The political economy of international trade

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John A. C. Conybeare. *Trade Wars: The Theory and Practice of International Commercial Rivalry*. New York: Columbia University Press, 1987.

Robert Gilpin. *The Political Economy of International Relations*. Princeton, N.J.: Princeton University Press, 1987.

David A. Lake. *Power, Protection, and Free Trade: International Sources of U.S. Commercial Strategy, 1887–1939*. Ithaca, N.Y.: Cornell University Press, 1988.

Helen V. Milner. *Resisting Protectionism: Global Industries and the Politics of International Trade*. Princeton, N.J.: Princeton University Press, 1988.

Richard Rosecrance. *The Rise of the Trading State: Commerce and Conquest in the Modern World*. New York: Basic Books, 1986.

For economists trained in the conventional neoclassical tradition, the subject of international trade is inherently frustrating. On the one hand, we have our theory, descended from Adam Smith and David Ricardo, which stresses all the benefits of open markets and unrestricted exchange between nations based on underlying differences of comparative advantage. On the other hand, we have the real world, where forces of mercantilism and protection always seem rampant if not wholly dominant. Rarely in the economics profession do we encounter greater dissonance between what we are taught in principle and what we observe in practice. And try as we might to find logical

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reasons for all this in the tenets of our own discipline, ultimately we are tempted simply to throw up our hands and proclaim: "It's all politics!"

Enter the political scientists. Scholars trained in the study of international relations or comparative politics find it far less difficult to locate logical reasons for behavior and outcomes that traditional economic theory would regard as irrational. In their discipline, politics *is* all—or nearly so. The mercantilist element of trade is not an aberrant exogenous variable to be deplored but, rather, a central and systematic endogenous factor to be explained. In recent years, a veritable flood of literature has been produced by political scientists exploring the political economy of international trade.

What can economists learn from all this writing? That is the question addressed by this article, which reviews a sample of five reasonably representative contributions to the field published since the mid-1980s.[1] Two of the authors under consideration, Robert Gilpin and Richard Rosecrance, are senior scholars already well known and widely respected for their professional accomplishments. While Gilpin's book, a comprehensive treatise touching on much more than international trade alone, is intended mainly for a scholarly audience, Rosecrance's is written in a more popular vein and aims more for the general literate reader. The three remaining authors—John Conybeare, David Lake, and Helen Milner—are by contrast all at comparatively earlier stages of their careers and have written works primarily directed to specialists. Two of their three books, in fact, began life as doctoral dissertations.

My review will begin by setting the five contributions in their overall scholarly context. Studies of the politics of trade form an integral part of the broader field of international political economy (IPE); and like other work currently being done in the IPE field on other aspects of economic relations between states, writings on the political economy of trade tend to focus on either or both of two central sets of questions concerning actor behavior and system management. The logic of that research agenda will be followed here. The first of the two central sections of this essay will look at what the five authors have to say about the question of actor behavior, focusing in particular on the issue of levels of analysis and on the appropriate definition of sovereign state interests, while the second will address these scholars' responses to the question of how the international system is or could be managed, if at all, to contain conflict or promote cooperation in trade relations. The review will conclude with a brief summary of my main comments and conclusions.

1. By focusing this review on just these five books, I of course do not mean to imply that this sample is adequate to capture the full richness and diversity of recent political science writings on the politics of trade. No limited sample could possibly do that. But it can be

The research agenda of international political economy

The emergence of IPE as a standard field of scholarly inquiry is a relatively recent phenomenon in the English-speaking world. As recently as two decades ago, economists and political scientists in the United States and similar nations barely talked to each other about their overlapping interests in the area of international relations, displaying instead what Susan Strange called a kind of "academic astigmatism."[2] According to Joan Spero, the deep divide between the two disciplines could be attributed in part to the philosophical heritage of nineteenth-century liberalism, with its emphasis on the duality of the economic and political orders, and in part to the professional imperatives of modern academia, which tend to prize disciplinary specialization over cross-disciplinary adventurism.[3] Exceptions could always be found, of course, but mostly among Marxist commentators or others outside the mainstream of conventional Western scholarship. Within the intellectual mainstream, few challenged or even questioned the "disciplinary tunnel-vision"[4] that tended to characterize the social sciences.

Only toward the end of the 1960s were there serious efforts to bridge the divide between the specialties of international economics and world politics, efforts coinciding with the thawing of the Cold War and the first signs of decay in the monetary and trade regimes established at the end of World War II. From the economics side came such pioneering studies as Richard Cooper's *The Economics of Interdependence* and Charles Kindleberger's *Power and Money,* as well as Albert Hirschman's rediscovered classic, *National Power and the Structure of Foreign Trade.*[5] From the political science side came the innovative and imaginative work of Robert Keohane and Joseph Nye, Robert Gilpin, Stephen Krasner, and Peter Katzenstein,

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reasonably claimed that these five selections all fall sufficiently within the mainstream of the current literature to provide a useful basis for a critical evaluation of some of the main themes and questions currently being addressed by scholars working in the field.

2. See Susan Strange, *Sterling and British Policy: A Political Study of an International Currency in Decline* (London: Oxford University Press, 1971), p. 3. See also her classic article, "International Economics and International Relations: A Case of Mutual Neglect," *International Affairs* 46 (April 1970), pp. 304–15.

3. Joan Edelman Spero, *The Politics of International Economic Relations,* 3d ed. (New York: St. Martin's Press, 1985).

4. Robert O. Keohane and Joseph S. Nye, "World Politics and the International Economic System," in C. Fred Bergsten et al., eds., *The Future of the International Economic Order: An Agenda for Research* (Lexington, Mass.: D. C. Heath, 1973), p. 115.

5. See Richard N. Cooper, *The Economics of Interdependence: Economic Policy in the Atlantic Community* (New York: McGraw-Hill, 1968); Charles P. Kindleberger, *Power and Money: The Politics of International Economics and the Economics of International Politics* (New York: Basic Books, 1970); and Albert O. Hirschman, *National Power and the Structure of Foreign Trade* (Berkeley: University of California Press, 1945).

among others.[6] Within one decade, IPE came to be recognized as an exciting, emergent area of scholarship. After two decades, IPE is now firmly established in Western academic circles, especially among political scientists, as a legitimate research specialty in its own right, emphasizing formal integration of market and political analyses in the study of international affairs.

The research agenda of IPE focuses largely on two broad sets of questions. One set has to do with *actor behavior*—meaning, in particular, government behavior, since the fundamental unit of authority in the international system still remains the sovereign nation-state. What motivates government behavior in foreign economic relations, and how is it best explained and analyzed? The other has to do with *system management*—coping with the consequences of economic interdependence. How do state actors manage (or fail to manage) their conflicts, and what determines whether they cooperate or fail to cooperate to achieve common objectives? Methodologies used to seek answers to these questions vary, depending both on the disciplinary training of the individual scholar and on the nature of the specific issue-area under consideration. International trade, of course, is one of the most central of the issue-areas explored in the IPE literature.

Political scientists are not alone in studying the political economy of trade. Some economists have also been stimulated by recent intellectual developments to pay more attention to the political dimensions of trade. But for the most part, scholars trained in the discipline of economics have chosen to focus on two rather narrowly drawn questions, both related to actor behavior. One question, reflecting an international extension of domestic public choice theory, has to do with the interindustry structure of protection in individual countries. In this area, work on what is sometimes called "endogenous" trade policy has been mostly empirical and quantitative, seeking to explain the marked differences that we observe across sectors in either the level of import protection provided or the extent of trade liberalization negotiated by governments.[7] The other question, reflecting an international

6. See Robert O. Keohane and Joseph S. Nye, eds., *Transnational Relations and World Politics* (Cambridge, Mass.: Harvard University Press, 1972); Robert O. Keohane and Joseph S. Nye, *Power and Interdependence: World Politics in Transition* (Boston: Little, Brown, 1977); Robert Gilpin, "Three Models of the Future," in C. Fred Bergsten and Lawrence B. Krause, eds., *World Politics and International Economics* (Washington, D.C.: Brookings Institution, 1975), pp. 37–60; Robert Gilpin, *U.S. Power and the Multinational Corporation: The Political Economy of Foreign Direct Investment* (New York: Basic Books, 1975); Stephen D. Krasner, "State Power and the Structure of International Trade," *World Politics* 28 (April 1976), pp. 317–47; Stephen D. Krasner, *Defending the National Interest: Raw Materials Investments and U.S. Foreign Policy* (Princeton, N.J.: Princeton University Press, 1978); and Peter J. Katzenstein, ed., *Between Power and Plenty: Foreign Economic Policies of Advanced Industrial States* (Madison: University of Wisconsin Press, 1978).

7. See, for example, J. J. Pincus, "Pressure Groups and the Pattern of Tariffs," *Journal of Political Economy* 83 (August 1975), pp. 757–78; Richard E. Caves, "Economic Models of

extension of industrial organization theory, goes under the heading of "strategic" trade policy. In this area, work has primarily taken the form of more abstract theorizing focused on the implications that monopolistic elements in international markets (such as economies of scale, product differentiation, and rent seeking) have for the traditional case for free trade based largely on models of perfect competition.[8] Developments in the literature on strategic trade policy have been reviewed recently in this journal in an article by J. David Richardson.[9]

The contributions of political scientists, by contrast, tend to be rather more diverse, covering a broader range of questions of both actor behavior and system management. As indicated, the sample of works under review here is representative. While two of the books, those by Lake and Milner, are primarily concerned with the formulation of commercial policy by individual governments, the remaining three all concentrate more on systemic issues of conflict and cooperation. Each of the five has its own distinct analytic focus.

Rosecrance offers perhaps the broadest focus: an analysis of nothing less than the entire system of international relations. In Rosecrance's view, the world is presently poised "between two fundamentally different modes of organizing international relations: a territorial system . . . and an oceanic or trading system."[10] The territorial system is composed of states preoccupied with the accumulation of power, defined in terms of land mass: "the more

Political Choice: Canada's Tariff Structure," *Canadian Journal of Economics* 9 (May 1976), pp. 278–300; Robert E. Baldwin, *The Political Economy of U.S. Postwar Trade Policy* (New York: New York University Graduate School of Business Administration, 1976); E. J. Ray, "Tariff and Nontariff Barriers in the United States and Abroad," *Review of Economics and Statistics* 63 (May 1981), pp. 161–68; R. P. Lavergne, *The Political Economy of U.S. Tariffs: An Empirical Analysis* (New York: Academic Press, 1983); and Robert E. Baldwin, *The Political Economy of U.S. Import Policy* (Cambridge, Mass.: MIT Press, 1985). For a comprehensive, albeit brief, survey of this literature, see Robert E. Baldwin, "Trade Policies in Developed Countries," in Ronald W. Jones, ed., *International Trade: Surveys of Theory and Policy* (Amsterdam: North-Holland, 1986), pp. 184–94.

8. For an early survey of this literature, see Gene M. Grossman and J. David Richardson, *Strategic Trade Policy: A Survey of Issues and Early Analysis* (Princeton, N.J.: International Finance Section, 1985). For useful synopses, see the following works of Elhanan Helpman and Paul R. Krugman: *Market Structure and Foreign Trade* (Cambridge, Mass.: MIT Press, 1985), and *Trade Policy and Market Structure* (Cambridge, Mass.: MIT Press, 1989). For instructive collections of essays, see Paul R. Krugman, ed., *Strategic Trade Policy and the New International Economics* (Cambridge, Mass.: MIT Press, 1986); and Robert M. Stern, ed., *U.S. Trade Policies in a Changing World Economy* (Cambridge, Mass.: MIT Press, 1987).

9. See J. David Richardson, "The Political Economy of Strategic Trade Policy," *International Organization* 44 (Winter 1990), pp. 107–35. For an alternative perspective, see Klaus Stegemann, "Policy Rivalry Among Industrial States: What Can We Learn from Models of Strategic Trade Policy?" *International Organization* 43 (Winter 1989), pp. 73–100.

10. Rosecrance, *The Rise of the Trading State,* p. 16.

territory, the more power."[11] The trading system is composed of states preoccupied instead with economic development, defined in terms of improvements in consumption standards and in the allocation of productive resources: "progress sustained by the medium of international trade."[12] The main thesis of the book, taking a long historical perspective, is that a triumph of the trading system in international relations today would be the best possible guarantee of sustained world peace in the future.

Gilpin, too, offers a broad focus. His analysis of the "evolution of the international political economy over the next several decades"[13] encompasses all dimensions of economic relations between states, albeit set in a more formal theoretical context than is Rosecrance's treatment. For Gilpin, the central issue is the decline of American economic leadership of the postwar order: "The United States and its conception of a liberal order have dominated the postwar era, [but] with the relative decline of American power and the rise of economic powers that have different conceptions of legitimacy, the future of the liberal world economy has become severely threatened."[14] In trading relations, this has meant the emergence of a "mixed" regime combining multilateralism with elements of economic nationalism and regionalism which "may or may not prove stable over the long run."[15]

Conybeare's aim is "to provide a perspective on trade wars"[16] through development of a theoretical model based on a small number of game structures. A variety of hypotheses about negotiating processes and outcomes are developed and then applied to a sample of six historical cases, ranging from the Anglo–Hanse trade wars of the late Middle Ages to the U.S.–European "chicken war" of the 1960s. The core theme of the book is the need for an integrated analytic framework that would help explain "why trade conflicts (including trade wars) occur, how they escalate, and the types of bargaining behavior that one may expect to observe during them."[17]

Lake also aims to provide an integrated analytic framework, though in his case the object of explanation is the determination of policy within states rather than the evolution of relations between states. A "theory of trade strategy," in which protection and free trade are both conceived as "legitimate and effective instruments of national policy," is developed and then used to illuminate the evolution of U.S. commercial policy between 1887

11. Ibid.
12. Ibid., p. 13.
13. Gilpin, *The Political Economy of International Relations*, p. 5.
14. Ibid., p. 228.
15. Ibid., p. 408.
16. Conybeare, *Trade Wars*, p. ix.
17. Ibid., p. 265.

and 1939.[18] In Lake's view, national trade interests and political choices ultimately are shaped and influenced by the constraints and opportunities of the international economic structure. "Protection and free trade . . . are not simply the result of domestic political pressures but the considered response of self-seeking nation-states to varying international structures."[19]

Finally, like Lake, Milner focuses specifically on trade policy formulation in individual states, but with emphasis more on the domestic political pressures that are discounted in Lake's analysis. In particular, Milner stresses the role of corporate trade preferences as influenced by changing degrees of international economic integration over time, and she compares preference formation and policymaking among a number of different industries in the United States during the 1920s and 1970s and in France during the 1970s. For Milner, "The consequences of interdependence are *internal* to states: they affect *domestic* social actors' policy preferences, not states' policy instruments."[20]

Within such a diverse body of literature, it is hardly surprising to find numerous points of controversy as well as areas of shared agreement. But for economists unaccustomed to the terms of debate among political scientists, it can all be quite confusing. How do we know what is accepted by consensus among political scientists, since (as in any discipline) this is often left unstated? How do we judge among alternative viewpoints, since (as in all the social sciences) the empirical evidence is often indeterminate? And, above all, how much do we actually learn, since a certain amount of insight into the political economy of trade is already available in the work of fellow economists? A closer look at key analytic issues common across the breadth of this literature is required before answers to these questions can be essayed.

The question of actor behavior

Two issues related to actor behavior permeate the writing of political scientists: the issue of how best to explain or analyze the foreign economic policy behavior of governments and the issue of what it is that fundamentally motivates states in their international economic relations. The first of these is a methodological issue involving the familiar problem of choosing among applicable levels of analysis. The second is more conceptual and involves an appropriate definition of sovereign state interests. Both issues involve crucial intellectual judgments that can significantly influence the outcome of analysis.

18. Lake, *Power, Protection, and Free Trade*, p. 2.
19. Ibid., p. 3.
20. Milner, *Resisting Protectionism*, p. 292; emphasis added.

The choice of level of analysis

In trying to understand the foreign economic policy behavior of governments, political scientists variously espouse three alternative "levels" of analysis, each corresponding to one of Kenneth Waltz's well-known "images" of international relations.[21] Perhaps most popular is the *system level* (or structural level) of analysis, analogous to Waltz's "third" image, which focuses on the sovereign state itself, treated as a rational and unitary actor, as the basic unit of study. The methodological value of the systemic type of approach is that it makes state preferences constants (exogenous) rather than variables (endogenous) for purposes of analysis. Since conceptions of self-interest may thus be assumed to be given and unchanging, discussion is able to concentrate exclusively on constraints and incentives for government behavior that derive from the broader structure of interstate relations. Behavior, as Waltz has described it more recently, is studied from the "outside-in."[22]

But, of course, behavior may also be studied from the "inside-out," concentrating on the internal characteristics of states rather than solely on their external environment. That is the purpose of both the remaining types of approach to be found in the IPE literature. Better known is the *unit level* of analysis, analogous to Waltz's "second" image, which focuses attention on the strategic interactions among all domestic actors, inside or outside the government, with actual or potential influence on a state's foreign actions—in short, the political and institutional basis at home for economic policy preferences abroad. Less familiar, though not necessarily less important, is the *cognitive level* of analysis, analogous to Waltz's "first" image, encompassing the base of consensual knowledge or "economic culture" that legitimates policymaking at the unit level.[23]

For most purposes, both the unit and cognitive approaches can be subsumed under the single heading of *domestic-level analysis,* which is in contrast to *system-level analysis.* The attractions of either domestic-level or system-level analysis from a methodological point of view are clear. But it is equally clear that neither type of analysis is likely to prove sufficient per se to explain all of state behavior in the international political economy. Even while favoring one level or the other, most political scientists acknowledge that each is partial at best as a formal framework of analysis.

Both Conybeare and Lake, for example, clearly prefer system-level analysis for the development of their theoretical models. Yet both explicitly

21. Kenneth N. Waltz, *Man, the State and War* (New York: Columbia University Press, 1959).
22. Kenneth N. Waltz, *Theory of World Politics* (Reading, Mass.: Addison-Wesley, 1979), p. 63.
23. For more on the cognitive approach, see Paul Egon Rorhlich, "Economic Culture and Foreign Policy: The Cognitive Analysis of Economic Policy Making," *International Organization* 41 (Winter 1987), pp. 61–92.

incorporate internal political and cognitive factors as additional influences on behavior. Milner, conversely, stresses the central role of political pressures at the domestic level in the formulation of foreign trade policy but formally admits systemic influences too through the role she assigns to changes in the degree of economic interdependence in her analysis, in a manner analogous to Peter Gourevitch's "second image reversed."[24] The real issue in this context is not whether one level of analysis or the other might be complete on its own; clearly, neither is. Rather, the issue concerns the relative importance to be attached to variables at either the domestic or system level and the manner in which these variables can be presumed to relate and interact. On this issue, little consensus prevails for the guidance of economists or others.

For Gilpin and Rosecrance, indeed, the issue barely seems to exist. Although both make occasional references to the presumed importance of domestic politics or "ideology," each quite clearly feels most comfortable simply treating states as unitary actors for purposes of exposition. For the three other authors, the issue exists but is treated in a relatively nonformal and unstructured fashion. Both Conybeare and Lake merely assert the primacy of system-level analysis, principally on the grounds of its parsimony, without convincingly demonstrating why internal political and cognitive factors must necessarily be relegated to a status of secondary importance in explaining state behavior. Each brings in domestic-level variables, such as rent seeking (Conybeare) or intragovernmental bargaining (Lake), to help account for deviations from expectations derived from their respective structural models. But neither explains why it could not also be done the other way around (as many political scientists do), starting first with an exclusively domestic model and then adding system-level variables as needed.[25] Milner, in reverse, argues for the centrality of domestic analysis but fails to formalize the links between internal and external influences on policy. The relationship between the two levels of analysis in her approach is specified in a manner that is not much more than ad hoc.

What is needed is a methodology that considers domestic- and system-level variables simultaneously, rather than sequentially, and specifies whatever interactions there may be among all relevant variables in a rigorous manner. In practical terms, this would mean not only more systematic efforts at abstract model building but also greater use of appropriate empirical tests—either carefully structured case study comparisons or else more for-

24. Peter A. Gourevitch, "The Second Image Reversed," *International Organization* 32 (Autumn 1978), pp. 881–912.

25. The relative merits of the two modes of analysis are, of course, a hotly debated topic among political scientists. See, for example, the contrasting comments of Katzenstein in *Between Power and Plenty,* pp. 12–15, and Robert O. Keohane in *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton, N.J.: Princeton University Press, 1984), pp. 25–26.

mal statistical procedures—to evaluate alternative hypotheses concerning the foreign economic policy behavior of governments. Certainly more use could be made of standard multiple regression techniques, extending the sort of work that has been done on questions of endogenous trade policy in recent years by economists as well as by the occasional political scientist.[26] Or in cases in which the applicability of regression techniques is limited by problems inherent in a linear probability model, it might be possible to employ other, more complex tools such as discriminant analysis, probit or logit analysis, or even experimental simulations. Although these methodologies have not typically been applied to questions of commercial policy,[27] some of them have been used with some success to explain choices of exchange rate arrangements by different governments.[28] In principle, the procedures would permit effective testing of hypotheses that simultaneously incorporate factors at both the domestic and system levels of analysis, including, for example, interest group pressures of the sort stressed by Milner as well as national strategic concerns like those emphasized by Lake.

Admittedly, there are considerable practical difficulties in applying empirical tests—particularly formal econometric techniques—to questions of this kind. Especially problematic, as past work on endogenous trade policy has demonstrated, is the struggle to operationalize satisfactorily many of the key variables identified by deductive theory. In the absence of adequately refined or disaggregated statistics, analysts must use proxy measures that can often be interpreted to support more than one competing hypothesis. Still, there seems little alternative to further efforts along this line if analysts are to be able to achieve more systematic specification of the relative roles of factors at each level and the nature of the relationships among them. More powerful explanations of state behavior could eventually result.

The definition of state interests

Closely related to the issue of the level of analysis is the issue of an appropriate definition of state interests. What is it that fundamentally motivates governments in their international economic relations? What are they

26. See, for example, John A. C. Conybeare, "Tariff Protection in Developed and Developing Countries: A Cross-Sectional and Longitudinal Analysis," *International Organization* 37 (Summer 1983), pp. 441–67.

27. One exception is Baldwin's *The Political Economy of U.S. Postwar Trade Policy,* which makes use of multivariate probit analysis.

28. See, for example, H. Robert Heller, "Choosing an Exchange Rate System," *Finance and Development* 14 (June 1977), pp. 23–26; H. Robert Heller, "Determinants of Exchange Rate Practices," *Journal of Money, Credit and Banking* 10 (August 1978), pp. 308–21; Jacob Dreyer, "Determinants of Exchange Rate Regimes for Currencies of Developing Countries: Some Preliminary Results," *World Development* 6 (April 1978), pp. 437–45; and Gordon Weil, *Exchange-Rate Regime Selection in Theory and Practice* (New York: New York University Graduate School of Business Administration, 1983).

trying to achieve? In formal language, what is a state's preference ordering? What are the arguments of its utility function?

These questions are obviously related to the level-of-analysis issue in the sense that the choice of analytic approach at least partly predetermines the range of goals that governments can be presumed to regard as relevant. A state assumed to be responsive to domestic political pressures could logically have a preference ordering quite different from that of a state conceived as a unitary actor. But the two issues are not identical. Even states conceived exclusively as unitary actors may potentially respond to quite different notions of utility. The issue of defining state interests is more than methodological; it goes to the very basics of what governments "care about."

On this more conceptual issue, political scientists clearly do have something to teach economists. Economists, after all, tend to be rather narrow-minded when it comes to the question of interests, reflecting the traditional biases of their profession. For anyone trained in neoclassical orthodoxy, utility is instinctively defined simply in terms of real economic welfare—a term synonymous with the amount of goods and services available for final use—to the exclusion of all other possible values or goals.[29] While consumers seek to maximize their consumption, producers seek to maximize their net income in order to gain the greatest possible command over goods and services. By extension, therefore, it seems only logical to assume that governments, too, seek to maximize real economic welfare, in this case for the nation as a whole. The sole interest of a state is or should be to gain the greatest possible income for its society. All else, in the eyes of the economist, is irrational.[30]

Is it any surprise, then, that economists find the subject of international trade so inherently frustrating? A variety of routes have been followed in attempts to resolve the apparent dissonance between inherited principle and observed practice in nations' trade policies. Some economic theorists have looked for arguments for protection that could be regarded as logically compatible with global income maximization, such as the traditional infant-industry argument, which advocates temporary trade restriction as a means to promote new additions to the world's efficient productive capacity. Others have focused on arguments compatible with income maximization at the national level, such as the well-known optimum tariff argument, which suggests that a country with monopolistic or monopsonistic power in international markets can shift the terms of trade to its advantage and thereby

29. The key word here is "instinctively." It is not that economists are unaware of the potential for extending their traditional apparatus of utility analysis to incorporate other possible interests or goals; it is just that, typically, they are not inclined to do so. One frequently cited excuse is the difficulty of formally quantifying any values other than real income.

30. There are exceptions, of course. For an early (and unfortunately neglected) example, see Harry G. Johnson, "An Economic Theory of Protectionism, Tariff Bargaining, and the Formation of Customs Unions," *Journal of Political Economy* 73 (June 1965), pp. 256–83.

capture a greater share of the total gains from trade. Contemporary theorizing about strategic trade policy takes the same route, contending that in the presence of imperfectly competitive markets, governments might be able to use trade policy to shift profits (monopoly rents) from foreign to domestic corporations and thereby improve the competitive position of their national industries. And yet others have sought explanations framed in terms of income maximization for particular groups within the nation-state, as in studies of endogenous trade policy. But none of these routes, it is evident, have proved especially satisfactory. As Lake remarks dryly, "Economists have struggled to make the real world of trade policy conform to their model, with limited success."[31]

Political scientists, on the other hand, have long recognized that governments care about more than merely maximizing income. At a minimum, states also care about the preservation of their political sovereignty and territorial integrity—in short, their "national security." At a maximum, there may be a whole range of additional values that they pursue, covering everything from domestic distributional objectives to the international prestige of their national language and culture. Economists have struggled precisely because their standard models exclude all such "noneconomic" motivations. As Harry Johnson, known in his generation as the quintessential economists' economist, lamented a quarter of a century ago, this exclusion left economists "without a theory capable of explaining a variety of important and observable phenomena, such as the nature of tariff bargaining, the commercial policies adopted by various countries, the conditions under which countries are willing to embark on customs unions, and the arguments and considerations that have weight in persuading countries to change their commercial policies."[32] If economists would take a cue from political scientists and open up the analysis of state motivations to include equally relevant noneconomic interests, this certainly would help to make the real world conform more to theory.

There is a problem, however. The longer the list of interests, obviously, the more unwieldy is the analysis. Realism is gained, but at the sacrifice of parsimony and probably rigor. The conventional response of political scientists to this problem is to subsume most or all noneconomic motivations under the convenient catch-all heading of "power," conceived as a single means to a variety of ends. Power, the ability to influence outcomes, becomes what governments care about along with "wealth," the shorthand term used for income maximization. This is precisely what Gilpin had in mind a decade and a half ago when he defined IPE as "the reciprocal and dynamic interaction in international relations of the pursuit of wealth and the pursuit of

31. Lake, *Power, Protection, and Free Trade,* pp. 20–21.
32. Johnson, "An Economic Theory of Protectionism," p. 257.

power."[33] It is this interest in power, inherently a political matter, that economists have for too long tended to ignore.

But how important is the interest in power, relative to the state's interest in wealth, and precisely how do the two motivations relate and interact? Here again, little consensus prevails among political scientists for the guidance of economists or others. Opinions vary widely about the weights implicitly to be attached to each of these motivations in the utility functions of states. The relationship between the two goals tends for the most part to be treated in a manner that is nonformal at best and ad hoc at worst. Economists can certainly benefit from being reminded that power matters. But beyond that, it is not at all clear what more they actually learn about this issue from the comments of political scientists, who follow a variety of approaches.

One approach, exemplified by Conybeare, simply mimics economists by specifying income maximization as the sole objective of government policy. In Conybeare's theoretical model, power is purely instrumental and is not a goal in itself. States are treated as unitary actors effectively equivalent to the atomistic profit-seeking firms of familiar microeconomic analysis. In this respect, his system-level model differs not at all from the models of strategic trade policy developed by economists.

A second approach, exemplified by Rosecrance, simplifies the problem by in effect assigning each of the two goals, power and wealth, to separate types of states: territorial states, which seek power, and trading states, which seek wealth. The dichotomy is not absolute, he concedes. While "defense and territory are not the only concerns of states," he argues, "no nation entirely neglects its territorial defense and stakes its livelihood solely on trade" and "every state procures some defense and participates in some trade."[34] But the distinction between states is in fact drawn so sharply that Rosecrance's gesture of qualification is effectively nullified: "Nations at all times and places have had to decide to emphasize one method or the other. . . . The difference between states is that some rely primarily on military force and only incidentally engage in trade; others make their livelihood in trade and use defense only against the most remote contingencies. . . . Some states are primarily trading states, [while] others are maximizers of power and territory."[35] Such an approach is an improvement over models that emphasize the pursuit of wealth alone and ignore the goal of power, but it is still remote from the real world in which every state can be legitimately assumed to have a keen interest in both.

The solution, of course, is to explicitly incorporate both goals into the presumed utility functions of individual governments and to treat them as

33. Gilpin, *U.S. Power and the Multinational Corporation,* p. 43.
34. Rosecrance, *The Rise of the Trading State,* pp. 8, 17, and 30.
35. Ibid., pp. 17, 30, and 62.

inextricably linked. That is the most typical approach among political scientists, exemplified by Gilpin and Lake, each of whom stresses the simultaneous concern of states with wealth and power alike.[36] Few students of trade politics today seem inclined to join Conybeare in solely emphasizing income maximization in the definition of state interests, a perspective most consistent with the traditional liberalism of neoclassical economics. But neither do many now subscribe completely to the exclusive preoccupation with power accumulation characteristic of the realist school of international relations theory. Liberalism implies that all states are like Rosecrance's trading states, caring only about the *absolute gains* from trade and indifferent to the gains achieved by others. Realism, by contrast, suggests that every state is like Rosecrance's territorial state, valuing *relative gains* (positional advantage) above all. In practice, clearly, both perspectives are needed, as Gilpin and Lake each properly insist. Liberalism and realism—absolute gains versus relative gains—can be assumed to be in constant competition for the minds and hearts of policymakers.

But the solution is not only to acknowledge the importance and linkage of these two pivotal perspectives but also to spell out and formalize their relationship—to provide clear, systematic insight into how they fit together functionally in the preference orderings of different governments. How much does any given state care about absolute versus relative gains, to what extent are these interests regarded as substitutes rather than as complementary, what are the trade-offs between them, and how and why do these trade-offs change over time? Here again, more systematic effort at abstract model building as well as greater use of carefully structured case study comparisons or more formal statistical procedures could aid in the formulation and evaluation of alternative hypotheses. It may never be possible to settle definitively the contentious debate between liberalism and realism, which encompasses issues far broader than just the political economy of trade and, indeed, is as old as the study of international relations itself. But it is surely incumbent on scholars in this area to build as much formal structure as possible into their discussions if they really wish to add significantly to our understanding of the motivations behind trade policy.

The question of system management

Beyond the question of the behavior of individual actors is the question of system management, the manner in which states act collectively to preserve the mutual benefits of their trade relations. Economists have much to learn

36. See Gilpin, *The Political Economy of International Relations*, p. 32; and Lake, *Power, Protection, and Free Trade*, p. 22. The *locus classicus* on this subject is Jacob Viner's "Power Versus Plenty as Objectives of Foreign Policy in the Seventeenth and Eighteenth Centuries," *World Politics* 1 (October 1948), pp. 1–29.

on this question, since they themselves devote so little time to formal study of the governance of international economic structures. For most economists of neoclassical persuasion, the economic interdependence of nations is simply a given, the natural consequence of market-driven specialization within a global division of labor. It is left largely to students of world politics to explore systematically how that interdependence can be maintained and protected—how conflict can be suppressed and cooperation promoted—in the absence of some de jure substitute for the "magistracy" role (to use Adam Smith's word) played by government within nations.[37] As the flood of recent literature on the political economy of trade testifies, political scientists have not hesitated to rise to the intellectual challenge.

Typically, one of two directions is taken by political scientists to address the question of system management: "upward-looking" analysis, which examines the consequences for the system as a whole of the policy choices made by individual actors, or "downward-looking" analysis, which looks at the implications for individual actors of the way the system as a whole is organized.[38] Examples of the former are provided by Conybeare and Lake, each of whom employs tools of game theory to consider the processes and outcomes of strategic interactions among trading states. One example of the latter is provided by Gilpin, who makes use of elements of regime theory to focus attention directly on the normative and institutional context in which the ongoing commercial interactions among states are conducted. Economists have much to learn from both types of approach, though here too limits are set by a lack of consensus on crucial analytic points.

Upward-looking analysis

The logic of game theory, as Duncan Snidal has pointed out, can be applied to the analysis of international relations in at least four different ways: as metaphor, analogy, model, or theory.[39] Most ubiquitous are uses of game structures as metaphor and analogy, intended mainly to highlight similarities or differences between various types of entities or interactions. Such applications are undoubtedly of heuristic value, helping to provide insight or provoke thought, but they are also inherently limited by their susceptibility to misunderstanding or misuse. More ambitious are uses of game structures as models or theory, intended to develop systematic and generalizable prop-

37. A major exception is the economist Charles Kindleberger. See, for example, his *Government and International Trade* (Princeton, N.J.: International Finance Section, 1978).

38. Robert Axelrod and Robert O. Keohane, "Achieving Cooperation Under Anarchy: Strategies and Institutions," in Kenneth A. Oye, ed., *Cooperation Under Anarchy* (Princeton, N.J.: Princeton University Press, 1986), p. 252.

39. Duncan Snidal, "The Game *Theory* of International Politics," in Oye, *Cooperation Under Anarchy,* pp. 25–57.

ositions about actor behavior in alternative circumstances. These are the sorts of uses pursued by Conybeare and Lake.

For both Conybeare and Lake, game models offer a concise means to define and distinguish among different strategic settings. Each setting is characterized in the usual terms by its own configuration or matrix of payoffs, understood to stand for the preference orderings of all players among available alternative combinations of strategies. Each payoff matrix, in turn, leads to a different set of incentives and disincentives for the central decision makers in individual countries. In Conybeare's approach, direct use is made of the familiar noncooperative games of prisoners' dilemma, stag hunt, and chicken. In Lake's approach, four rather less familiar structures derived from standard variable-sum models are identified and labeled "hegemony," "bilateral opportunism," "multilateral opportunism," and "unilateral opportunism." In both approaches, the nature of the strategic setting at the international level becomes the ultimate determinant of policy choices at the national level.

Obviously, there is much that can be learned from applications of this sort about the conditions or "circumstantial dimensions"[40] that will promote either conflict or cooperation in trade relations. One key insight of both approaches, for example, is the central role that an actor's relative size plays in determining bargaining strategies and outcomes. But inherent in these applications are distinct limitations that must be noted as well. Parsimonious and rigorous game-based analytic frameworks like those constructed by Conybeare and Lake are certainly capable of yielding relatively "strong" and precise hypotheses about actor behavior. They are not, however, likely to be as generalizable as these authors would have us believe.

The limitations, as every serious game theorist knows, lie in the methodology of game theory itself. Two problems, in particular, stand out. One is the likelihood of multiple equilibriums in game models set in the iterated format favored by both Conybeare and Lake. It is surely not inappropriate to treat trade relations as a continuing, rather than a single-play, interaction. But because of the ever-present possibility that there could be significant changes in key variables over time—such as in the number of players, the magnitude of payoffs, the availability of information, or the size of different players' discount rates—repeated games are widely recognized to be poor tools for predictive purposes. For this reason, neither author's policy interpretations can be regarded as anything like definitive.

Even more critical is the familiar problem of specifying player motivations. Game models as such are only as good as the assumptions on which they are built. They provide insights into the strategic choices that can be expected of individual players once the orderings of all the actors' preferences are

40. Kenneth A. Oye, "Explaining Cooperation Under Anarchy: Hypotheses and Strategies," in Oye, *Cooperation Under Anarchy*, pp. 1–24.

fully detailed. However, as Milner correctly notes, there is nothing in the essential logic of game theory that tells us how the configurations of payoffs get to be determined in the first place.[41] By their very nature, game models are silent on the subject of what initially motivates players. Preference orderings at the outset are simply assumed to be exogenously—that is, arbitrarily—determined. And it is clear that the more arbitrary the specification, the less generalizable is the result.[42] The point is well illustrated by Conybeare's and Lake's contrasting views on what role, if any, broader systemic considerations play in the trade strategies of "large" countries. While Conybeare, reasoning from the old optimum tariff argument, contends that large countries would selfishly and single-mindedly prefer trade restriction, even at the risk of destructive trade wars,[43] Lake asserts to the contrary that such states would also "possess incentives voluntarily to provide the infrastructure necessary for a liberal international economy."[44] Where the inputs are so different, is it any surprise that there could be profound disagreements about the outcomes?

Game theory's inherent silence on motivation would be a handicap in almost any analytic context. It is especially so in the context of international trade relations, where there is so little consensus about how governments define their own interests. The partiality shown by both Conybeare and Lake for system-level analysis is understandable, given game theory's fundamental premises and, in particular, its simplifying premise that all actors are purely unitary and rational and have invariant utility functions. It is a partiality also shared by most economists who write about strategic interactions between governments in the world economy.[45] But we know how unrealistic and potentially misleading that type of "black box" approach can be: helpful as a first approximation, perhaps, but certainly not the last word. In addressing the question of system management, there is no escaping the logically antecedent question of actor behavior stressed above, the question of why states order their preferences as they do. The limitation of even the most

41. Milner, *Resisting Protectionism,* p. 299.

42. The same criticism, of course, can also be made of standard theoretical models of economic behavior developed in the neoclassical tradition, which also by convention simply take preferences as given. Economists have no claim to superiority on this issue.

43. See Conybeare, *Trade Wars,* pp. 22–28. The optimum tariff argument was already fully developed by economic theorists more than three decades ago, with intellectual roots going as far back as the early nineteenth century. For some recent discussion, see W. M. Corden, "The Normative Theory of International Trade," in Jones, *International Trade,* pp. 82–86.

44. Lake, *Power, Protection, and Free Trade,* p. 38.

45. This is certainly true of the literature on strategic trade policy. It is also characteristic of most of the recent writing by economists on issues relating to international macroeconomic interdependence and policy coordination. For useful surveys of the latter, see Richard N. Cooper, "Economic Interdependence and Coordination of Economic Policies," in Ronald W. Jones and Peter B. Kenen, eds., *Handbook of International Economics,* vol. 2 (Amsterdam: North-Holland, 1985), pp. 1195–234; and Jocelyn Horne and Paul R. Masson, "Scope and Limits of International Economic Cooperation and Policy Coordination," *International Monetary Fund Staff Papers* 35 (June 1988), pp. 259–96.

ambitious applications of game theory lies in the tendency to concentrate on what comes out of state conceptions of self-interest rather than what goes into them.

Downward-looking analysis

An alternative to game theory is regime theory, characterized by Krasner as the study of the "implicit or explicit principles, norms, rules, and decision-making procedures around which actors' expectations converge in a given area of international relations."[46] Regime theory assumes that despite the absence of formal world government, interactions between sovereign states are not conducted in an environment of total anarchy. Rather, de facto substitutes tend to develop in many issue-areas, to a greater or lesser extent, to help contain conflict and promote cooperation. Regimes exist because even the most power-oriented nations recognize the advantages that can potentially accrue from mutual restraint in the common interest. This is certainly evident in the area of trade relations, where quite explicit efforts have been made since World War II to maintain a formal regime under the auspices of the General Agreement on Tariffs and Trade (GATT).

The problem with the GATT regime, however, is that it appears to be losing its effectiveness as a constraint on the mercantilist impulses of individual states. Gilpin is hardly alone in suggesting that the future of the liberal world economy is threatened. All the authors under review agree that the postwar multilateral trading system is at something of a crossroads, "poised" (as Rosecrance says) between different modes of organization. And all agree as well that the problem is closely related to the decline of American economic leadership that Gilpin deplores. This brings us back to the issue of relative actor size highlighted by both Conybeare and Lake. GATT was established at a time of unquestioned U.S. dominance in commercial affairs and embodied principles largely drawn from America's own trade legislation; the apparent decay of the GATT regime has clearly coincided with a waning of America's overall economic "hegemony." The issue is whether the openness of the trading system can be preserved now that the United States is manifestly no longer at the top of the heap—"after hegemony," in Keohane's pithy phrase.[47] Can some alternative form of governance be found to enforce the "rules of the game," or is the GATT regime destined to wither away under the pressure of intensifying trade conflicts? This is, of course, the central question posed by the celebrated theory of hegemonic stability, which

46. Stephen D. Krasner, "Structural Causes and Regime Consequences: Regimes as Intervening Variables," in Stephen D. Krasner, ed., *International Regimes* (Ithaca, N.Y.: Cornell University Press, 1983), p. 2.
47. Keohane, *After Hegemony*.

was developed more than a decade ago by Kindleberger, Gilpin, and Krasner[48] and which plainly continues to be central to debates among students of the political economy of trade.

The theory of hegemonic stability, in its original strong form, contended that hegemony was both a necessary and a sufficient condition for the maintenance of order in international economic relations. As Kindleberger stressed in his early formulation, "For the world economy to be stabilized, there has to be a stabilizer, one stabilizer."[49] Only the hegemonic power with the biggest stake in the system could be expected to take a firm interest in the responsibility for regime management, even if this also entailed bearing a disproportionate share of the cost. Others might be tempted into mercantilist "free riding," risking a collective "market failure" of systemic breakdown. Only the hegemonic power could be counted on to be willing to pay the price of providing the "public good" of stability. Following its introduction, the theory initially enjoyed a considerable vogue in political science circles. In such strong form, it also had an obvious appeal to economists, not only because of the clarity of its central hypothesis but also because of the familiarity of the concepts borrowed from economic theory.

More recently, however, a substantial reaction has set in among political scientists, who are increasingly inclined to challenge both the premises and the conclusions of the theory.[50] And this in turn has plainly diminished the theory's appeal to economists, who once again find little consensus to provide them with guidance. Lake, for example, even while accepting the basic logic of the theory, questions whether hegemony is really a necessary condition for stability. That proposition, he correctly points out, "has no grounding in collective goods theory." Since "privileged groups need not be limited to one actor," there is "no a priori reason to conclude that international cooperation under a nonhegemonic system is impossible."[51] Conybeare, meanwhile, questions whether hegemony is even sufficient, since it may well be—again on optimum tariff grounds—that "the purely economic interest of hegemons is better served by restricting, rather than maintaining, the freedom of international economic transactions."[52] And Milner's whole anal-

48. See Charles P. Kindleberger, *The World in Depression, 1929–1939* (Berkeley: University of California Press, 1973); Gilpin, *U.S. Power and the Multinational Corporation;* and Krasner, "State Power and the Structure of International Trade." The conventional appellation for the theory is attributed to Robert O. Keohane, "The Theory of Hegemonic Stability and Changes in International Economic Regimes," in Ole R. Holsti, Randolph M. Siverson, and Alexander L. George, eds., *Change in the International System* (Boulder, Colo.: Westview Press, 1980), pp. 131–62.

49. Kindleberger, *The World in Depression,* p. 305.

50. See, for example, Keohane, *After Hegemony,* pp. 31–46; and Duncan Snidal, "The Limits of Hegemonic Stability Theory," *International Organization* 39 (Autumn 1985), pp. 579–614.

51. Lake, *Power, Protection, and Free Trade,* p. 36.

52. Conybeare, *Trade Wars,* p. xi.

ysis is based on empirical observations that appear to contradict the presumed correlation between hegemonic decline and rising protectionism.[53]

Even Gilpin now seems less deterministic about the theory. While he once attributed past periods of trade liberalism exclusively to the presence of hegemonic leadership (referring specifically to the Pax Britannica of the late nineteenth century and the Pax Americana of the first decades after World War II),[54] he now concedes that "the mere existence of a hegemonic power . . . is not sufficient to ensure the development of a liberal international economy."[55] Nor apparently is hegemony any longer even necessary in his view, since he now admits the possibility of alternative organizing principles to preserve an open trading regime, such as "an agreed-upon set of rules binding all" or "continuous policy coordination among the reigning economic powers."[56] America's economic leadership may be in decline today. But the potential consequences for the GATT regime are by no means as certain as the early strong form of the theory implied. In Gilpin's words, "No particular outcome is inevitable."[57]

Not surprisingly, therefore, opinions vary widely about where we are likely to go from here. Gilpin himself remains essentially pessimistic in forecasting a "mixed" regime of indeterminate stability. Rosecrance, at the other extreme, seems basically optimistic—primarily on cognitive grounds—that the "current equipoise in international relations" will ultimately be resolved intelligently in favor of the trading system.[58] In between, Milner cautiously suggests that "the persistence of interdependence, itself a legacy of U.S. hegemony, may promote the maintenance of an open trading system, even after hegemony has passed,"[59] while Lake expresses restrained confidence that "the international economy will remain relatively open and liberal, despite the decline of American hegemony, [because] considerable potential for international economic cooperation presently exists."[60] Conybeare, meanwhile, emphasizes the positive role that institutions such as GATT can play in limiting conflict or preventing trade wars.[61]

Diversity of opinion is no sin, of course. It is undoubtedly true that no particular outcome is inevitable. Nonetheless, can anyone blame economists for finding it all a bit confusing? In order to judge effectively among alternative scenarios of this kind, we would need more formal specification and modeling of all the key variables on which each alternative outcome depends

53. Milner, *Resisting Protectionism,* pp. 4–12.
54. See, for example, Robert Gilpin, *War and Change in World Politics* (New York: Cambridge University Press, 1981), p. 145.
55. Gilpin, *The Political Economy of International Relations,* p. 72.
56. Ibid., p. 78.
57. Ibid.
58. Rosecrance, *The Rise of the Trading State,* p. 165.
59. Milner, *Resisting Protectionism,* p. 298.
60. Lake, *Power, Protection, and Free Trade,* p. 229.
61. Conybeare, *Trade Wars,* pp. 278–81.

as well as far more extensive and rigorous empirical studies. Otherwise, it all seems merely a game of idle speculation or casual empiricism. There is no reason why serious analysts should constrain their studies to the extremely small standard sample of past global hegemonies represented by the Pax Britannica and Pax Americana. They could also study regional trading systems that have been more or less openly hegemonic, including some of the formal imperial arrangements of the late nineteenth century, Nazi Germany's trade relations with southeastern Europe in the 1930s,[62] and the Soviet Union's relations with eastern Europe since World War II. Historical analysis is not limited to just two data points. The "bottom line" message therefore remains the same. Whether looking downward or upward, scholars have a responsibility to be as systematic and comprehensive as possible. The question of system management is surely too important to be left with so few definitive answers.

Conclusion

So what do economists learn from the works reviewed here? Mainly, they learn how much they need to broaden their horizons if they truly want to understand the real world of trade policy. They need to pay closer attention to the question of interests and, in particular, to the role that power plays in motivating actor behavior. They also need to focus more on the question of governance in the international trading system, the question of how sovereign states collectively manage to cope with their own potentially conflictual mercantilist impulses. Political scientists make a vital contribution by "endogenizing" questions of this kind. They sensitize us all to issues and variables that conventional economic analysis tends to ignore. They improve our conceptual frameworks by compelling us to reconsider what is really worth explaining.

But sensitization and conceptualization are only half the battle. It is also necessary to build a formal structure to the interactions between market and politics that appear to be most pivotal in the trade area. Factors at each level of analysis must be clearly and systematically specified; their relative roles and the nature of their functional relationships must be modeled in ways that are theoretically robust and empirically generalizable. The lack of consensus on key analytic issues among the authors under review does not detract from the importance of the insights they provide. But it does suggest that in the study of the political economy of trade, much work yet remains to be done by scholars on both sides of the traditional disciplinary divide between economics and political science.

62. The analytic relevance of the German experience was, of course, well demonstrated by Hirschman in his classic work, *National Power and the Structure of Foreign Trade*.