Chapter 3

A REALLY BIG QUESTION

For the world economy to be stabilized, there has
to be a stabilizer, one stabilizer.
—Charles Kindleberger

Theory is always *for* someone and *for* some purpose.
—Robert Cox

IPE'S BIRTH was sparked by the growing interdependence of national economies after World War II. But why did the international environment change? What were the implications? And what could be expected in the future? Not surprisingly, questions like these were among the first to be addressed by the infant field. After all, what could be more fascinating than the grand theme of systemic transformation? It was what old-time television host Ed Sullivan might have called a Really Big Question. Every generation is tempted to believe that it is in the midst of an unprecedented historical transition. That may be something of a conceit. As I remind my students, probably the best definition of a transition is that interval of time between two periods of transition. The degree of change in any given era may be easily exaggerated. Exaggerated or not, however, thinking about systemic transformation has contributed richly to the intellectual development of the field.

In the United States, thinking about systemic transformation was most fashionable in IPE's early years, when the horizons of inquiry seemed unlimited. In more recent years, interest in the grand theme of change has largely faded among U.S. specialists, despite evidence that this time, it might actually be true that we are living through a historical transition—what has come to be known as the age of globalization. Only in the British school is there still much interest in the Really Big Question. Indeed, nothing better defines the differences between the American and British schools than their respective discourses on systemic transformation. From the start, each tradition constructed its own distinctive approach to the subject.

Yet for all their differences, one element was shared in common. In both traditions, thinking about the Really Big Question was largely shaped by individuals with a particular passion for history. In the United States it was an economist, Kindleberger, whose first love by his own admission was always economic history. For the British school it was the Canadian Cox, whose formal training was in the history discipline. Both Kindleberger and Cox led by the force of their ideas. Coincidentally, both also spent years in public service before beginning academic careers. Perhaps there is something about earning a living in the real world that encourages a broad perspective on global events.

Hegemonic Stability

Central to the Really Big Question is of course the underlying connection between economic and political activities. Does economics drive politics in transforming the global system, or vice versa? In the United States, where political scientists early on captured the infant field, it seemed natural to think first about politics and the role of the sovereign state. Even for liberals like Keohane and Nye, the state remained the central actor. The system was defined in terms of the pattern of interstate relations; the pattern of interstate relations, in turn, was understood to be above all a function of the distribution of state capabilities. Hence for U.S. scholars, the key variable was *power*, particularly as exercised by dominant states.

In the first years after World War II, power in the world economy was obviously concentrated in the United States. "Gulliver among the Lilliputians" was the way Keohane described it (1979, 95). Postwar America represented a textbook case of hegemony—an overwhelming preponderance of power. By the time IPE was getting its start, however, America's hegemony appeared to be going into decline. Gulliver was shrinking. Thus, in U.S. academic circles it seemed natural to focus on hegemony as the central driver of change. A historical transition did seem in progress. Systemic transformation was equated with hegemonic decline.

Did hegemonic decline presage a new era of insecurity and peril? Discussion centered on what came to be known as HST—the controversial idea that global economic health was somehow dependent on the presence of a single dominant power. For two decades, HST remained atop the agenda of IPE in the United States before fading into obscurity.

HST has been described as IPE's first genuine theory. (Cynics would say that it was the field's *only* claim to theory.) Two questions dominated. The first was empirical. Was the theory's premise accurate? Was U.S. hegemony really in decline? The second was ontological. Whether the premise was accurate or not, was the theory's logic plausible? Was hegemony really the key to systemic stability? Opinions, not surprisingly, varied widely.

For many in the British school, HST was a little more than a distraction—a sideshow orchestrated by U.S. academics overly preoccupied with their own nation's place in the world. And we now know that the skeptics were not entirely wrong. The theory's premise, it is now acknowledged, was always something of a canard. The distribution of state power had not changed nearly as much as HST assumed. In empirical terms, the debate turned out to have been over a nonissue.

But that does not mean that all the time devoted to the theory was wasted. In ontological terms, the debate proved highly instructive. Efforts to explore the logical truth and predictive accuracy of HST added greatly to the infant field's understanding of a range of critical issues—including, not least, the issue of system governance, which I will take up in the next chapter. The theory itself may have died a natural death, but its legacy lives on.

Rise of a Theory

HST got its name from Keohane, who first coined the phrase in a paper published in 1980. As Keohane summarized it (132), HST argues that "hegemonic structures of power, dominated by a single country, are most conducive to the development of strong international regimes whose rules are relatively precise and well obeyed." Keohane was not the source of the theory; in fact, he didn't even agree with it, as we shall see. The credit for originating HST actually goes to three other key members of IPE's pioneer generation: above all to the economist Kindleberger, together with political scientists Gilpin and Krasner, two prominent realists. All three wrote within years of the collapse of the Bretton Woods system, which many interpreted as the beginning of the end of America's hegemony. The fear, as Keohane put it (132), was that "the decline of hegemonic structures of power can be expected to presage a decline in the strength of corresponding international economic regimes."

Pride of place here goes to Kindleberger. Charlie, as he was known to his friends, was the oldest of the Magnificent Seven. Born in 1910, he received his PhD from Columbia University in 1937. During World War II he worked for the Office of Strategic Services, selecting Allied bombing targets, and then after the war's conclusion, while at the Department of State, played a major role in initiating the Marshall Plan. His academic career began in 1948 when he moved to the Massachusetts Institute of Technology (MIT), where he taught international economics and economic history for some thirty-three years. Even after formal retirement, he remained active as a scholar, published an autobiography at the age of eighty-one (Kindleberger 1991), and was still writing articles and reviewing manuscripts at the time of his death in 2003, at the age of ninety-two. He always reminded me of a Nobel Prize—winning professor I once knew who at his retirement dinner exclaimed, "Just think, here I am retiring, and until a couple of years ago I still thought of myself as a promising young scholar." One could easily imagine the ever-youthful Charlie saying much the same. In his autobiography he expressed the hope that even after "shuffling off this mortal coil" (209), his papers would continue to come out for a reasonable period of time.

Figure 3.1. Charles Kindelberger. Courtesy of MIT Museum

One of Kindleberger's best friends was Galbraith, who wrote the foreword to his autobiography. Like Galbraith, who had also worked outside academia before becoming a university professor, Kindleberger had little patience for the economics profession's growing love affair with mathematics, as promoted by his MIT colleague Paul Samuelson, among others. His distaste for high-powered math may have been a product of his early professional experience;

molded by the twin disasters of depression and war, he put a premium on practical solutions, not elegant model building. It may also have been due to the fact that he just didn't care all that much about numbers. His passion was for the big picture, not the details. Students affectionately recall the many arithmetic errors he would make in his class lectures. Kindleberger mentored some of the most accomplished international economists of the day, including Robert Mundell, a Nobel Prize winner. When asked how that could be, despite his apparent lack of ease with math, one of his protégés said that it was because they could all sharpen their skills correcting his mistakes. Adds Jagdish Bhagwati, "You learned technique from others. What you learned from Charlie were ideas" (quoted in Stein 2003).

For Kindleberger, as for Galbraith, what mattered most was to keep an open mind, not relying unduly on parsimonious models or inherited theory. "I remember him for his kindness," notes another former student, who applied to study at MIT in 1957. "With some trepidation, I said that, as a physics major, I had taken only two semesters of economics. With a smile he said, 'that's all right, you won't have to unlearn anything' " (Synnott 2003).

Among his friends, Kindleberger was well-known for a wicked sense of humor. For evidence, one need only consult his autobiography, which contains more than enough wry commentary to persuade readers that an economist need not be dull. (An old joke has it that an economist is someone who wanted to be an actuary but didn't have the personality for it.) My own first exposure to Kindleberger's wit came during a break at an economics conference in the early 1970s, at a time when long hair was becoming increasingly fashionable among younger men. One of the other conferees was Cooper, still young but by no means hirsute. "This morning I decisively proved that Dick Cooper is sixty-nine years old," Kindleberger smilingly declared. "How could that be?" I responded. "During the meeting I did a mental calculation," he replied, "correlating age and length of hair around the conference table. Then I plugged in Dick Cooper, and the model says he's sixty-nine."

The joke solidified for me a sense of affinity with someone whose career path had already begun to feel something like a model for my own. Like Kindleberger, I had received my doctorate from Columbia University after studying with inter alia the noted international economist James Angell, who had supervised Charlie's dissertation years before; also like Kindleberger, I had taken my first job after graduate study in the research department of the Federal Reserve Bank of New York, working on problems of international finance, prior to starting an academic career. At the New York Fed they still spoke of Charlie proudly as one of the research department's most illustrious alumni. He set a standard that was not easy to follow.

Over the course of his career Kindleberger wrote more than thirty books, his interests evolving from international economics to development economics to, finally, economic history, which was his real passion. "It was in economic history that he really found his comparative advantage," says Bhagwati (quoted in Stein 2003). And among his many contributions to the study of economic history, none surpasses his classic 1973 study of the Great Depression, *The World in Depression, 1929–1939,* in which he first spelled out the logic of HST (Kindleberger 1973, 28):

> The international economic and monetary system needs leadership, a country which is prepared, consciously or unconsciously, under some system of rules that it has internalized, to set standards of conduct for other countries; and to seek to get others to follow them, to take on an undue share of the burdens of the system, and in particular to take on its support in adversity by accepting its redundant commodities, maintaining a flow of investment capital and discounting its paper.

The logic was straightforward. Looking back over the previous two centuries, a striking correlation appeared to exist between great power dominance and economic stability. This seemed so both in the late nineteenth century, the era of the classical gold standard, and during the Bretton Woods period. The first period was led by Britain (an economic Pax Britannica), and the second by the United States (a Pax Americana). After World War I, by contrast, leadership had been absent. Britain was willing but no longer able to underwrite the global system; the United States was able but for political reasons not yet willing. Should it have been any surprise, therefore, that the system might break down? For Kindleberger it hardly seemed unreasonable to attribute causation to the relationship: "The 1929 depression was so wide, so deep and so long because the international economic system was rendered unstable by British inability and United States unwillingness to assume responsibility for stabilizing it" (1973, 292). Hence his famous aphorism: "For the world economy to be stabilized, there has to be a stabilizer, one stabilizer" (305). HST was born.

The World in Depression stands as a landmark in the construction of IPE—"crushingly influential," as one U.S. scholar put it to me privately. In articulating his argument, Kindleberger was inspired not by theory but by practice—by a close reading of the historical facts and also, no doubt, by his own personal history. He had lived through the chaos of the Great Depression, after all, witnessing firsthand the price to be paid for a lack of leadership. After such a formative experience, should we be surprised that he might have been inclined to concentrate on the need for a powerful stabilizer?

Perhaps even more critical were his years of service in government. Early in 1947, while head of the Department of State's German and Austrian Economic Affairs Section, he and two other young economists prepared a proposal for a European recovery program that ultimately formed the basis for Secretary of State George Marshall's famous commencement address at Harvard—the first outline of what came to be known as the Marshall Plan. Later, Kindleberger was appointed executive secretary of the Department of State's working committee for the plan's implementation, charged with estimating the needs of the sixteen European countries that accepted U.S. aid. Those years undoubtedly impressed on him how much a dominant state can do, when it tries, to tame an unruly world economy. In a sense, HST was simply the Marshall Plan writ large.

Two Versions

As an economist with no formal training in political science, Kindleberger made little effort to connect his state-centric logic to the dirty game of politics. Consistent with the liberal tradition of mainstream economics, his purposes were mainly normative—to describe what he regarded as essential to prevent the breakdown of the global economy. The core of his argument can be understood in terms of the logic of collective action, derived from Mancur Olson's celebrated book of the same name (1965). Systemic stability, Kindleberger contended, should be regarded as a kind of public good since it embodies the two main characteristics of collective goods: nonexcludability and nonrivalry. Nonexcludability means that others can benefit from the good, even if they do not contribute to its provision. Nonrivalry means that the use of the good by one will not seriously diminish the amount available to others. Given these characteristics, Kindleberger reasoned, stability will be underprovided without the leadership of a dominant power.

Three functions, he said, were critical to systemic stability: maintaining a relatively open market for imports, providing contracyclic long-term lending, and supplying short-term financing in the event of a crisis. Since such functions could be costly, the hegemon might have to bear a disproportionate share of the burdens involved, especially if other countries chose to free ride. But for Kindleberger, that was simply the price to be paid for the responsibility of leadership. His version of HST could thus be characterized as benevolent, a benign exercise of power. His approach was subsequently identified with the neoliberal institutionalist tradition in IPE. One source described it as the "collective goods" version of HST (Webb and Krasner 1989).

Political scientists, on the other hand, had no difficulty at all in connecting Kindleberger's logic to politics—in particular, to the possibility that hegemony might be exercised coercively rather than benevolently, seeking to benefit the leader even at the expense of others. Economic power might serve as a means, not an end. For example, markets might be forced open to satisfy the security needs of the hegemon; alternatively, threats might be made to cut off trade or investment flows to compel others to share in the cost of public goods. Several scholars quickly seized on Kindleberger's theme to develop their own ideas about systemic transformation, stressing the self-interest of the dominant power. The result was an alternative version of HST, a "security" version (Webb and Krasner 1989) more in line with the realist tradition of IPE. Realists, typically, have little interest in the theme of change as such. Two notable exceptions were Gilpin and Krasner. We have already encountered Gilpin in chapter 1. We'll hear more about Krasner in the next chapter.

As early as 1972, in his contribution to *Transnational Relations and World Power*, Gilpin had hinted at the logic of HST. Surely, he asserted, there was some connection between the exercise of power in the economic realm and the world of security. Colleagues who disagreed wondered if he might be a Marxist. But says the self-declared Vermont Republican, "I knew I was not a Marxist. . . . I read other things on the interplay of economics and politics, and then I discovered a book on mercantilism and said to myself: 'Ah! That's what I am!' I began to realize that you could have a realist view of world economics without being a Marxist" (*International Relations* 2005, 368). A key influence was Jacob Viner's 1948 study of mercantilist thought and practice, which we already encountered in chapter 1.

Gilpin's ideas were more fully elaborated a few years later in *U.S. Power and the Multinational Corporation*—a book that was to have a lasting impact on a new generation of scholars. It was "the big opening," one younger colleague has written to me. "It opened an intellectual and analytical space in which IPE was to develop in the second half of the 1970s and 1980s."

As in Kindleberger's analysis, Gilpin's perspective was broad, encompassing the full economic system. "A liberal international economy requires a power to manage and stabilize the system," Gilpin declared (1975b, 40), echoing and generously acknowledging Kindleberger's own formulation. But he also added a new twist, a generalization about historical change that went beyond anything Kindleberger himself had suggested. "The modern world economy has evolved through the emergence of great national economies that have successively become dominant. . . . Every economic system rests on a particular political order; its nature cannot be understood aside from politics" (40). On to a normative proposition about the functions required for stability, Gilpin grafted a new positivist thesis about the nature of systemic transformation. Historical change was driven by the self-interested behavior of powerful states.

Further elaboration came in two later important works: *War and Change in World Politics*, and *The Political Economy of International Relations*. By 1981, in *War and Change in World Politics*, Gilpin's argument had become a full-fledged theory of systemic evolution. A social structure, he contended, is created to advance the interests of its most powerful members. Over time, however, as the distribution of capabilities changes, rising powers will seek to alter the rules of the game in ways that favor their own interests, and will continue to do so as long as the benefits of change exceed the cost. "Thus, a precondition for political change lies in the disjuncture between the existing social system and the redistribution of power toward those actors who would benefit most from a change in the system" (Gilpin 1981, 9). Hegemonic stability will last only so long as there are no challengers waiting in the wings.

By 1987, in his monumental *The Political Economy of International Relations*, Gilpin's theme had become grounds for an intense pessimism about the future of the global economy. America's hegemony in the post—World War II period may have been self-serving, but it had also served the world well, suppressing protectionism and managing financial crisis. But the times, they were a changin'. "By the 1980s, American hegemonic leadership and the favorable political environment that it had provided for the liberal world economy had greatly eroded. . . . One must ask who or what would replace American leadership of the liberal economic order. Would it be . . . a collapse of the liberal world economy?" (Gilpin 1987, 345, 363). The outlook, he suggested, was exceedingly gloomy.

Krasner's contribution was more narrowly focused on just one dimension of the global system: the structure of international trade. In 1976, he published an oft-cited paper titled "State Power and the Structure of Foreign Trade,", deliberately evoking Hirschman's 1945 book *National Power and the Structure of Foreign Trade*. Reviewing a century and a half of commercial history, he found evidence of a systematic relationship between hegemony and openness in the world trading system. Openness, he asserted, "is most likely to occur during periods when a hegemonic state is in its ascendancy. . . . It is the power and the policies of states that create order where there would otherwise be chaos" (Krasner 1976, 323, 343). He called his proposition a "state-power" argument.

Despite its relatively narrow focus, Keohane credits Krasner's paper—even more than the books of Kindleberger or Gilpin—with "setting the terms for more than a decade of work. . . . Krasner defined the agenda for years of scholarship" (1997, 151). As in Gilpin's approach, the exercise of power was assumed to be self-serving. The argument, as Krasner put it (1976, 317), "begins with the assumption that the structure of international trade is determined by the interests and power of states acting to maximize national goals." And here, too, the analysis ended on a pessimistic note. Krasner took the erosion of America's postwar hegemony as a given. We were living through a period, he insisted, "of relative American decline" (341). Could a turn toward closure, then, be far behind?

Both Gilpin and Krasner freely acknowledged their debt to Kindleberger's initial inspiration. Their contribution, as they saw it, was mainly to add a political dimension to the story. As Gilpin recently put it, "Kindleberger was a wonderful man, a liberal economist who saw the United States pursuing cosmopolitan goals. It was not for him a policy driven by interests but an ideological projection of our belief in free markets. Stephen Krasner and I shifted the argument from this being a cosmopolitan goal of the United States to being a goal in the national interest" (*International Relations* 2005, 369). The underlying theme was the same; only the motivation was different.

And so HST had its start. By the time Keohane got around to naming the theory, HST was already a well-developed idea. Indeed, the idea had already subdivided into two separate and distinguishable versions: one more benevolent, in the style of liberalism, and one more coercive, in the realist tradition. In either version, the theory was highly controversial.

The Decline of Hegemony?

Ironically, the controversy turned out to be based on a false premise. HST assumed that U.S. hegemony was in decline. A truly historical transition was purportedly in progress. Today we know better. The international environment was indeed changing. But with the wisdom of hindsight, we can see now that the change was far less dramatic than earlier thought.

At the time, the evidence for hegemonic decline seemed obvious. In 1950, the United States accounted for a remarkable one-third of all world output of goods and services. Twenty-five years later, its share was less than one-quarter. In manufacturing the decline was even steeper, from nearly half the global total at midcentury to less than one-third by the 1970s. Overall, U.S. economic growth in the 1950s and 1960s was significantly below that of continental Europe and Japan. America's share of world trade dropped from some 33 percent in 1948 to less than 24 percent by the mid-1970s. In 1971, persistent balance of payments deficits forced Washington to terminate the convertibility of the dollar into gold, precipitating the collapse of the Bretton Woods system. By the 1970s it was clear that the country, once the world's greatest creditor, was rapidly becoming a net debtor. And where as recently as the 1950s the United States had been a net exporter of oil, it now appeared that the economy's continued access to energy resources had been placed in the unreliable hands of the Organization of Petroleum Exporting Countries (OPEC).

Given such evidence, observers could be forgiven for concluding that the erosion of U.S. hegemony was real. The premise quickly became conventional wisdom, best symbolized by the title of an influential book published by Keohane in 1984. The book was titled simply *After Hegemony.* Henry Luce, fabled editor of *Time* magazine, had called the twentieth century the "American Century." But by 1984, according to Keohane, the American Century was winding down, inexorably and irretrievably: "Hegemonic leadership is unlikely to be revived in this century for the United States" (9). Among other things, the trend raised serious questions about the management of the global economy, to which I will return in the next chapter. The main purpose of Keohane's book, as we shall see in chapter 4, was to assess prospects for system governance after hegemony.

Most specialists at the time took the trend of U.S. decline for granted. That included, I confess, myself. As early as 1974, concurring with Gilpin, I asserted that "the balance of power in economic relations has changed; it is necessary to adjust to the new reality. . . . The United States is no longer the dominant economic power in the world" (Cohen 1974, 129, 133). And a decade later I was still writing of the "historic ebb of power away from the 'imperial' United States" (Cohen 1983b, 109). America, I concluded, was "still pre-eminent but no longer predominant" (109). During this period, such views were not considered particularly fanciful.

Only a few voices dissented. Among the most notable was Strange (1987), who with her characteristic iconoclasm insisted that the idea of America's lost hegemony was nothing more than a "myth." The United States still dominated all the key structures of the global economy, she contended, including in particular the newly emergent technology sector. The dollar still reigned as the world's top international currency. U.S. service industries still accounted for half the world market. The story of decline was overblown, based on a misreading of historical trends. In fact, Strange predicted, "it seems likely that America will enjoy the power to act as hegemon for some time to come" (571). In a similar vein, recalling Mark Twain's reaction to a premature obituary notice, Bruce Russett wrote that "Mark Twain did die eventually, and so will America hegemony. But in both cases early reports of their demise have been greatly exaggerated" (1985, 231).

In retrospect, it is clear that the dissenters had a point. America's unprecedented predominance at midcentury was an aberration, the product of wartime mobilization combined with widespread devastation in other industrial areas. The rest of the globe was bound to start catching up once postwar recovery got under way. By the end of the 1980s, however, most of the downward trends of the 1950s and 1960s had more or less leveled off. Nye called it the "vanishing World War II effect" (1990). Openly splitting with his former partner Keohane, Nye insisted that despite all the changes that had occurred in the international environment, the United States was still "bound to lead."

To his credit, Krasner was among the first to acknowledge the error of his ways. In 1989, in a reassessment written with a younger colleague, he conceded that "the position of the United States . . . has stabilized. . . . In aggregate terms the capabilities of the United States remain formidable" (Webb and Krasner 1989, 183). Eventually even Keohane graciously gave in. Writing after Strange's death, he granted that his 1984 book—or at least its title—might have been premature. Strange "thought that a book properly entitled *After Hegemony* would have to be about the distant future," he said, "and she was right. On this point, I simply concede; I should have listened to her earlier" (2000, xii). Even after the World War II effect had vanished, the United States maintained a substantial lead over other national economies.

Indeed, during the final years of the twentieth century America's lead seemed, if anything, to be widening again, reinforced by the collapse of the Soviet empire, which left the United States as the world's last remaining superpower. Over the course of the 1990s, the U.S. economy enjoyed its longest peacetime expansion in history, avoiding the high unemployment that plagued continental Europe, the stagnation that dragged down Japan after the bursting of its bubble economy, and the financial crises that disrupted emerging markets from East Asia to Latin America. At the dawn of the new millennium, America's economic primacy was once again unquestioned. The twentieth century had been the American Century. Now more than one source was predicting more of the same, perhaps even a "Second American Century" (Zuckerman 1998). If no longer a Gulliver among the Lilliputians, the United States had clearly reclaimed its position as number one. The aging hegemon had gained a new lease on life.

Decline of a Theory

But this does not mean that all the debate about HST was a waste of time. In the real world, the system may not have been transformed as much as first thought. Yet in the minds of scholars, ideas were significantly changed as a result of thinking about the possibility. Some of the most basic elements of IPE, as understood in the United States today, were constructed in the heat of battle over the logical truth and predictive accuracy of HST.

In its crudest form, HST argues that hegemony is both necessary and sufficient to ensure global stability. We should have known from the start that such a simple proposition, however attractive its parsimony, was far too categorical in its implications. Its predictions, it turns out, were supported by neither historical evidence nor theoretical reasoning. Leadership does matter, of course. But the question is how much? In a complex world, we have learned that outcomes depend on much more than a concentration of power alone.

Certainly that would appear to be the lesson of history. The broad correlation noted by Kindleberger and Gilpin, linking great power dominance and economic stability during the Pax Britannica and Pax Americana, looks credible at first glance but fails to stand up well to a detailed analysis, as multiple studies have demonstrated. Even Krasner, in his analysis of trade structures, admitted that the empirical evidence was a good deal less than perfect. His "state power" argument explained only half of the six historical periods he examined, stretching from 1820 to the 1970s (Krasner 1976).

Economist Barry Eichengreen (1989) provides an even more telling example in a historical study of global monetary arrangements. He considered the role of hegemony at each of three distinct stages in the evolution of the international monetary system—genesis, operation, and disintegration—comparing three distinct episodes—the classical gold standard, the interwar period, and Bretton Woods. What Eichengreen found was evidence both for and against HST. The relationship between the market power of the leading economy and the stability of the international monetary system is considerably more com-ex than suggested by simple variants of hegemonic stability theory" (258). egemony seemed neither necessary nor sufficient to explain the rise or fall of past financial orders.

That also appeared to be the message of theoretical reasoning. Keohane spelled out the main flaws of HST in his *After Hegemony,* in what amounted to a devastating critique of the theory's logical underpinnings. Concentrating on the collective goods version of the theory as originated by Kindleberger, Keohane pointed out that there is nothing in the logic of collective action that limits leadership to a single state. In principle, a core of two or more states acting cooperatively can also jointly maintain systemic stability. In *The Logic of Collective Action,* Olson himself spoke of the possibility of a "privileged group"—a core group including one or more states that could expect to enjoy a net benefit from providing a public good even if obliged to absorb all the costs involved. In a parallel fashion, using the reasoning of game theory, Thomas Schelling (1978) developed the notion of a "k-group"—a core of states small enough so that each member's contribution to the public good could be made conditional on the contribution of others. In Olson's framework, the equivalent of a k-group was an "intermediate group." An intermediate group does not have any one member that can expect individual net benefits but is small enough so that all members can see the effect of their own noncooperation.

Given the possible role of such a core, a narrow preoccupation with hegemony would appear to be beside the point. The real issue is not a concentration of power. Rather, it has to do with the conditions that facilitate the production of needed public goods, whether by one state or several. As Duncan Snidal put the point (1985, 612–13), extending Keohane's analysis, "The theory of hegemonic stability is a special case. . . . Since collective action can provide an alternative basis for cooperation, the possibility and requirements for collective action also need to be built into the analysis."

Effectively, the debate over HST was brought to a close by David Lake in a notable paper published in 1993, just about the time when we all began to realize that reports of the demise of America's hegemony had indeed been exaggerated. Reviewing two decades of discourse, Lake offered a useful distinction between two different strands of HST, roughly analogous to the divide between the theory's collective goods and security versions. One was *leadership theory,* building on the logic of collective action and focused on the production of stability, redefined as the "international economic infrastructure." The other was *hegemony theory,* which seeks to explain patterns of international economic openness by focusing on national trade preferences. Both pointed to the salience of the global economy's political foundations—to the critical role that politics can play in overall system governance. Power matters not because it may be concentrated but rather because it is relevant to the management of economic relations. As Lake concluded (485):

> The research program skyrocketed to prominence in the 1970s largely on its intuitive appeal. We must resist the equal error of rejecting the theory. . . . Perhaps more than anything else, the hegemonic stability research program has sensitized the current generation of scholars to the international political underpinnings of the international economy. This insight should be preserved and built upon, not ignored and abandoned.

Globalization

Since the end of the HST debate, fascination with the Really Big Question has noticeably waned in U.S. IPE. Specialists in the United States, by and large, appear to have lost interest in the grand theme of systemic change—all of which is a bit of a shame, given where the world would appear to be going today. Yet another irony is evident here. As noted above, it may be the conceit of each generation to believe that it is in the midst of a historical transition. This time it might actually turn out to be true. Arguably, a major systemic transformation may indeed be occurring. The American school, though, is paying little heed.

The difference this time is that it is economics, not politics, that is the central driver of change. Today, systemic transformation—if that is what is happening—is equated not with hegemony but with market forces—specifically, with an expanding and intensifying range of linkages among national economies. International economic integration, which Keohane and Nye captured so neatly in their vision of complex interdependence, has now grown so dense that hat was once seen as a difference of degree may now be in the process of becoming a difference of kind. Once we could speak of a world made up of separate national markets, connected through flows of trade, investment, and the like, but nonetheless fundamentally distinct. Nowadays that may no longer be possible.

In fact, the feeling is widespread that something truly new is being created: a rearticulated world. National economies, many contend, are swiftly being subsumed into a globalized system of transnational processes and structures. We are entering a genuinely new era: the age of *globalization*. If so, the Really Big Question remains as fascinating as ever.

Globaloony?

What do we mean by globalization? Though there is no standard definition of the term, most sources agree on the essentials. In its economic dimension, globalization is equated with an increasingly close integration of national markets—a fundamental transformation of economic geography. In place of territorially distinct economies, we are said to be moving toward a more unified