

“State Power and the Structure of International Trade” by Stephen Krasner

In this article, Krasner looks at the international economic structure (measured along a continuum of openness of trading structures) as the dependent variable, and argues that it is determined by what he calls a “state power” theory. This idea begins with the assumption that states have a set of four interests which they are trying to maximize: aggregate national income, social stability, political power, and economic growth. The relationship between these interests and the degree of openness is determined by the potential economic power of the state. Different distributions of potential power are related to different trading structures.

Looking at Krasner’s 4 sets of state interests, we find that:

- In terms of aggregate national income, all states benefit from openness, but small states benefit to a greater extent.
- Social stability decreases with openness, but this effect is smaller as states size and the level of economic development increase.
- Larger and more developed states gain more from an open system in terms of political power.
- In terms of economic growth, the results are unclear: openness increases economic growth so long as states maintain a technological advantage.

There are a variety of distributions of potential economic power, which can be related to a degree of openness. The case Krasner is most interested in is that of a hegemonic distribution. In this case, the hegemonic state will prefer an open trading structure, as will small states. The position of medium-sized states is unclear, and depends on the ability of the hegemon to use military, economic and symbolic power to induce them to accept an open trading structure (using either positive or negative inducements). Openness is most likely when a hegemon is rising, when it has the interests and resources to create an open structure, as well as the ability to create confidence in a monetary system.

The dependent variable of degree of openness consists of institutional (tariffs) and behavioral (trade proportions, regional encapsulation - the idea that regional trade is politically motivated and declines in relative terms with general openness [data only from 20th century]) measures. The independent variable of state structure is measured by the ratio between the two largest powers in 4 areas: per capita income, aggregate size, share of world trade, and share of world investment. Krasner identifies six periods for study:

- 1820-1879: tariffs decreasing, trade proportions up. British leadership in most measures of hegemony.
- 1879-1900: tariffs rise somewhat, trade proportions decline somewhat, declining British hegemony, in all categories except share of world investment.
- 1900-1913: tariffs constant, trade proportions increase, trading patterns generally less regionalized. Declining British hegemony continues, again in all categories except investment.
- 1919-1939: tariffs increase, trade proportions decline, regionalization increases. Ascending U.S. hegemony (leadership in all 4 categories), but British attempt to continue hegemonic role.
- 1945-1960: greater openness across the board, US hegemony ascendant in all four measures.
- 1960-1973: declining US hegemony, while openness continues.

So the relationship Krasner posits between hegemony and openness fits in 3 cases: 1820-1879, 1880-1900, and 1945-1960. It has more trouble with the other three periods, and he suggests that the pattern is “out of phase”. To explain this, Krasner suggests amending his argument with an institutional explanation. He suggests that “once policies are adopted, they are pursued until a new crisis demonstrates that they are no longer feasible. States become locked in by the impact of prior choices on their domestic political structures.” (p.341). In other words, the institutions created by hegemons while they are in the period of rising ascendancy remain in operation even after the hegemon no longer finds them in its interests. Policy choices for the hegemon are constrained by the domestic institutions it created at an earlier date, and therefore, openness continues even as the declining hegemon tries to free itself from these constraints.