The Theory of Hegemonial Stability

• The world’s largest economy is called a “hegemon.”
  – Britain in the 19th century
  – US after World War II
• Hegemony often arises as a result of a global war.
• The hegemon establishes regimes after such a war that are favorable to its own interests.
Defining Openness

• “A period when tariffs are falling, trade proportions are rising, and regional trading patterns are becoming less extreme will be defined as one in which the structure is becoming more open.”

Source: Krasner, p. 324.
Krasner on what makes for an open trading structure

<table>
<thead>
<tr>
<th>Level of Development of States</th>
<th>RELATIVELY EQUAL</th>
<th>VERY UNEQUAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SMALL</td>
<td>LARGE</td>
</tr>
<tr>
<td>EQUAL</td>
<td>Moderate-High</td>
<td>Low-Moderate</td>
</tr>
<tr>
<td>UNEQUAL</td>
<td>Moderate</td>
<td>Low</td>
</tr>
</tbody>
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**Chart I. Probability of an Open Trading Structure with Different Distributions of Potential Economic Power**
British Example

- Pound-sterling as key currency
- **Gold standard** (at least part of the time)
- **Abolition of the Corn Laws** established low tariffs for world trade unilaterally
- Investment regime based primarily on rules for **portfolio investment**
Transition from British to US Hegemony

- Occurred gradually during the period between WW1 and WW2
- US reluctant to assume burden of leadership
- Outcome of WW2 led to British decline and full leadership for US
US Example

• Postwar establishment of the Bretton Woods System
  – IMF, World Bank
  – GATT/WTO
  – Informal monetary regime

• Continued leadership despite some change over time in the strength of regimes
Hegemonial Stability (continued)

- As hegemony wanes, regimes weaken and challengers to the hegemon arise.
- The weakening of the regimes hastens the relative decline of the hegemon.
- A new hegemon arises either because of unequal rates of growth or because of another global war.
- The cycle starts all over.

Source: Robert Gilpin, *War and Change*
Key Historical Examples

• Decline of British hegemony in the 1930s leads to weaker regimes and eventually the Great Depression
• Decline of US hegemony in the 1970s leads to weakening of the monetary regime (move from fixed to floating exchange rates) and challenges to the trade regime

Can this be generalized to other time periods?
Trade/GDP 1800-1960

Source: Simon Kuznets, "Quantitative Aspects of the Economic..."
Key Questions for the Current Period

• Has U.S. economic power declined relative to potential challengers?
• Has that decline resulted in weaker regimes and greater international economic instability?
• Which of the potential challengers to U.S. hegemony has the best chance of becoming the next hegemon?
Power Shares among the Advanced Industrialized Countries, 1950-1998

Source: Alison Bailyn, *From Traditional to Group Hegemony* (2005)
Robert Gilpin and Susan Strange