Lake, David A. 1984. "Beneath the Commerce of Nations: A Theory of International Economic Structures." *International Studies Quarterly* 28, 143-170.

Quick summary: *Theories of hegemonic stability (Gilpin 1975, Krasner 1976, Kindleberger 1973) suffer from an inadequate conceptualization of the international economic structure. The whole structure of the international economy should be analyzed (not just the presence or absence of hegemony) – must distinguish between the structurally derived interests of non-hegemonic nations. There is no axiomatic relationship between hegemony and free trade or declining hegemony and protection. Hegemony is neither a necessary nor a sufficient condition for the creation of a liberal international economy. Two or more middle sized, relatively highly productive nations may be willing and able to construct or maintain a liberal international economy under certain conditions. Considerable potential does exist for collective leadership of the international economy. Challenges the appropriateness of the 'British' or '1930' analogy for the present period of declining American hegemony.*

What is the central puzzle/question?
What accounts for the nature and sustainability of the international economic system and is the 'British' or '1930' analogy (British declining hegemony leading to closed international system) relevant to the present period of declining American hegemony?

What is the central answer(s)?
The international economic system is defined by the two dimensions of relative size (a nation's proportion of world trade) and relative productivity (national output per man-hour relative to the average in the other middle and large sized nations).
Relative size – A hegemonic leader is most likely to stabilize the international economy and create or maintain a strong regime. While collective action in non-hegemonic structures is problematic, middle sized nations, which face high net costs for not providing the collective good and conditions of only moderate uncertainty, may also be able to cooperate sufficiently to obtain these goals. (There is less incentive to free-ride if uncertainty exists since states are not sure the good will be provided.)
Relative productivity – The free functioning of the international market is assumed to concentrate wealth in nations of high productivity. Highly productive nations will favor free trade because they enjoy disproportionate benefits from such trade. Nations of low productivity do not benefit from the functioning of the market as much as highly productive nations and therefore fall further behind their more productive counterparts over time. Relatively unproductive nations will attempt to develop the advantages of backwardness through government-led alterations in the nation's industrial structure in order to compete. Comparative advantage still holds so even nations of low relative productivity will desire at least a modicum of openness abroad (but strong preference for protection at home).

Six different categories of nations within the two dimensions of relative size and relative productivity can be identified: imperial leader (IL – large size, low relative productivity), hegemonic leader (HL – large, high), spoilers (SP – middle, low), supporters (SUP – middle, high), protectionist free riders (PFR – small, low), and liberal free riders (LFR – small, high). PFRs are largely indifferent to the world economy and have little ability to affect it. Attention directed inward and focused on economic development. SPs do affect the degree of stability and the strength of the regime through their protectionist behavior. ILs possess ability to lead but little incentive to stabilize international economy or create a strong regime. Likely to seek to limit international trade to essential raw materials or goods that cannot be produced at home, most likely through mercantilist or administered trade policy. HLs likely to create and maintain a liberal international economy. SUPs posses only moderate influence and are likely to free ride when a HL is present. LFRs free ride with impunity.

International economic structures are distinguished by the number of middle and large sized nations present in the international economy and the categories into which they are classified. Hegemony is neither a necessary nor a sufficient condition for the creation of a liberal international economy. If the price of compliance and price of stability exceed the benefits of universal free trade, the hegemonic nation will be both unwilling and unable to lead the international economy toward greater openness. Conversely, two or more middle sized, highly productive nations (SUPs) may be willing and able to construct or maintain a liberal international economy (under certain conditions).

The 'British' or '1930' analogy is inappropriate as a guide to current changes in the international political economy. Evolutionary trend is not toward unilateral supportership (as in earlier period) but toward multilateral supportership. American trade policy reflects this evolution. Even through pressures for protectionism have grown since the late 1960s and early 1970s, the actual level of protection within the U.S. has not risen appreciably (restrained by fear of retaliation). The structure of the multilateral supportership is likely to endure over the next several decades and there is little the U.S. can do to reassert its position of hegemonic leadership.

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