, was a fully protectionist state. Still not strong enough to be able to afford free trade, it abolished the income tax it had imposed during wartime but kept import duties at their wartime heights.[13]

11. However, one can argue that subsystemic trade liberalization provides a global collective good in its effect on general economic conditions, for the growth in global trade triggered by trade liberalization is likely to spill over and include nonsignatories.

12. Compare this view of a hegemon's interest with that presented by Krasner, "State Power." The ability to extract resources directly from the society may be only one element of internal state strength. Even a state that can afford free trade may be able neither to persuade certain societal elements to accept free trade nor to impose it upon them. For an analysis that uses state strength relative to the society to explain commercial policy, see Stephen D. Krasner, "U.S. Commercial and Monetary Policy: Unravelling the Paradox of External Strength and Internal Weakness," *International Organization* 31 (Autumn 1977): 635–71.

13. Indeed, Kenneth Fielden argues that "the British tariff of 1815 was harsher than the eighteenth century's." See Fielden, "The Rise and Fall of Free Trade," in C. J. Bartlett, ed., *Britain Pre-eminent: Studies of British World Influence in the Nineteenth Century* (New York: St. Martin's Press, 1969), p. 81.

(This customs revenue was required to pay for the national debt, which in the 1820s constituted 59% of public expenditures.) In addition, Britain maintained other protectionist measures. The Navigation Acts prohibited foreign ships from trading in British colonies and required that only British ships or those of the exporting nation carry goods to Britain. Britain, "the first industrial nation," prohibited the export of machinery and forbade the emigration of artisans and technicians who might practice or teach their craft abroad. (The concern with technology transfer thus began with the very beginnings of the technological revolution.)[14] Finally, Britain permitted the export of gold only under government license.

Britain's retreat from these highly protectionist policies took decades. William Huskisson, president of the Board of Trade, made a start during the 1820s when he persuaded Parliament to allow the free export of gold, "a token of the availability of financial credit without political interference." At roughly the same time, Britain first allowed the free emigration of artisans and the licensed export of machinery, "symbols that the secrets of the Industrial Revolution were not to be made another subject of division and competition between nations."[15] Many outright prohibitions were also abolished.

British policy was moving from prohibitionism to protectionism—from no trade to the freer trade of some goods—but hardly to free trade. There were revisions in the Corn Laws and in the colonial system, and some reduction in duties. But import duties still accounted for 44.2 percent of all government revenues in 1840 (see Table 1). Without an alternative source of income, the British could not abolish their tariffs. Further tariff reduction would await a British state strong enough to institute a peacetime income tax.

The British government, unable unilaterally to adopt free trade, was also unable to reach commercial agreements with other governments to lower tariffs. Great Britain was, in this period, the premier economic power, the foremost trading nation, and the first country to industrialize. Freer trade, if not free trade, was in its national interest: British industry needed markets and raw materials. Yet other nations, scrambling to catch up, were hardly going to adopt free trade simply because British political economists suggested that it was in the best interests of all to do so. Although able to obtain concessions from some non-European countries, "in dealing with her equals in Europe, Britain failed to make headway."[16] Between 1831 and 1841, for

14. For a fascinating history, see David J. Jeremy, "Damming the Flood: British Government Efforts to Check the Outflow of Technicians and Machinery, 1780–1943," *Business History Review* 51 (Spring 1977): 1–34.

15. Albert H. Imlah, *Economic Elements in the Pax Britannica: Studies in British Foreign Trade in the Nineteenth Century* (Cambridge: Harvard University Press, 1958), p. 14.

16. A. A. Iliasu, "The Cobden-Chevalier Commercial Treaty of 1860," *Historical Journal* 14 (March 1971): 69.

TABLE 1. *Government reliance on customs revenue (customs revenue as % of total government revenue)*

Year	*United Kingdom*	*France*	*Germany*	*United States*[a]
1820	20.0%			
1830	35.2			
1840	44.2			
1850	38.6	9.9%		
1860	32.9	7.8		
1870	29.4	4.9	52.2%[b]	
1880	23.2	8.9	55.8	
1890	20.6	11.0	55.7	
1900	19.3	10.9	52.5	37.2%
1910	16.2	13.7	44.2	32.2
1920	9.4	8.5	4.1	7.5
1930	14.1	12.1	16.3	11.8
1940	20.4	19.0	5.2	4.7
1950	21.8	7.2	3.8	0.9
1960	23.0	11.7	4.9	1.1
1970		8.3	2.1	1.2
1975		6.1	1.5	1.4

a. Early figures are for 1902, 1913, 1922, and 1932 respectively.
b. Figure is for 1872.
Sources. B. R. Mitchell, *European Historical Statistics 1750–1975*, 2d ed. (New York: Facts on File, 1980), pp. 742–69; U.S. Bureau of the Census, *Historical Statistics of the United States, Colonial Times to 1970* (Washington, D.C.: GPO, 1976), pp. 1121–22, series Y567, Y573, and *Statistical Abstract of the United States: 1977*, 98th ed. (Washington, D.C.: GPO, 1977), p. 283, Table 463.
Notes. "United Kingdom" includes Southern Ireland through 1920. Figures for France are based on receipts by the customs administration through 1868 and on receipts from import duties thereafter. German data for 1950 and later are for West Germany (figure for 1950 excludes West Berlin and the Saar). Figures for Germany are based on total tax revenue. U.S. data are as a percentage of Federal government revenue.

example, it failed to reach agreement through four sets of commercial negotiations with France.[17]

Britain took further steps toward freer trade in the 1840s, a series of reforms made possible by two events. First, a parliamentary report pointed

17. Barrie M. Ratcliffe, "Great Britain and Tariff Reform in France, 1831–36," in W. H. Chaloner and Ratcliffe, eds., *Trade and Transport: Essays in Economic History in Honour of T. S. Willan* (Manchester: Manchester University Press, 1977). Other nations perceived a British strategy to prevent them from industrializing and were thus quite wary; see P. J. Cain and A. G. Hopkins, "The Political Economy of British Expansion Overseas, 1750–1914," *Economic History Review*, 2d ser., 33 (November 1980): 477. For the limited impact of the reciprocity treaties that Britain did sign in the mid 1820s, see Iliasu, "Cobden-Chevalier Commercial Treaty."

out that only a few commodities produced almost all of the nation's import revenue. Fewer than twenty articles, in fact, generated 95 percent of the customs duties.[18] Then, in 1842, Parliament reinstituted the income tax. For the first time, the British state had the fiscal freedom to lower tariffs substantially, although it preserved some duties to use as bargaining chips in commercial negotiations. As these negotiations with various nations dragged on, however, the British abandoned their attempts to establish bilateral reciprocity treaties as a means to open foreign markets, and, in the late 1840s, Britain reduced its tariffs unilaterally, a move symbolized by the repeal of the Corn Laws. In 1849, Britain abolished the Navigation Acts. Excepting only a half-dozen still dutiable items, Britain had opened its doors to the goods of all nations on equal terms.

The reliance of governments on import duties for revenue continued to constrain their pursuit of freer trade. Although the British government's moves toward freer trade followed its lessened dependence on duties, as shown in Table 1, it is striking that Britain continued to depend on import duties for over 20 percent of its revenue during the heyday of the lower tariff era of the 1860s, and even during the lower tariff period following World War II.[19] The Germans were similarly constrained from pursuing freer trade. Prior to unification, the German states had belonged to a customs union, the Zollverein, and had adopted relatively low tariffs. But the new federal government did not have the sources of revenue available to the component states, and thus it depended on customs duties for over 50 percent of its revenue. Ironically, during the middle of the 19th century, France was better able to afford freer trade. In 1850, when customs duties accounted for 38.6 percent of British state income, the French government relied on import levies for only 9.9 percent of its revenue.[20]

18. Peter Mathias, *The First Industrial Nation: An Economic History of Britain 1700–1914* (London: Methuen, 1969), p. 300.

19. Fiscal concerns were prominent in the unsuccessful campaigns from 1900 to 1914 for tariff reform in Britain. Revenue needs increased by the Boer War led to the temporary reimposition of agricultural duties. The prewar Liberal government introduced new economic and social programs, and tariff reformers advocated duties to generate the necessary revenue. See Peter Cain, "Political Economy in Edwardian England: The Tariff-Reform Controversy," in Alan O'Day, ed., *The Edwardian Age: Conflict and Stability, 1900–1914* (Hamden, Conn.: Archon, 1979); and Barry J. Eichengreen, "The Eternal Fiscal Question: Free Trade and Protection in Britain, 1860–1929," Harvard Institute for Economic Research Discussion Paper no. 949 (Cambridge, Mass., December 1982).

20. American reliance on customs revenue was dramatically reduced by the institution of the income tax in 1913 and, therefore, did not constrain American initiatives in the 1930s. In the 19th century, the tariff was usually the major source of federal revenue; see Asher Isaacs, *International Trade: Tariff and Commercial Policies* (Chicago: Richard D. Irwin, 1948), pp. 283–85. Import duties remain an important source of central government revenue for many nations. An analysis of 94 countries (excluding the OECD nations) shows that in 1970, 10 depended on customs for 10% or less of total government revenue, 15 depended on customs for 11–20%, 21 for 21–30%, 22 for 31–40%, 13 for 41–50%, 9 for 51–60%, and 4 for 61% or more. Those least dependent on duties were primarily oil-producing countries, which relied largely on royalties instead. For non-oil LDCs, government reliance on customs represents a

Cobden-Chevalier: the asymmetric bargain for freer trade

The freer trade era only started in 1860. Earlier, Britain had been unable either to impose free trade or to reach agreements with others mutually to reduce tariffs.[21] As it could better afford to do so, however, it unilaterally opened its borders to trade. But free trade is not a game at which only one can play—more than a single country must lower its tariffs before a free trade regime can be said to exist. Only when Britain and France signed the Cobden-Chevalier Commercial Treaty in 1860 did the free trade era begin.

Britain's willingness to pursue negotiations for a trade agreement in 1859 represented a departure from its recent commercial policy. As it became able to do so, however, Britain unilaterally lowered its barriers to trade. (Although it still depended on duties for one-third of its revenues, those tariffs were on only a small number of goods.) Having unilaterally adopted a largely free trade policy, the British had little left to concede in negotiations. Moreover, many in Britain believed that such bilateral treaties were "incompatible with the principles of free trade."[22]

It is important to understand, therefore, that political rather than commercial or philosophical considerations motivated Britain's shift in its commercial practices. Both Britain and France looked to a commercial agreement as a basis for improving their relations, which might in turn prevent a European war over Italy.[23] The French wanted to associate Britain with their desire to replace Austria in dominating Italy. The British hoped for a free and unified Italy that could act as a counterweight to both France and Austria. In other words, political considerations underlay the desire of both for a

major impediment to liberalization. (Figures calculated from data provided by the Inter-University Consortium for Political and Social Research, Cross-National Socio-Economic Time Series, 1950–1975 [ICPSR 7592]).

21. A hegemon can impose free trade on weak states. Britain forced its way into Turkey in 1838 and finally opened China in 1842. See Michael Greenberg, *British Trade and the Opening of China 1800–42* (Cambridge: Cambridge University Press, 1951). This is part of what I take to be the "imperialism of free trade"; see John Gallagher and Ronald Robinson, "The Imperialism of Free Trade," *Economic History Review*, 2d ser., 6 (1953): 1–15. An interesting recent discussion links British expansionism with the course of British modernization: Cain and Hopkins, "Political Economy of British Expansion." The trade agreements forced on small countries were often asymmetrical ones that did not entail mutual liberalization, however; these "Capitulations" often included extraterritoriality clauses as well. The British could not even impose free trade on their colonies. When the British lifted commercial restrictions on trade with the colonies, the colonies were free to choose their own trade policies. Some picked free trade, others opted for protective tariffs.

22. Frank Arnold Haight, *A History of French Commercial Policies* (New York: Macmillan, 1941), p. 36.

23. Britain and France both departed from their past practices in signing the 1860 agreement, and they did so for political reasons. See Iliasu, "Cobden-Chevalier Commercial Treaty," and Barrie M. Ratcliffe, "The Origins of the Anglo-French Commercial Treaty of 1860: A Reassessment," in Ratcliffe, ed., *Great Britain and Her World, 1759–1914: Essays in Honour of W. O. Henderson* (Manchester: Manchester University Press, 1975), and Ratcliffe, "Napoleon III and the Anglo-French Commercial Treaty of 1860: A Reconsideration," *Journal of European Economic History* 2 (1973): 582–613.

commercial agreement. Even the committed free trader Richard Cobden saw political considerations as central to his diplomatic mission. After visiting Gladstone, he wrote to his French negotiating counterpart, Chevalier, that

> there is always a latent suspicion that I, as an Englishman, in recommending other Governments to adopt Free Trade principles, am merely pursuing a selfish British policy. Thus my advice is deprived of all weight, and even my facts are doubted. But, on totally different grounds, I should be glad to see a removal of the impediments which our foolish legislation interposes to the intercourse between the two countries. I see no other hope but in such a policy for any permanent improvements in the *political* relations of France and England. I utterly despair of finding peace and harmony in the efforts of Governments and diplomatists. The people of the two nations must be brought into mutual dependence by the supply of each other's wants. There is no other way of counteracting the antagonism of language and race. It is God's own method of producing an *entente cordiale*, and no other plan is worth a farthing.[24]

In fact, earlier British and French attempts to reach a trade agreement in the 1830s had also been based in part on political concerns.[25] Although the French recognized that free trade with an economic hegemon such as Britain would be economically devastating, they wanted to break out of the diplomatic isolation to which the Congress of Vienna had consigned them. Britain hoped to improve relations with France in part because its relations with Russia were deteriorating. The failure of these earlier attempts had led Britain to abandon trade negotiations as a tool of foreign economic policy. Thus, the talks that resulted in the Cobden-Chevalier Treaty represented a reversion to earlier British tactics, a return based on political calculations.

The 1860 treaty was quite asymmetrical, which is not surprising given how little Britain had left to barter away. Although France thus conceded more than Britain, the treaty nonetheless affirmed and legitimated French protectionism. Britain's major concession was to reduce duties on French wines and spirits; except for duties on a few items, Britain maintained no other tariffs. France agreed to remove all of its outright prohibitions, but the treaty did permit it to retain reduced tariff barriers, to be lowered to a maximum of 25 percent within five years. For the interim, the treaty des-

24. J. A. Hobson, *Richard Cobden: The International Man* (New York: Henry Holt, 1919), p. 244. Emphasized there.

25. See Ratcliffe, "Great Britain and Tariff Reform in France," and his "The Tariff Reform Campaign in France, 1831–1836," *Journal of European Economic History* 7 (Spring 1978): 61–138. Attempts to create customs unions have historically also had political motivations and repercussions. A good starting point is Fritz Machlup, *A History of Thought on Economic Integration* (New York: Columbia University Press, 1977). Obviously, political unification requires an economic unity that minimally requires the absence of internal barriers to trade; not surprisingly, the U.S. Constitution forbids individual states from imposing "any imposts or duties on imports and exports."

ignated a commission to set specific duties using the principle of cost equalization.[26] This allowed France to retain such duties as would bring the price of foreign goods up to the price of domestically produced goods, and thus insured domestic producers protection from foreign competition. Remaining faithful to their free trade principles, the British unilaterally granted to all nations the concessions they had made to France. France did not generalize its concessions but retained its old tariffs for other nations. To protect Britain from future discrimination, however, the treaty included an unconditional most-favored-nation clause requiring each nation to grant to the other any tariff concessions it might later give any third state. Thus, the treaty was itself a departure from the standard form of bilateral agreements, which usually excluded certain areas, typically colonies, from the scope of most-favored-nation clauses. "Britain had achieved Free Trade," but for France, the treaty "only replaced a frankly prohibitionist with a moderately protective system."[27]

Thus, the Cobden-Chevalier Treaty, generally regarded as ushering in the era of free trade, actually legitimated discriminatory liberalization. Britain and France liberalized the exchanges between them, but the treaty allowed them to retain (as France did) higher duties or prohibitions against other countries. Freer trade requires both liberalization and nondiscrimination; fully free trade only follows the complete abolition of protection and discrimination. The Cobden-Chevalier Treaty, despite its inclusion of an unconditional most-favored-nation clause, accepted discriminatory liberalization in preference to nondiscriminatory prohibition. Thus, bilateral discriminatory liberalization, a hallmark of mercantilism, was conjoined with unconditional most-favored-nation clauses as a means to lower tariff barriers.

Leaders and followers

Many scholars have emphasized the hegemon's leadership in establishing an international economic order. But establishing liberalized trade requires not only leaders but followers. Both are critical in determining the nature of the outcome. This is illuminated by the 1860s, when the Cobden-Chevalier Treaty, itself a simple bilateral agreement, became the basis for a wider liberalization of trade.

The most-favored-nation clause in the Cobden-Chevalier Treaty provided a basis for lower trade barriers worldwide. By itself, the treaty was a bilateral mercantilistic agreement. It had the potential for multilateral liberalization, however, in that it committed Britain and France to give each other any

26. Haight, *History of French Commercial Policies*, pp. 32–33.

27. Fielden, "Rise and Fall of Free Trade," p. 89; and Marcel Rist, "A French Experiment with Free Trade: The Treaty of 1860," in Rondo Cameron, ed., *Essays in French Economic History* (Homewood, Ill.: Richard D. Irwin, 1970), p. 289.

concessions they obtained from any agreement with a third party. For it to become more than a merely mercantilist agreement thus required Britain and France to pursue accords with other nations. In fact, they did negotiate such additional bilateral treaties with other states; they then extended the tariff reductions they granted other nations to each other. Because they had already lowered tariffs unilaterally and thus extended to all nations the concessions that they had given the French in 1860, however, the British had great difficulty concluding additional bilateral treaties. They had signed a treaty legitimating discrimination, but they were unprepared to discriminate themselves. Thus, they had little to offer others in trade negotiations. They were able only to conclude four more trade treaties, with Belgium, Italy, Austria, and the Zollverein, in the five years following the Cobden-Chevalier Treaty. The French, who had in fact initiated the talks that led to the 1860 agreement, played the key role in expanding the bilateral treaty into a multilateral freer trade area. By 1867, France had signed eleven more trade agreements, turning British doctrine into a working system of lower tariff barriers that linked thirteen European nations. France also adopted legislation in the mid 1860s that reduced restrictions on trade with its colonies.

The 1860s also illuminate the subsystemic nature of the freer trade regime. Although often characterized as "the era of free trade," this "free international" trading system did not include most of the world's nations and even omitted some major nations, among them the United States. Indeed, most international economic orders are *sub*systemic. Although typically referred to as "the international economic order," the system created by the United States following the Second World War is, in fact, a subsystem that excludes the Soviet bloc. Similarly, those who emphasize Britain's role in creating and maintaining an international economic system in the 19th century refer to a subsystem that did not include most nations.

These discriminatory and subsystemic freer trade regimes both do and do not provide a collective good. Nations outside the system are discriminated against and can be effectively denied its benefits. The criterion of nonexcludability, central to the definition of a collective good, is not met: states can be prevented from benefiting from lower tariffs and hence, they cannot be true free riders. On the other hand, within the freer trade subsystem, any concession made to any state is indeed a collective good from which others who have been granted most-favored-nation status cannot be excluded.

The decline of British hegemony

The reverse of the argument that a hegemon establishes an open economic system is that the decline of hegemony results in economic closure and renewed protectionism. Scholars point to the period from 1873 to 1896 as one of continuous British decline and renewed protectionism.[28] Yet the empirical evidence suggests a more ambiguous picture. There was a change in the general European attitude toward free trade, and the decline of economic growth rates throughout the continent did generate increased pressures for protectionism in most countries. Nonetheless, the British economy's relative decline, especially compared to the French and German and American economies, did not lead to the closure of the European trading system.

Indeed, the last quarter of the 19th century brought no widespread increase in protectionism within the freer trade system. The atmosphere of the later period was less liberal, and domestic protectionist forces were evident in all countries. But the gains of the 1860s were not surrendered. Moreover, much of what has been interpreted as a rebirth of protectionism was the direct outgrowth of the sorts of practices legitimated during the establishment of freer trade in the 1860s.

The protectionist pressures that grew within many European nations in the late 19th century were largely generated by the general decline in growth rates and especially the recessions that marked the century's last quarter. Over the entire period, however, the European economy continued to grow, if at a much slower rate.[29] Some nations fared better than others, of course, as did some industries. Britain, for example, had one of the slower-growing economies of the major nations: its average per capita economic growth just about equaled the European average and was below that of France and Germany. Throughout Europe, one response to slower growth was pressure, especially during periods of actual recession, to adopt protectionist policies.

Those who argue that there was a return to closure point to the tariff legislation passed in various countries. France, Germany, Switzerland, Italy, Russia, and the United States all passed major revisions in their tariff laws. In many cases a nation passed more than one set of revisions between 1870 and the beginning of World War I. Tariff legislation in Russia and the United

28. Succinctly demonstrated by Cain, "Political Economy in Edwardian England," pp. 36–38. For the most extensive recent work on the British decline, called the British climacteric, see W. Arthur Lewis, *Growth and Fluctuations, 1870–1913* (London: Allen & Unwin, 1978), chap. 5. A sector-specific analysis of this decline is Robert C. Allen, "International Competition in Iron and Steel, 1850–1913," *Journal of Economic History* 39 (December 1979): 911–37.

29. The most recent data set is provided by Paul Bairoch, "Europe's Gross National Product: 1800–1975," *Journal of European Economic History* 5 (Autumn 1976): 273–340. Bairoch assesses average annual European GNP growth as 2% between 1842–44 and 1867–69, 1% between 1867–69 and 1889–91, and 2.4% between 1889–91 and 1913. These figures are significantly lower than those provided by Angus Maddison, "Growth and Fluctuation in the World Economy, 1870–1960," *Banca Nazionale del Lavoro Quarterly Review* 15 (June 1962): 127–95. Maddison places average European growth at 2.2% between 1870 and 1890 and at 2.1% between 1890 and 1913. Both authors show that the average growth in trade exceeded that of GNP. For Bairoch's trade figures see his "European Foreign Trade in the XIX Century: The Development of the Value and Volume of Export (Preliminary Results)," *Journal of European Economic History* 2 (Spring 1973): 5–36. He calculates the average growth in exports as 5% between 1846–47 and 1865–68, as 2% between 1865–68 and 1896–97, and as 5% between 1896–97 and 1913.

States can hardly be cited as evidence of the decline of the liberal order of the 1860s; the two nations were never part of it. Here, therefore, I focus on the legislation passed in those major trading states which were part of that order.[30]

Such legislation, irrespective of its domestic support, epitomized the system emplaced in the 1860s and typically represented no departure from it. The earlier bilateral trade treaties, which had legitimated discrimination and tariff bargaining as appropriate means to achieve liberalization, required regular renegotiation. In those treaties, states had offered one another concessions from the general tariffs maintained against states that did not join the network of bilateral treaties. Thus, nations had every incentive to raise their general tariff in order to provide themselves with bargaining chips.[31] Moreover, they wanted the most possible while giving up the least possible. Governments could use new tariff laws both to buy off domestic protectionist forces and to increase their own bargaining power vis-à-vis outsiders. The net impact of each piece of legislation depended, therefore, primarily on the extent to which it constrained the nation's executive in negotiating subsequent treaties.

Some of the so-called protectionist legislation passed in Europe during the latter part of the century was, in fact, anything but protectionist. France, for example, passed a major tariff act in 1881, which many argue marked the start of a French return to protectionism. The new general tariff rates set by this legislation were, indeed, higher than those that applied to nations with which France had trade agreements. Yet the legislation actually reduced the general rates then prevailing for countries with which France had not signed treaties—older rates that had been on the books since before 1860. In other words, the legislation was a liberalizing step. Its net impact would depend, however, on the outcome of France's renegotiation of expired treaties, and, in fact, France did go on to sign new agreements, extending those treaties for another decade. In addition, France concluded agreements with states with which it had had no previous treaties. Thus, the legislation, when seen in conjunction with the trade agreements, resulted in a net liberalization of French commercial policy.[32]

30. The liberal trade regime of the 1860s was based on a network of states linked by trade agreements containing unconditional most-favored-nation clauses. Thus, to argue that this regime collapsed requires evidence that a state in the network took protectionist measures aimed at others within the network. Increased tariffs on agricultural goods provide no such evidence. Most scholars attribute declining European growth rates to the flooding of European markets by cheap American and Russian wheat. The response in many European states was higher agricultural duties, but mostly aimed at states with whom most European states had no trade agreements (i.e., the United States).

31. For the underlying bargaining purposes of tariff legislation, see Isaacs, *International Trade*, pp. 336, 347–48.

32. France's original move away from prohibitionism in the 1860s had greater staying power than many suggest; see Michael S. Smith, "Free Trade Versus Protection in the Early Third Republic: Economic Interests, Tariff Policy, and the Making of the Republican Synthesis," *French Historical Studies* 10 (Autumn 1977): 293–314, and Smith, "The Free Trade Revolution Reconsidered: Economic Interests and the Making of French Tariff Policy under the Second Empire," *Proceedings of the Annual Meeting of the Western Society for French History* 6 (1978):

The treaties of the 1860s were reciprocal tariff bargains, and the need to renegotiate them when they expired generated strategic behavior. Nations not only had an incentive to raise general tariffs to provide themselves with bargaining chips but also had an incentive to make maximal demands. The very existence of a network of states linked by trade treaties containing unconditional most-favored-nation clauses made this shrewd policy. The British, for example, demanded in 1882 that the French do more than extend the terms of the Cobden-Chevalier Treaty. With a few exceptions, France offered terms equal to or better than those of 1860, but the British wanted rates 20 percent lower.[33] The British said that without such concessions they would only sign a most-favored-nation agreement that did not include any specific concessions by either party. They would make specific concessions only if the French were prepared to improve on the terms of the status quo. Although no new accord was reached, the British knew that French treaties with other states insured them at least the continuation of the status quo as long as the French continued to grant them most-favored-nation status.

The French passed still another general tariff law, the Meline Tariff of 1892, which is generally considered to mark the high point of French protectionism. Indeed, this legislation was passed by protectionist forces unhappy with the net results of the 1881 legislation. In addition to specifying the maximum general tariff to be charged all states with whom France had no trade treaty, the legislature added a new wrinkle by stipulating the minimum tariff that could be granted in trade negotiations. In other words, the legislature attempted to specify the maximum concession that the executive could make during negotiations. Because the protectionists failed to obtain adoption of a clause expressly forbidding negotiating duties below the legislated minimum, however, the government was once again able to sign new treaties with those nations with which it had prior agreements; this time, it even extended the minimum rates to states with which it had no treaties.[34] The freer trade system was largely maintained. Higher general tariffs were combined with a continuation and extension of past trade treaties to maintain the freer trade system.

327–35. Even in the early 1870s, when the new Third Republic was saddled with indemnity payments to Germany, attempts to use tariffs to generate revenue were rebuffed (this was the reason for the resignation of Thiers, the president of the Republic, in 1873).

33. Michael Stephen Smith, *Tariff Reform in France, 1860–1900: The Politics of Economic Interest* (Ithaca: Cornell University Press, 1980), p. 188.

34. France even negotiated some treaties that stipulated duties lower than the legislatively mandated minimum; see Smith, *Tariff Reform in France*, p. 209. The maximum rates continued to apply only to Portuguese goods throughout the entire period of the Meline Tariff. Other nations each paid those rates only for short periods of time while negotiating new trade agreements with France. The French tariff war with Switzerland resulted in part from the latter's refusal to grant most-favored-nation status merely in return for a legislated minimum tariff. The Swiss maintained that they would grant such status only in a negotiated agreement and insisted in some cases on rates lower than the minimum.

Nor was the famous German turn to protectionism in 1879 a wholesale departure from the 1860s. When Germany was united in 1871, it had relatively low tariffs, and these were reduced further in the following lustrum. The Tariff Act of 1879, dubbed the marriage of iron and rye, raised some duties and restored others. Yet these duties, although higher than those of the mid 1870s, were no higher than those of the 1860s.[35] Only the unilateral reductions of the early 1870s were eliminated, as Germany returned to the level of protection it had maintained in the 1860s.[36] Furthermore, the impact of these duties was weaker than in the 1860s because four free ports, Hamburg, Cuxhaven, Bremerhaven, and Geestemunde, were excluded from the German customs area.[37] With the coming to power of Caprivi, twelve years after the 1879 Tariff Act, the German government would retreat from even this degree of protectionism and sign a series of bilateral commercial agreements to lower tariffs and which, in some cases, included a most-favored-nation clause.

The celebrated tariff wars of the 1880s and 1890s are also cited as evidence of a return to protectionism. Yet they were really a stage in the maintenance of trade agreements. States sometimes increased tariffs as bargaining chips and held out for maximalist positions, and thus "the concessional method of tariff bargaining [led] by its very nature to bickerings and tariff wars."[38] All the tariff wars began after negotiations collapsed, as one state raised general tariffs and sometimes slapped on surcharges in order to induce another state to conclude a new trade agreement.[39] They ended with the signing of

35. W. O. Henderson, *The Rise of German Industrial Power 1834–1914* (Berkeley: University of California Press, 1975), p. 220.

36. The German Tariff Act of 1879 was not just the product of the marriage of iron and rye. It also resulted from the political leadership of the newly unified German nation needing an independent source of revenue. As Bismarck told the Reichstag in 1872, "An empire that is dependent upon the contributions of individual states lacks the bonds of a strong and common financial institution" (Henderson, *Rise of German Industrial Power*, p. 219). Bismarck supported higher duties in order to generate more central government revenues directly (see Table 1). Thus, the state's fiscal needs combined with protectionist interests to increase German tariffs, though only to moderate levels.

37. They became part of the German customs union in 1906. The impact of duties on specific industries has been overstated. Germany was not keeping out goods to protect weak domestic industries: it exported 19% of iron and steel production in 1879, and "German costs were clearly low enough for the iron and steel industry to compete at world prices" (Allen, "International Competition," p. 928).

38. W. S. Culbertson, "Commercial Treaties," in *Encyclopedia of the Social Sciences*, vol. 4 (New York: Macmillan, 1931), p. 29.

39. Some also had political overtones. The French-Italian tariff war was not unrelated to French unhappiness with Italy's alliance with Germany and Austria. A model of tariff wars is developed by Michael Nicholson, "Tariff Wars and a Model of Conflict," *Journal of Peace Research* 4 (1967): 27–38. An important source is *Reports on Tariff Wars between Certain European States* (London: HMSO, 1904). As these tariff wars demonstrate, commercial policy can reflect the international political needs of the state, and commercial agreements, such as the Cobden-Chevalier Treaty, often have similar political underpinnings. As argued in the text, commercial policy may also reflect the state's fiscal needs. Commercial policy is thus more than the mere expression of different domestic economic interests. For examples of that argument, see Charles P. Kindleberger, "Group Behavior and International Trade," *Journal of Political Economy* 59 (1951): 30–47; and Peter A. Gourevitch, "International Trade, Domestic Coalitions, and Liberty: Comparative Responses to the Crises of 1873–1896," *Journal of Interdisciplinary History* 8 (Autumn 1977): 281–313.

new trade agreements. Thus, they were a critical bargaining chip; at times, especially in periods of slow growth, a nation could obtain greater access to the markets of others only by denying access to its own.

The aggregate data for the period also fail to demonstrate any widespread return to protectionism. During the entire period from 1873 to the turn of the century, international trade continued to grow, although more slowly than in earlier periods. Indeed, the rate of trade growth, averaged annually over the entire period, exceeded that of domestic growth for many countries, and the degree of openness (the ratio of imports and exports to gross national product) was remarkably stable for the United Kingdom, Germany, and France. French external trade, for example, constituted less than 10 percent of GNP prior to 1850, shot up to over 25 percent of GNP by the 1870s, and stayed at that level through the remainder of the century. Germany imported and exported about one-third of its net national product both in the "protectionist" 1880s and in Caprivi's more liberal 1890s (see Table 2). During the last two decades of the 19th century, these countries did not decrease their engagement in foreign trade.

Still another, and more direct, aggregate indicator of the degree of protectionism—customs duties as a proportion of the value of imports—does not demonstrate any wholesale return to protectionism. Although this measure is imperfect, because it does not capture truly prohibitive tariffs, it does give some indication of overall trends. It clearly shows the liberalization of the 1860s: British duties, which constituted more than a fifth of the value of imports in 1850, constituted less than a twentieth in 1890 (see Table 3). The degree of French protection in 1850 was 16.2 percent in a context that included many prohibitions; it dropped to 3 percent by 1870 and included no prohibitions. There was some growth in French customs duties as a percentage of the value of all imports from 1880 to 1900, but French tariffs remained quite low and quite stable. (Indeed, French tariff levels were lower between 1880 and 1913 than those between 1950 and the middle 1970s.) When France and Germany's tariff levels are compared with those of such truly protectionist states as the United States and Russia, it is clear that neither country reverted to wholesale protectionism.

The various pieces of tariff legislation did not prevent world trade from growing at unprecedented rates when domestic growth rates increased after 1896. Despite the passage of a German tariff law in 1902, which, scholars argue, marked the end of the liberal Caprivi period and a return to Bismarckian commercial policy, and despite the Meline Tariff of 1892 and the French Tariff Act of 1910, the greatest levels of international trade were achieved in the years immediately preceding the First World War.[40] Indeed, those heights would not be recaptured until the 1970s.

40. Such levels would not be seen again until the early 1970s. See Richard Rosecrance and Arthur Stein, "Interdependence: Myth or Reality?" *World Politics* 26 (October 1973): 1–27.

TABLE 2. *Openness of four major trading nations, 1820–1975 (imports plus exports divided by production)*

Year	*United Kingdom*	*France*	*Germany*	*United States*
1820		7.6%		
1830	21.5%	7.65		
1840	28.3	9.2		
1850	32.5	11.2		
1860	49.4	18.2		
1870	52.8 43.5[a]	24.1		
1880	45.7	28.8	33.9%	
1890	44.2	27.6	31.7	
1900	39.6	28.3	32.0	
1910	46.1	33.0	35.8	9.0%
1920	50.4	33.1		15.2
1930	33.0	25.4	31.1	7.6
1940	20.7	17.5	11.1	6.6
1950	35.9	2.1	20.2	6.7
1960	31.5	21.5	30.0	7.1
1970	33.2	25.2	34.6	8.5
1975	41.8	35.3[b]	39.4	13.5

a. The second figure for 1870 is comparable with those below.
b. Figure for 1974.
Sources. B. R. Mitchell, *European Historical Statistics 1750–1975*, 2d ed. (New York: Facts on File, 1980), pp. 507–22, 817–39; U.S. Bureau of the Census, *Historical Statistics of the United States, Colonial Times to 1970* (Washington, D.C.: GPO, 1976), p. 887, series U201, U202, and *Statistical Abstract of the United States: 1977*, 98th ed. (Washington, D.C.: GPO, 1977), pp. 428, 865, tables 688, 1469.
Notes. French figures are based on gross domestic product at current prices; German figures are based on net national product at market prices; and the figures for the United Kingdom are based on gross national product at factor cost to 1870, and at market prices thereafter. The French figure for 1820 is for general trade. The figures for the United Kingdom are based on domestic exports. The German figures for 1920–35 and 1945–59 exclude the Saar. British trade with Southern Ireland has been external since 1923. The French figures for 1871–1918 exclude Alsace-Lorraine.

The First World War and the return to protectionism

These high levels of exchange and presumed interdependence did not prevent the nations of Europe from going to war with one another, and it was the First World War, not the depression of the last quarter of the 19th century or the relative decline of British hegemony, that sounded the death knell for liberalized international trade. Only the Netherlands did not change its commercial policy during the war; all other states, including Britain, raised or

TABLE 3. *Degree of protection: customs revenue as a percentage of total value of imports*

Year	*United Kingdom*	*France*	*Germany*	*United States*	*Russia*
1830	33.9%			57.3%	33.3%
1840	25.3			17.6	33.3
1850	21.4	16.2%		24.5	31.9
1860	10.9	7.1		15.7	21.4
1870	6.6	2.9		44.9	12.8
1880	4.6	5.2	5.8%	29.1	15.4
1890	4.75	8.0	8.8	29.6	34.9
1900	5.2	8.8	8.1	27.6	32.6
1910	4.9	8.2	7.4	21.1	27.8
1920	6.9	3.8		6.4	
1930	11.6	11.7	10.5	14.8	
1940	26.5	29.8	28.2	12.5	
1950	34.7	14.0	5.4	6.0	
1960	32.1	23.3	6.5	7.4	
1970		13.7	2.6	6.5	
1975		8.4	1.8	3.9	

Sources. B. R. Mitchell, *European Historical Statistics 1750–1975*, 2d ed. (New York: Facts on File, 1980), pp. 507–22, 742–69; U.S. Bureau of the Census, *Historical Statistics of the United States, Colonial Times to 1970* (Washington, D.C.: GPO, 1976), p. 888, series U211, and *Statistical Abstract of the United States: 1977*, 98th ed. (Washington, D.C.: GPO, 1977), p. 876, Table 1482.

instituted barriers to trade.[41] Wartime protectionism destroyed an only somewhat liberal economic order.

During the 1920s, numerous attempts to reconstruct the prewar system of trade and finance failed. All of the nations that had restricted commerce during the war found it difficult to dismantle protection, whose continuation many of their producers had come to expect. Quite simply, protection generates interests demanding its preservation.[42] Other legacies of World War I hampered postwar attempts to liberalize trade, among them the structure of international debt and residual antipathy toward Germany. Hostility to Germany manifested itself not only in the victors' demands for large reparations but also in a Versailles Treaty clause requiring Germany to provide others with most-favored-nation treatment even when unreciprocated.[43] Even

41. Isaacs, *International Trade.*

42. Indeed, one legacy of war is greater state involvement in economy and society. See Arthur A. Stein, *The Nation at War* (Baltimore: Johns Hopkins University Press, 1980).

43. Germany had every incentive to restrict imports and attempt to run regular balance-of-trade surpluses in order to pay for its war debt.

the British could not eschew such an opportunity and imposed a special tariff aimed solely at restricting German imports.[44] Thus the prewar network of trade agreements had bound together the otherwise competitive states of Europe, but it proved impossible to reconstruct this network after 1918 on the basis of nondiscrimination.

The onset of the Great Depression dealt a fatal blow to attempts to restore the prewar international economic order. States reacted to the Depression by further raising their tariffs and devaluing their currencies. This reversion to greater protection was predicated on the assumption that Britain would remain open, as it had before. Depression left Britain unable and unwilling to accept an increasingly asymmetric bargain. The hegemon's relative decline had not left it unable to enforce free trade (something it had never done anyway). But its absolute decline did leave it unable to carry the burden of others' increasing defections.

Britain's departure from its long-standing freer trade policy came only after it failed to restructure the asymmetric bargain that had underlain the prewar trading order. Before restoring general duties, the British proposed to the International Conference with a View to Concerted Economic Action, held in 1930, that other states reduce tariffs by 25 percent in return for Britain's continued adherence to a policy of predominantly free trade. There were no takers. The British then fully and formally abandoned free trade in 1932 with the reintroduction of across-the-board tariffs and the creation of the Imperial Preference System. They adopted the Import Duties Act, which levied a minimum tariff of 10 percent on all imports and exempted products from the Empire. In that same year, at the Ottawa Imperial Conference, the nations of the Empire signed fifteen bilateral agreements that restored preferential discrimination and clearly stipulated their precedence over any other agreements, even those including most-favored-nation clauses. Empowered by the 1932 Act to negotiate trade agreements with other countries, the British government concluded with non-Imperial nations a series of strictly bilateral agreements intended purely to balance bilateral trade.[45] These accords included no requirements that equal treatment be extended to other nations.

Britain only retreated from free trade and systemic leadership after others had refused to continue following its lead or even to compromise. Even then, Britain saw its reconstitution of tariffs and its reluctance to extend concessions without reciprocity as strengthening its hand in commercial negotiations. A nation unilaterally committed to free trade could not, after all, extract negotiated concessions. Furthermore, the British did no more than contract their free trading sphere to an economic bloc that included Canada, Australia,

44. F. Benham, *Great Britain under Protection* (New York: Macmillan, 1941).

45. Richard N. Kottman, *Reciprocity and the North Atlantic Triangle, 1932–1938* (Ithaca: Cornell University Press, 1968). For an aggregate analysis of commercial policy during the 1930s, see Richard C. Snyder, "Commercial Policy as Reflected in Treaties from 1931 to 1939," *American Economic Review* 30 (December 1940): 787–802.

South Africa, India, and the rest of the Commonwealth. The British system of free trade, already subsystemic, got smaller.

Scholars point to these events as evidence of a British retreat from leadership and suggest that the Americans' adoption of the ultraprotectionist Smoot-Hawley Tariff in 1930 represented their reluctance to assume the mantle of leadership. The American tariff increase of 1930 certainly represented an unwillingness to go along with the British and the recommendations of various international bodies. But the American action was not unusual in that the nation had a history of alternating between high and moderate tariffs. Furthermore, the new American tariff corresponded to actions already taken by others; it represented not an unwillingness to lead but a reluctance to follow the British.

The freer trade order was undone during the First World War when its constituent states went to war with one another; the war's legacy would not allow the restoration of the prewar order, and the Depression cut into the ranks of Britain's followers. The system was sustained only as long as the British had followers—as long as both the hegemon and its followers accepted the asymmetric bargain originally reached, and as long as the hegemon maintained its relatively liberal policies. In the end, the fate of the trading order was sealed when the British departed from it. The collapse came not from Britain's inability to continue imposing that order on others but from its inability to continue accepting the degree of asymmetry in trade relationships.

The period of American hegemony

It is commonly presumed that the United States refused to assume international economic leadership until the end of the Second World War. Its assumption of leadership actually began in 1933, however, when Secretary of State Cordell Hull enunciated an American commitment to liberalized international trade based on a general application of the unconditional most-favored-nation principle.[46] The general U.S. position was that bilateral accords should include unrestricted and unconditional most-favored-nation clauses, and that quotas should be used to insure that the flow of goods was disturbed as little as possible.[47] The American commitment to the principle of equal treatment did include an exception for economic blocs, however, and rep-

46. For a discussion of the impact of European noncooperation on Roosevelt's economic policies, see James R. Moore, "Sources of New Deal Economic Policy: The International Dimension," *Journal of American History* 61, 3 (1974): 728–44. Not until 1923 did the United States accept the unconditional most-favored-nation clause, see Vladimir N. Pregelj, " 'Most-Favored-Nation Principle: Definition, Brief History, and Use by the United States," in *Studies in Taxation, Public Finance and Related Subjects: A Compendium*, vol. 2 (Washington, D.C.: Fund for Public Policy Research, 1978).

47. Kottman, *Reciprocity*, p. 72. See also I. Lang, "The Conflict between American and British Commercial Policies prior to World War II," *Acta Historica* 25 (1979): 267–96.

resented America's reconciliation to the reality of the British Imperial Preference System.

For the American executive to pursue such a policy required congressional authorization. In 1934, Congress passed the Reciprocal Trade Agreements Act, empowering the president to negotiate agreements reducing American duties by as much as 50 percent.[48] The United States could now play the same leadership role as the British did in the 19th century. Yet the Act was similar in spirit to the Meline Tariff of 1892, in that Congress stipulated a minimum tariff and constrained the executive's bargaining position. In the following years, agreements embodying the unconditional most-favored-nation principle extended tariff reductions to all but those who discriminated against the United States.

The American assumption of the mantle of leadership in liberalizing the trading order retained and expanded the mercantilistic and protectionist elements of earlier decades. The United States accepted liberalized discrimination as the path to free trade. It assured nondiscrimination within a liberal network by the inclusion of a most-favored-nation clause. The legislation upon which American policy was founded legitimated a minimum tariff. Finally, the United States, unlike Britain, enshrined reciprocity as central to the liberalization of trade. It was not willing to lower its own very high tariff barriers unilaterally.

For the Reciprocal Trade Agreements Act to have any impact required that the United States sign agreements with important followers, and that these states also sign trade agreements with others. By the end of 1937 the American government had signed sixteen such agreements, covering only one-third of U.S. foreign trade. The United States did not even try to reach agreements with Germany or Japan and was unable to conclude negotiations with either Spain or Italy. It had learned what the British had discovered in the 19th century—that a leader can only make a difference when it has followers.

It soon became clear that the United States would have to reach an agreement with Great Britain if it were to reduce barriers to world trade.[49] Indeed, the United States was eager for Britain to become its "junior partner." It wanted a British commitment to nondiscrimination that would require the dismantling of the Imperial Preference System and a renewed British commitment to the unconditional most-favored-nation clauses that would serve to multilateralize bilateral agreements. After three years of informal talks

48. Lowering trade barriers requires a domestic institutional arrangement to insulate executive power from particularistic societal interests. See Cynthia Hody, "From Protectionism to Free Trade: The Politics of Trade Policy" (Ph.D. diss., University of California, Los Angeles, in progress).

49. For a discussion of political considerations underpinning American-British trade discussions in the mid 1930s, see Arthur W. Schatz, "The Anglo-American Trade Agreement and Cordell Hull's Search for Peace 1936–1938," *Journal of American History* 57 (June 1970): 85–103.

and almost a year of official negotiations, the two nations finally concluded an agreement in which Britain acceded to most substantive American demands about commodities and duties. The British stood firm on Imperial Preference, however, and, while the United States met its immediate economic objectives, it was forced to accept continued British discrimination against non-Imperial nations.

The Anglo-American trade agreement of 1938 was quite similar to the Anglo-French agreement of 1860. Both agreements accepted discriminatory liberalization. In each case, the economic hegemon, unable to promote free trade and nondiscrimination by itself, was willing to accept a bilateral treaty as the best way to liberalize trade—as long as the treaty included an unconditional most-favored-nation clause. In each case, the hegemon was able to exercise leadership only upon compromising its nondiscrimination principles in order to reach agreement with a major follower. In each case, this involved striking a reciprocal tariff bargain.

Although World War II put certain issues on hold, the United States continued to press for nondiscriminatory unrestricted trade and maintained its opposition to Imperial Preference. In exchange for Lend-Lease aid, for example, the United States forced the British to agree to discuss the postwar dismantling of Imperial Preference.[50] American wartime documents suggest a government often as concerned with British economic policy as with the political and military policies of Germany and Japan.[51] During the discussions on postwar reconstruction that began during the war itself, the United States urged all of its allies to adopt free trade at the war's end. Forced to compromise, however, the United States accepted a long list of exceptions. Thus, in return for general acceptance of the principle of nondiscrimination, it effectively acquiesced in the continuation of discrimination and quantitative restrictions.

Following the Second World War, bilateral agreements with unconditional most-favored-nation clauses again became the basis for liberalizing global trade. A new wrinkle, however, was to negotiate as many bilateral agreements as possible at the same time and place, immediately creating an entire web of states committed to liberalized trade. In 1947, twenty-three nations convened at Geneva and created the General Agreement on Tariffs and Trade (GATT), a package of 123 bilateral trade agreements intended to expand international trade. Because each agreement contained a most-favored-nation clause, each signer was extended the same concessions that the other nation

50. Winston Churchill called Lend-Lease "the most unsordid act" for precisely this reason. Indeed, Imperial preferences were the only point of major disagreement between the United States and Great Britain in drafting the Atlantic Charter. See Lloyd C. Gardner, *Economic Aspects of New Deal Diplomacy* (Boston: Beacon Press, 1964). For British Labour's commitment to Imperial preference, see Amy E. Davis, "The Foreign Policy of British Labour Party Leaders: Postwar Planning, Continuity of Foreign Policy, and the Origins of the Cold War, 1939–1946" (Honors Thesis, Cornell University, 1974).

51. Gabriel Kolko, *The Politics of War: The World and United States Foreign Policy, 1943–1945* (New York: Random House, 1968).

had conceded to all the countries at the conference with which it had concluded agreements. The United States concluded nineteen such bilateral agreements, but the conference's successful outcome depended on its ability to reach an agreement with Britain. The American delegation had congressional authorization to negotiate reductions of 50 percent in all U.S. tariffs, in return for which the United States wanted the elimination of the Imperial Preference System. When Britain refused to commit itself even to an eventual dismantling of the system, the success of the Geneva Conference hung in the balance; because it was too important to jeopardize, the United States gave up the entire 50 percent in return for only a slight reduction in the preferences.[52]

Despite the presumed commitment of its signers to multilateralism, the GATT did allow other exceptions to free trade. It permitted the use of tariffs, for example, when they were intended to create customs unions or free trade areas. It was assumed that either would eventually lead to both increased and liberalized trade. Similarly, it accepted those quantitative restrictions (quotas) that protected agriculture, fostered economic growth, or were intended to help nations deal with balance-of-payments deficits.

Rebuilding Europe after the Second World War proved so difficult that the United States, understanding that worldwide recovery depended on the reconstruction of intra-European trade, insisted that the European states reduce discrimination against one another but discriminate as a group against non-European states in return for aid under the Marshall Plan.[53] Thus, the Europeans lifted quantitative restrictions against one another and maintained them against the United States.

By the late 1950s, the creation of the European Economic Community (EEC) and the European Free Trade Association had led to the use of tariff barriers as well as quotas against the United States, again justified on the grounds of increasing and liberalizing trade. In addition, in establishing preferences for associated states the EEC maintained and expanded discriminatory preferences in which the United States, a staunch supporter of European integration, acquiesced. In other words, the Europeans used the exceptions permitted by the GATT in the late 1940s to institute additional discrimination in the later postwar period.

The American role as economic hegemon, like the British in the 19th century, was to make an asymmetric bargain. The United States opened its own borders substantially in return for an easing of protectionism by others, and it assured it would not retaliate against others' departures from free

52. The United States also had preferences, which were grandfathered in these agreements. The United States had given preferences to Cuba in 1903 and to the Philippines in 1946 upon granting each their independence. The United States was allowed to retain these preferences.

53. Otto Hieronymi, *Economic Discrimination against the United States in Western Europe (1945–1958): Dollar Shortage and the Rise of Regionalism* (Geneva: Droz, 1973).

trade as long as these exceptions remained within specified bounds.[54] Like the liberal trading order of the 19th century, the new international trading system was actually subsystemic; it excluded fascist states in the 1930s and the Soviet bloc beginning in the late 1940s.

There were differences between the two orders, however. First, the political motivations were quite different. Trade agreements and trade disputes in the 19th century reflected political competition among rival European states. Since World War II, on the other hand, both commercial disagreements and commercial accords have reflected the political requisites of alliance formation and maintenance within a group of states for whom the greatest threat came from outside its ranks. In the 19th century, the European states were political rivals using commercial agreements to improve political relations when that seemed to be in their interest. When political relations deteriorated, economic ones also suffered. Ultimately, the First World War severed their economic links. After World War II, the United States used commercial agreements to knit together a political coalition of liberal, democratic, capitalist societies. European and Japanese economic recovery was essential to America's political interests, both short and long term. Thus, America's commercial strategy hinged on its interest in the economic resuscitation of its former allies and enemies.

Although both were willing to enter into asymmetric trade arrangements, Britain and the United States were quite different economic hegemons. I have already emphasized that commercial policy serves to further a government's domestic and foreign policy interests, and that these are reflected in its foreign economic policy. Britain did not initiate nor was it the driving force behind the trade liberalization of the 1860s. It adopted a largely free trade commercial policy unilaterally once the government found alternative sources of revenue. The United States was a more activist promoter of trade liberalization, yet it was not willing to lower tariffs except through reciprocal arrangement. Furthermore, its successive tariff reductions were from the highs established in 1930, and thus included large interindustry variations. Moreover, the American commitment to trade liberalization was heavily qualified. The United States obtained an exceptionally broad waiver from the GATT in the mid 1950s for its agricultural quotas. Congressional opposition insured that the planned international trade institutions, the International Trade Organization and later the Organization for Trade Cooperation, never came into being.[55] Indeed, the trade agreements that the United States

54. The United States has even been prepared to tolerate cheating on the already asymmetrical bargain it had accepted and has rarely resorted to its right to retaliate. A sense of the extent to which the United States has turned the other cheek can be seen in Judith Lynn Goldstein, "A Re-examination of American Trade Policy: An Inquiry into the Causes of Protectionism" (Ph.D. diss., University of California, Los Angeles, 1983).

55. On the nature of these stillborn organizations, see George Bronz, "The International Trade Organization Charter," *Harvard Law Review* 62 (May 1949): 1089–1125, and Bronz, "An International Trade Organization: The Second Attempt," *Harvard Law Review* 69 (January

made in the two decades following 1945 were executive agreements never presented to Congress for its approval. The executive obtained negotiating authority through successive extensions of the 1934 Reciprocal Trade Agreements Act; these extensions often included declarations stating that the bill's enactment did not imply approval of the GATT itself. In short, despite its active promotion of trade agreements, American acceptance of liberal trade was more qualified than Britain's from the very outset.

Part of the difference is attributable to differences in the role of government in the 19th and 20th centuries. The mercantilistic and protectionist elements of the liberal trading order of the 19th century were rooted in government's felt responsibility for a nation's economic development.[56] Governmental responsibilities have been transformed in the 20th century to include maintenance of economic growth, price stability, and full employment.[57] Thus, governments impose much greater constraints on the workings of the international marketplace and are much less willing to adjust to changes in trade. A government's commercial policy still has foreign policy implications and incorporates foreign policy interests, but domestic interests constrain tariff bargains more in the latter 20th century. The tariff bargains that result are more protectionist and may need to be renegotiated more often.

The decline of American hegemony

The decline of American economic hegemony became fully manifest in 1971, when the United States transformed the postwar economic order by simultaneously instituting an import surcharge and refusing to exchange gold

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1956): 440–82. For the problems in drafting a charter for such an organization, see Jacob Viner, "Conflicts of Principle in Drafting a Trade Charter," *Foreign Affairs* 25 (July 1947): 612–28. Viner points out the extent to which the United States could not fully accept free trade. The ITO was opposed in the United States not only by protectionists but by perfectionists who felt that it accepted too much protectionism; see William Diebold Jr., "The End of the I.T.O.," *Princeton Essays in International Finance* no. 16 (Princeton, N.J., October 1952). The ITO charter institutionalized the subsystemic nature of the hoped-for liberal regime. It specified that member countries were not permitted to generalize concessions to nonmembers.

56. For an important corrective to the prevalent view that government policy has been successful in this role, see Frank B. Tipton Jr., "Government Policy and Economic Development in Germany and Japan: A Skeptical Reevaluation," *Journal of Economic History* 41 (March 1981): 139–50.

57. This is what I take to be, at bottom, the argument made by Ruggie, "International Regimes, Transactions, and Change." This argument is also used to explain current trade concerns in Arthur A. Stein, "Freer Trade: Problems and Prospects," manuscript (1983). Yet it is inappropriate to impose modern motivations and concerns upon past generations. Barry J. Eichengreen points out that the British decision to adopt the General Tariff in 1932 was primarily motivated by a concern not about unemployment but about hyperinflation and exchange depreciation. Politicians adopted the tariff knowing it would worsen domestic unemployment, but deeming the price acceptable for price and exchange-rate stability. See Eichengreen, "Sterling and the Tariff, 1929–32," *Princeton Studies in International Finance* no. 48 (Princeton, N.J., September 1981).

for dollars. With these measures, it knocked out the monetary and commercial underpinnings of postwar international economic relationships. The rest of the decade was marked by constant fears that protectionism was once more on the rise. In the early 1970s, many were afraid of a return to economic blocs, protectionism, autarky, and the collapse of international trade—that the decline of American hegemony would mean a return to a closed economic world. The anticipated collapse did not materialize, and the doomsayers retreated only a little: whatever the reason for its failure to occur thus far, they argued, it would still do so.

The postwar world had been one of constrained protectionism during which the United States had assured others it would not retaliate against trade barriers that remained within agreed limits, and during which international trade grew rapidly. Protectionist policies were not intended to prohibit or reduce trade but were adopted either as temporary measures to speed reconstruction (similar to those intended to protect infant industries) or, in the case of quotas, orderly marketing agreements, and voluntary export agreements, as ways to freeze trade at a given level and thus prevent further domestic adjustment. Thus, the collapse of international trade would require not only increased protectionism but a retaliation against such practices by the world's major trading power.

In other words, the real trade issue of the 1970s was not whether other nations would increase protection but whether the United States would maintain its commitment to nonretaliation. The relative decline in American economic power did not mean it had a lessened ability to impose openness (something it had never done). Rather, the increased relative strength of others might lead to an American unwillingness to continue carrying so large a burden. The import surcharge of 1971 demonstrated that the United States would not maintain that commitment at any price; rather, it would require a renegotiation of the original asymmetric bargain.

Thus, the 1960s and 1970s have seen movement by others toward greater openness under American pressure. The Tokyo Round trade negotiations of the late 1970s further lowered tariff barriers and included codes limiting nontariff barriers. Because the Tokyo agreements also maintained and relegitimated certain exceptions to free trade, however, scholars have differed in their assessments of the final package. Some have concluded that it actually signaled a return to protectionism. But besides concluding a new basic agreement along the lines of earlier multilateral trade packages, the conferees showed a willingness to tackle new problems and agree on solutions to them—a major breakthrough.[58] It seems clear, therefore, that the agreements are a step toward greater openness.

The current trading order is more open than that of the late 1940s and

58. Stephen D. Krasner, "The Tokyo Round: Particularistic Interests and Prospects for Stability in the Global Trading System," *International Studies Quarterly* 23 (December 1979): 491–531.

1950s, and the critical issue for economic liberals now is more complicated than discrimination and protection. Governments are competing not so much by raising barriers to trade as in the amount and forms of assistance they provide to various domestic industries. Success in liberalization (lowering tariffs) has served to expose other governmental policies that distort the marketplace. The 19th century liberals who promoted free trade did not foresee the growth of governmental involvement in the economy. All governmental policies generate positive and negative externalities for producers, and, because they affect competitiveness, they can become the basis for international disagreements.

The general concern of the early 1980s, one that first appeared in the global recession of 1974–75, is how the major trading nations will respond to a downturn in the global economy. Those states which have pursued constrained protectionism all along will likely increase protection. The issue then becomes whether the former hegemon is able to accept not only the original asymmetric bargain but also the increased cheating of others at a time when it is experiencing an absolute economic downturn. The collapse of the order comes not because of the increased cheating of others. Rather, it follows the refusal of the former hegemon, still the world's leading trader, to keep a bargain it can no longer afford. Even then, its departure only comes after others have failed to comply with its demands that they undo their restrictions on trade.

Free trade and the hegemon's dilemma

The periods dubbed "free trade eras" certainly saw years of rapid trade expansion, but they were hardly periods of free trade. Rather, they were periods of *freer* trade. The trade agreements that comprised the more liberal trade system permitted some internal discrimination, but they discriminated far more severely against those who remained outside the system altogether. These systems of freer trade were based on asymmetric tariff bargains in which a hegemon substantially opened its own borders and accepted the tariff barriers of other states, which gave up their prohibitions but retained moderate tariffs. The system was hardly open, but it was *more* open, and the self-abnegation of the hegemon provided a degree of certainty. In both periods, this greater certainty, together with lower tariffs and the outright abolition of prohibitions, resulted in a tremendous growth in trade.

Great Britain and the United States accepted systems for which they bore higher costs than did others, and scholars have thus questioned whether those systems were in their own interests. Neomercantilists, for example, argue that the hegemon undercut its relative position. Liberals, on the other hand, point out that freer trade improves efficiency and global welfare, and hence probably increases the hegemon's absolute wealth.

Both arguments are correct, and the debate is really about the decision criteria that states do and should employ. The realist injunction to maximize power can be seen as an imperative to maximize either one's absolute power over time or one's power relative to others at any given point in time. The liberal suggests that a rational actor should employ an individualistic decision criterion intended strictly to maximize its own returns. The mercantilist, however, recommends a competitive decision criterion meant to maximize relative gains. The use of strict maximization to guide one's choice does not preclude working with others out of common interests, but for the relative maximizer there exist no common interests, and the mutual use of difference maximization transforms any situation into a zero-sum game. Sometimes, an actor is confronted by a difficult choice between the dominant strategies suggested by the different decision criteria.

This is "the hegemon's dilemma," the situation that confronted Great Britain in the 19th century and the United States in the 20th. To maximize one's own returns requires a commitment to openness regardless of what others do. To maximize one's relative position, on the other hand, calls for a policy of continued closure irrespective of others' policies. Each strategy is dominant, but for a different decision rule.[59]

The policies the hegemons adopted actually insured that they would experience a relative economic decline and in time, therefore, a decline in their hegemonic position. Each could, of course, have attempted to maintain its hegemony. The British might have tried to tighten their grip on the secrets of the industrial revolution, and the United States could have closed itself off and attempted to prevent the recovery of nations devastated during the Second World War. It is not clear, however, that either could have maintained its relative hegemony with such policies. It may be that hegemony is a historical accident and is inherently unstable—that Britain, for example, achieved its hegemonic position because it was first to industrialize, but that others would eventually have done so as well. Similarly, the United States may have achieved its position only because of the devastation suffered in two world wars by other major powers whose eventual recovery was only a matter of time. Yet whether Britain and the United States could have pursued policies that would have sustained their hegemony, and for how long, is academic, because both hegemons chose to adopt policies that undercut their relative positions.

The relative decline of the hegemon's position threatens the trading order

59. A dominant strategy is one that maximizes returns no matter the course of action taken by others. It is deductively true that a situation in which one course of action is dominant for one decision criterion but another is dominant for the other decision criterion is one in which the hegemon has a greater effect on others' returns than on its own. Choosing to maximize its absolute returns means that others will gain more and, therefore, that the hegemon undercuts its relative position. Choosing to maximize its relative returns, on the other hand, means that the hegemon gives up the possibility of greater absolute wealth.

only when the hegemon stops accepting others' departures from free trade and retaliates against them. But given that the original asymmetric bargain represented the choice of strict maximization rather than relativistic competition, it seems unlikely that a hegemon would break the agreement when others' positions improve. It is possible, however, that a strictly maximizing hegemon might retaliate and pay short-term absolute costs in the hope of obtaining greater openness and, therefore, longer-term absolute gains.

In fact, some in Britain did press for a restructured bargain, for "fair trade," as the nation's relative position declined and the position of others improved in the late 19th century.[60] Yet the British stuck by the bargain, sustaining their commitment to free trade until World War I. They were able to do so in part because the so-called return to protectionism by others in the last quarter of the 19th century was at most a *defensive* reaction intended to freeze trade levels in a period of declining growth. That reaction also exemplified the logic of the system as it had been established in the 1860s. Trade did not grow, but neither did it diminish. Beginning to expand rapidly after the decades of stagnation, international commerce reached its greatest heights at the beginning of the 20th century.

The real dangers to a relatively liberal trading order are wars that destroy political relationships and disrupt economic ones, or major sustained downturns—real depressions in the global economy. In such situations, nations that regularly pursue some protection will increase the degree to which they do so. The crucial question is whether the former hegemon, now facing domestic economic collapse, will be able to forgo retaliation. The death of the system of global trade established in the 19th century resulted from World War I and the Great Depression. Britain had sustained its commitment to free trade across decades of relative economic decline and was even prepared to continue these policies during the 1930s, although it required more in the tariff bargain from others in return.

Britain's willingness to keep leading in the early 1930s should alert us that liberalizing policies also have more staying power than many believe. There is an inertia in such governmental policies. Producers accustomed to protection and regulation find it difficult to wean themselves from governmental support. Similarly, once a nation begins to liberalize its foreign trade, interests develop that favor continuing and expanding the process. Ironically, the growth of trade and interdependence generates pressure for protection as well as for greater openness. Typically, the more a nation imports, the more some domestic producers suffer, especially during periods of recession. On the other hand, the more a nation exports, the more domestic producers are liable to be hurt by others' retaliation against protectionist policies. Thus protectionism is viable only as long as others do not retaliate. Not surprisingly,

60. Cain, "Political Economy in Edwardian England," argues that the tariff-reform strategy would have been an inappropriate one for Britain's problems.

innovative protectionist measures are rarely unilateral. Rather, they are negotiated agreements intended to freeze trade levels or roll them back only slightly. Protectionists are bought off and the relatively liberal system is maintained. International trade has continued to grow alongside such policies.

Hegemons do not create openness. They can open themselves up, and they can assure others of nonretaliation as long as others only impose trade barriers within specified constraints and under specified conditions. Hegemons need followers in order to liberalize international exchanges. Moreover, their decline does not insure closure, for they can close only their own borders, not those of others. Rather, their decline undermines the certainty of nonretaliation and thus makes possible greater openness (though with more uncertainty) through a restructured and more reciprocal foundation.[61] The collapse of international trade comes not only from their retaliation (i.e., their return to closure) but also from the unwillingness of others to modify the original tariff bargain. Followers who do not move toward greater openness run the risk of the hegemon's retaliation.

Hegemons do not impose openness, they bear its costs. No system is completely open, and departures from openness come at the hegemon's expense. Thus, the decline of hegemony does not suddenly insure closure, because the hegemon was never able to enforce openness in the first place. Rather, the hegemon's decline makes it more difficult for it to continue paying the price of asymmetric openness. Closure comes when the hegemon, which will no longer bear the burden, defects because others refuse to redistribute the costs. Finally, the hegemon's decline does not signify that it has become irrelevant. Rather, the former hegemon remains a major, perhaps still *the* major, trading power, and its participation and agreement are necessary if relative openness is to be maintained. The lesson of the 1930s is that Britain needed followers to remain open, and that the American assumption of leadership was insignificant until Britain became willing to follow. The continued agreement of the United States remains essential for the maintenance of the postwar trading order it made possible by its willingness to bear the costs of openness.

61. Such reciprocal agreements are likely to be formal and institutionalized. When a hegemon bears the burden, the arrangement can be tacit, but a more reciprocal arrangement between relatively more equal powers requires explicit collaboration. These distinctions are developed in Arthur A. Stein, "Coordination and Collaboration: Regimes in an Anarchic World," *International Organization* 36 (Spring 1982): 299-324.