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What is the relationship between the pursuit of power and the pursuit of plenty? How does trade policy fit as part of a nation's strategy to build larger political and security relationships abroad? When are the economic rivalries among nations most difficult to manage so as to avoid undermining the stability of the international system?

This article reviews five books by grand masters of international political economy, from both the economics and the international relations/political science communities. The first and second sections introduce alternative frameworks for integrating trade policy within broader national strategy via studies by Paul Krugman and Joanne Gowa. The third section examines the challenges in designing national policies toward trade (and related areas of investment and technology) in the contemporary era, as represented in two recent volumes from the National Bureau of Economic Research (NBER), one edited by Anne Krueger and the other by Alasdair Smith and Paul Krugman.

The fourth section summarizes the most important areas of controversy and sketches the principal alternative paths for constructing a coherent national strategy (a grand strategy, so to speak, of power and plenty) to address them. The concluding section asks to what extent the choice of path for such a grand strategy genuinely matters at the current juncture in history, drawing on the analysis of Edward Mansfield.

(None of the volumes reviewed here addresses the use of economic sanctions to apply pressure on other states to alter their behavior.)

The review of these books shows that both the economics and the international relations/political science communities have distinctive insights and important lessons that can be used to understand the past and guide strategy for the future. More important, however, this review demonstrates that the analytic synergies between these two communities are dramatically underexploited. To be more precise, it suggests that each community would benefit immensely by deepening and enriching its interaction with the other in place of ever more introversion and insularity among its own members.

Krugman: the obsession with competitiveness is a threat to the international system

Peddling Prosperity is Krugman's virtuoso tour d'horizon, surveying the current state of economic theory and practice. He offers a brilliant, iconoclastic, indispensable, but ultimately inadequate assessment of how trade and related economic policies fit into the broader strategy of nation-states.

The international sections of Peddling Prosperity, and Krugman's other closely related recent writings, concentrate on the debate about the competitiveness of national economies.(1) Building on ideas about trade policy, industrial policy, and strategic trade theory he has been developing since the early 1980s, Krugman argues that the preoccupation of national leaders with something "noneconomists" and "clever policy entrepreneurs" have labeled competitiveness is not only misguided but also dangerous to the stability of the international system.(2)

"Let's start telling the truth: competitiveness is a meaningless term when applied to national economies" is the most succinct statement of his thesis. The phrase itself springs from the mistaken idea that competition among nations is like competition among firms. "When we say that a corporation is uncompetitive, we mean that its market position is unsustainable - that unless it improves its performance, it will cease to exist. Countries, on the other hand, do not go out of business."(3)

Beyond misplaced analogy, argues Krugman, the competitiveness debate combines three strands of unsound analysis: about trade deficits and consequent job losses or gains, about industrial policy and the creation of high value-added industries, and about strategic trade theory and the capture of rents among nations. These lead to a policy perspective that is not only unsound itself but also fraught with danger, to wit, that economic competition among nations produces winners and losers, with national strategy assigned the task of ensuring victory and avoiding defeat.

Trade deficits and job losses

Perhaps the most popularly accepted measure of how well one nation, like the United States, is doing in competition with its economic rivals, suggests Krugman, is whether the country is running a trade deficit or a trade surplus and gaining or losing jobs to others. This will indicate how tough the leadership must be in forcing open external markets and ensuring adequate jobs at home.

But the reality, of course, is that trade deficits are caused by a disparity between national savings and investment or, alternatively, between national production and spending in the deficit country, not by either the superior corporate performance or the unfair economic practices of others.(4) When national saving falls while consumption and investment spending remain high, overall spending necessarily rises faster than national income, as has happened in the United States. The only option for an economy in these circumstances is to import more than it exports; hence, to run a trade deficit. If U.S. national saving were to rise and consumption fall, the trade deficit would vanish or turn into a surplus, independent of what other countries did about opening their markets. Trade barriers may affect the composition of the U.S. deficit among products and the distribution of the U.S. trade deficit among countries, but the overall size is determined by U.S. behavior at home. Bashing others will not, and cannot, cure the problem.

As for jobs, trade agreements to open markets do not lead to a greater number of jobs, nor do trade restrictions on the part of others to block exports lead to a lower number of jobs in the would-be exporter's country. U.S. employment levels over the long run (in general equilibrium analysis) are determined by macroeconomic policy, in particular the monetary policies of the Federal Reserve Board. So other nations, emphasizes Krugman, cannot correctly be blamed for aggregate unemployment or net job losses.

Even the rising income inequality in the United States, asserts Krugman (drawing on the work of Robert Lawrence and Matthew Slaughter),(5) cannot be traced to competition from abroad. While Stolper-Samuelson and subsequent factor price equalization theory does suggest that rising levels of trade might depress wages for unskilled labor in the United States because there is lower-wage unskilled labor embodied in imports, the wage rates in the statistically typical U.S. trading partner are almost 90 percent of the U.S. wage rate, and imports from truly low-wage suppliers like China have hardly changed over more than three decades (2.0 percent of gross domestic product in 1960, 2.7 percent in 1990). Instead, Krugman points to the increasing sophistication of technology, and the premium paid to those who know how to make use of it (and not paid to those who do not), to explain most of the rise in wage inequality.

As for declining terms of trade, Krugman points out that in the U.S. case the magnitude is quite small (a drag on U.S. real income growth of less than 0.1 percent annually 1973-91). He questions moreover whether this decline actually was due to a relative productivity lag on the part of the United States.

Industrial policy and the creation of high value-added industries

For more than a decade, private consultants, led (according to Krugman) by the likes of the Boston Consulting Group, have advised corporations to shift resources internally from lagging activities to high-growth, high value-added areas to enable them to compete more successfully in international markets. The faulty logic of using industrial policy to strengthen national competitiveness, he suggests, can be traced to this legacy.

But a nation trying to follow the same path will discover, however, that it can devote extra resources to such preferred sectors only by withdrawing them from other activities. Unless there are externalities that generate extra benefits for the nation greater than what private actors would receive anyway to compensate for the penalty imposed on the rest of the economy, government intervention will leave the country in worse condition than would have been the case with no intervention. This is particularly true when the targeted sectors are high-wage, high value-added sectors, which require much greater use of other resource inputs (such as capital) per unit output than the activities from which they are drawn, imposing an especially harsh burden on more labor-intensive sectors.

In short, there is no free lunch for national economic policy; even if the targeting could be done as proponents advocate without contamination from pork barrel politics, the country would find its economy less efficient and less productive as a result. The only genuine method to strengthen the economy runs parallel to the advice given on the trade deficit, namely, to alter the savings/consumption ratio, devote more resources to investment, and allow competitive forces at home and abroad to dictate the allocation process.

Strategic trade policy and the capture of rents from other nations

In contrast to the raw mistakenness of industrial policy, strategic trade theory has offered a rigorous argument that subsidizing and protecting imperfectly competitive industries might capture rents that otherwise would accrue to others.

Here Krugman shows a professional ambivalence, as he has earlier, that combines admiration for the theoretical justification for intervention under conditions of imperfect competition to shift rents to one's own country and skepticism about proper implementation or significant results.(6) Identifying those particular externalities that can be used as guides for the targeting of public policies, Krugman argues, has turned out to be extremely subtle, and the prospect that the new theory would be taken over by those who want to use it for pet projects backed by "good old-fashioned protectionism" is not at all improbable. Finally, the decisive factor in the argument against using strategic trade theory is that those efforts that have been made by serious economists to simulate the behavior of industries where rent-shifting might be possible in fact "did not seem to suggest very much potential gain." Thus, despite initial excitement, Krugman endorses a "cautious" approach to strategic trade theory with "a bit of relief."(7)

The larger argument in Krugman's analysis is not just that each of these three strands of economic analysis is incorrect, but that the three fit together all too easily into a "deeply wrongheaded" national strategy toward trade: that competition between nations is like a sports event with the goal being to see who is better off afterward. The logical conclusion is, "it seems only common sense to do everything you can to help your side win."(8)

But this is built upon the greatest economic misunderstanding of all, the failure to follow David Ricardo in distinguishing between absolute and comparative advantage. The popular view, he suggests, is that if you are not better than your rivals in something, you will not be able to sell anything on world markets. "The right answer," in contrast, "is that being less productive than your trading partners poses no special problems."(9)

In 1950, for example, points out Krugman, U.S. productivity was higher than British productivity in thirty-nine separate industries (that is, the British lacked an absolute advantage in literally everything), but Britain's exports were almost as great in quantity as those of the United States. The reason is that Britain had a comparative advantage in those areas where British productivity exceeded 30 percent of the U.S. level. The United Kingdom paid for this differential through lower wages and a lower standard of living, but both were higher than they would have been in the absence of trade. "So, while low productivity is a problem, low productivity relative to other countries is not only not a disaster; it is irrelevant."(10) Krugman is exuberant in discovering others making the most basic analytical mistakes. "So, if you hear someone say something along the lines of 'America needs higher productivity so that it can compete in today's global economy,' never mind who he is, or how plausible he sounds. He might as well be wearing a flashing neon sign that reads: 'I DON'T KNOW WHAT I'M TALKING ABOUT.'"(11)

What is the key to national strategy, then, in a world of rival states? The correct answer, according to Krugman, is for each to try to enhance its own economic performance, most notably by bolstering investment rather than consumption in order to improve domestic productivity, and leave the allocation process to ever more open international markets. Improving productivity within any given state is important to raise one's own standard of living, but, among states, reiterates Krugman, relative economic position is merely a distraction: "how fast productivity is growing abroad, and whether we are ahead of or behind the pack, is irrelevant."(12)

Raising the absolute standard of living, therefore, is the summum bonum of Krugman's concept of national strategy. But what about other objectives? Does he simply ignore political and security concerns upon which continued enjoyment of the domestic standard of living depends?

In fact, he does not: "of course there is always a rivalry for status and power - countries that grow faster will see their political rank rise."(13) But Krugman belittles and trivializes any preoccupation with national power (which rests on absolute capabilities but is inherently a relative calculation). As a consequence, while he draws on Adam Smith and Ricardo, his strategic logic has more in common, as the next section reveals, with John Locke: its persuasiveness depends directly upon the assumption of a benign state of nature in the international system.

To put Krugman's approach to the design of national strategy (and the approach of much of the economics community) into perspective, one first has to confront the other (equally brilliant) extreme, Thomas Hobbes, in the person of Gowa.

Gowa: states maximize power rather than plenty

The idea that nation-states confine the definition of their national interests to raising their absolute standard of living without circumspection about the impact their economic policies might have on their position vis-a-vis major rivals (and real or potential adversaries) is incorrect, argues Gowa, both positively and normatively.

>From her perspective, and that of much of the international relations/political science community (most particularly the realist subcommunity), any consideration of the standard of living of particular citizens ultimately is dependent upon the security they hope to enjoy in relations with other states. Far from being simply poor students of economics, national strategists have calculated that relative rates of productivity growth, technological innovation, and overall economic expansion determine which states are better able to influence world events, shape and lead common endeavors, manage risks, resist external pressure, and counter or thwart antagonistic moves by others.

As a consequence, in an anarchic state system nations have been pursuing policies that fit Jacob Viner's distinction of maximizing power rather than plenty, with trade policy but one component of a larger strategy toward other nations, and they have been doing this for as far back as one can study.(14)
As Viner's analysis makes clear, Krugman versus Gowa is not simply a replay of the debate between mercantilists and liberals of the seventeenth and eighteenth centuries. Unlike Krugman, Adam Smith acknowledged the importance of power ("the great object of political economy of every country, is to increase the riches and power of that country") and supported the Navigation Acts, for example, on national security grounds. While Viner criticizes the mercantilist tradition for overemphasizing power as an end in itself, leading

to bad economics, he also defends the liberal tradition (as represented by Adam Smith) from the charge of being insensitive to power considerations or advocating any "irrational" idea "that the promotion of economic welfare is the sole sensible objective of national policy."(15) Gowa, for her part, will not tolerate dumb economic arguments favored by the mercantilists.

Gowa argues that the gains from trade generate additional resources that, ceteris paribus, can be used for military purposes. Constraints on trade, or denial of access to a free trade community, can deny benefits to potential rivals. Gowa follows T. N. Srinivasan in pointing out that whether a state will actually use its gains from trade to increase its defense budget depends on its social-welfare function.(16) She argues, however, that this does not affect the analysis because, if conditions change, increased gross national product will allow a state to increase its military power more easily than it would otherwise have been able to do.

Building on a rational-choice theory of alliance formation, she shows that tariff games between allies differ systematically from those played between actual or potential adversaries and that both differ from the standard prisoners' dilemma matrix in which states simultaneously try to exert power over their terms of trade. A utility-maximizing state in a potentially hostile environment will internalize not only private but also social returns in calculating the payoff from trade with allies and adversaries. Power considerations predict, therefore, that trade liberalization will take place highly selectively, to the extent that states can manipulate imperfections in international markets - with greater openness toward allies and lesser openness toward those with whom political relationships are more problematic.

Using data from an eighty-year period starting in 1908 with a widely accepted gravity model of bilateral trade flows, Gowa then tests the impact of alliances on trade. The analysis shows that political-military alliances have a direct, statistically significant, and large effect on bilateral trade, a phenomenon not at all limited to the days of the cold war. The bottom line is that "the play of power politics is an inexorable element of any agreement to open international markets, because of the security externalities that trade produces."(17)

Even a seeming exception proves the rule, for Gowa, that power politics dictates trade policy. During the period of the Anglo-French Entente (1904-14), one might expect that for both economic and political reasons

Britain would have pursued a market-opening strategy with France - whose vitalness to Britain's national security was on the rise from the Moroccan crisis of 1905 to the outbreak of World War I, when Britain entered on the side of France. Instead, Britain twice rejected proposals to liberalize trade with France. The reason is that the 1871 Franco-Prussian peace treaty bound France to grant Germany unconditional most-favored nation status allowing Germany to "claim for her trade and commerce any advantages conceded to us [i.e. Britain] by France."(18)

A refinement of the power-enhancing approach might be to seek tariff concessions that would give exclusive advantage to Britain. But, as Alfred Marshall, among others, had pointed out, it was very difficult to devise tariff reductions that would redound to Britain's benefit alone without including potential adversaries.(19) In this instance, the similarity between British and German exports severely limited British ability to privatize the benefits of any Anglo-French trade agreement.

This case, as well as the aggregate statistical analysis, leads Gowa to be tenacious in arguing that considerations of power rather than plenty drive the policies of major states. One might hope, for example, as Charles Kindleberger has hypothesized, that hegemonic states have a special perspective, a special discount rate, and a special conception of long-run self-interest that dispose them to bear a disproportionate share of the risks and burdens of promoting trade liberalization for the benefit of all.(20) Kindleberger has worried that since international free trade is a public good, it depends upon the existence of a dominant state to ensure its supply. Britain, he suggested, played the role of free trade enforcer in the nineteenth and early twentieth centuries. The inability of the British to act as hegemon in the interwar period, and the unwillingness of the United States actively to replace Britain, led to a beggar-thy-neighbor collapse of the world trading system in the interwar period. Any design of national strategy for the future will need to be informed about how hegemons, including the United States, have viewed their interests in the past.

For a moment Gowa's line of argument helps buttress the theoretical foundations of Kindleberger's position. Whereas some critics of hegemonic stability theory have suggested that rational hegemons would find it in their self-interest to adopt an optimal tariff rather than free trade,(21) Gowa argues that any attempt to exploit an optimal tariff in the short run would undermine the power to do so over time, leading a nonmyopic hegemon to reject it. Whereas other critics of hegemonic stability theory have suggested that participation in open markets is excludable and hence not a public good,(22) Gowa argues that exclusion of defectors is likely to be costly enough that the sanctioning process itself becomes a public good. Whereas yet other critics of hegemonic stability theory have suggested that small groups are close substitutes for hegemons,(23) Gowa argues that agreements on how, where, and when to cooperate, along with side-payments that redistribute the net benefits of cooperation, are formidable obstacles to the assumption that small groups can play the role of a hegemon. In sum, for her, the theoretical criticisms of Kindleberger are "not definitive."

But these rebuttals on the level of theory do not lead Gowa to resuscitate Kindleberger. Instead her purpose is to report that the behavior she has observed for Britain, and parallel evidence she alludes to for the behavior of the United States, shows that neither "state subordinated the pursuit of its national interests to global interests during the period in which it reigned as the alleged free-trade hegemon."(24) This, for her, delivers an empirical coup de grace to the idea that the interstate system is ever likely to be able to look to any "benevolent despot" to keep international markets open. "Debates about hegemonic theory have neglected what may be the most durable barrier to free trade among the constituent great powers of any given international political system: that is, the primacy of concerns about security that characterize life in an anarchic world."(25)

Gowa's depiction of the value of selective liberalization in the service of enhancing a state's position in the international system probably understates (rather than overstates) the case: for nations concerned about influencing the foreign policies of other states, building international coalitions directed to common purposes, and resisting the pressures of others, an economic statecraft calibrated to the pursuit of relative gains could, if effective, yield benefits far more usable and significant on a practical level than her oft-repeated "freeing up resources for military purposes." Moreover, her search for "product differentiation" in her research probably weakens her argument unnecessarily, since avoiding excessive dependence on potential adversaries (a motive she says she avoids since it has been dealt with by other writers) offers a strong complementary rationale for selective liberalization.(26)

But, except for the Anglo-French Entente, the model of tariff games between allies and adversaries in fact sits there as no more than a plausible hypothesis, untested as to whether national leaders actually are able to conduct economic policy with the subtlety, craftiness, and beneficial impact on themselves that the model suggests may be possible. One suspects that if analysis with a healthy measure of Krugman's skepticism about effective public intervention were turned loose at diverse moments in history, one would find myriad examples of dumbly conceived and counterproductively executed policies.(27)

But the fact that states might be shown to have mixed in some ill-conceived advice from earlier incarnations of "noneconomists" and "clever policy entrepreneurs" in nationally harmful directions as they made calculations about relative power does not vitiate the basic point: the distributional consequences among states of national policies, including trade policy, are far from irrelevant; they have been central to the welfare and well-being of citizens. More than one state that witnessed trends in economic capabilities move against itself found its role in world affairs diminished and, in extreme cases, the way of life as the inhabitants knew it destroyed (as close as a body politic can come, one supposes, to going out of business).

Of greater practical import, perhaps, one does not have to adopt as extreme and Hobbesian a view of the dire consequences of international anarchy as Gowa uses for her point of departure to take the realists' concerns about the distributional implications of economic policies seriously: a nation whose resources and capabilities decline in relation to others will enjoy less control over its own life along many margins and less voice or influence in international affairs even if the threat of actually being taken over by adversaries is infinitesimal.

Thus the anarchic structure of the international system, says Gowa, compels its constituent states to attend closely to their own position in relation to the power and potential of both prospective and actual allies and adversaries. The rational state will and should utilize a policy of selective liberalization to enhance its place in the interstate system.

The emergence of strategic trade theory, according to Gowa, bolsters the logic of this argument and expands the range of policy instruments to which it can be applied. After all, realists (and perhaps others) in the international relations/political science community would note that in the case of high-technology strategic trade industries whose economies of scale are greater than national markets, some countries (or regions) are likely to be left without players of their own, at the mercy of external monopolists. The potential threat this poses to national autonomy, and the potential vulnerability it carries for foreign manipulation, may be much more significant than whatever economic rents might or might not be captured by one nation or another. The rationale for public intervention to field a national presence in key high-tech strategic trade sectors appears compelling: sins of omission may be as damaging as sins of commission.

As a consequence, the realist perspective in the international relations/political science community in general, and Gowa in particular, seems to give license to the very kind of zero-sum calculations for national strategy that Krugman (and the economics community more broadly) fears will be so destructive to the international system.

More disturbing, there is no way to brush over differences between the economics and the international relations/political science communities by suggesting, for example, that the two communities are merely focused on different objectives (indeed it is difficult to argue with rigor that they even postulate different utility functions). The realist tradition in the international relations/political science community simply takes the economists' definition of the national interest - maximization of a country's ability to consume goods and services over some discounted time horizon - and extends it to encompass (at a minimum) a concern about a country's ability to insulate or defend itself from threats to present and future consumption similarly discounted. In any interstate system that is not always benevolent, therefore, even the narrowest economic definition of welfare implicitly carries a security dimension.

Moreover, as long as there is any possibility of manipulating imperfections in international markets (due to size of states in extremely competitive international markets, barriers to entry in particular sectors in imperfectly competitive international markets, and differential treatment toward outsiders by regional economic blocs), the issue of relative gains cannot be ignored. The pursuit of power and the pursuit of plenty end up inextricably linked. National leaders have no choice but to fashion a strategy that combines calculations of absolute and relative gain simultaneously; that is, to design what might be described (too pretentiously) as a grand strategy for trade and related economic policies to advance the long-term interest of the nation-state in enhancing its position in the international system.

How might such a grand strategy be constructed? Clearly the answer cannot be found in simply letting each state follow its own narrow interests (or the interests of its immediate allies or regional partners) in crafting economic policy without letting the Hobbesian vision become a self-fulfilling prophecy. In contrast to the supercilious dismissal of power considerations in Krugman's work, there is a relentlessly ahistorical determinism in Gowa's invocation of international anarchy that ignores any potential learning curve and belies any potential progress in building international economic institutions over the past fifty years. Surely the stability of the international system requires maintaining and strengthening some of these safeguards against the kind of self-centered impulses Gowa finds so endemic.

Gowa's thesis that potential adversaries should be denied access to international markets to the extent possible is further complicated by the observation that greater access may in fact hasten internal reform that will decrease the likelihood of a future adversarial relationship, a controversial but supportable proposition advanced, for example, in the China most-favored nation debate or the debate about ending the U.S. embargo on Cuba.

To design a grand strategy for the contemporary era, therefore, one has no option but to combine the insights of Krugman and Gowa, producing a subtle balance between agnosticism and self-centeredness toward the distribution of national gains from indigenous economic policy choices. One might try to restage the Hobbes-Locke debate about the state of nature, this time on the international level, with the tools of modern social science to establish which view of the international system is the "more correct" model to use, never mind how complicated such a validating process would be. But real-world policymakers still will be left with having to make complex assessments about: (1) how much of a loss in efficiency or welfare is worth how much of a gain or alleged gain in security, as an insurance policy within an international system that shows both benign and malevolent characteristics; (2) how great a risk of systemic disintegration might be appropriate to run, in light of the adverse secondary and tertiary effects on all concerned if the disintegration were to materialize; and (3) how effective and controllable are the resulting strategic policy recommendations likely to be in multiple national policymaking environments, each of which is prone to special-interest capture and myopic distortion?

Where might one look to begin to frame the issues, compare alternatives, and search out answers about the key issues in trade policy (and related areas of investment and technology policy) that are needed in the construction of grand strategy today? Might the pursuit of power and the pursuit of plenty be integrated, for example, within the agreements already established under General Agreement on Tariffs and Trade/World Trade Organization (GATT/WTO) auspices, or will new self-denying mechanisms (familiar indeed to those dealing with the state of nature as Hobbes conceived of it) be needed to bind the hands of national leaders in ways that extend far beyond the GATT/WTO disciplines?

The logical place to turn, at least initially, is to the latest policy-oriented NBER research on these topics, perhaps the largest and most prestigious collective effort from the economics community in this area in the world.

NBER research on strategic trade theory, trade policy, and the political economy of protection

The two NBER volumes under review here, like all NBER studies, are devoted to bringing together the foremost research on questions of theory, policy, and process with interpretive synthesis by leading figures in the field in a manner that makes the results as useful and accessible as possible to policymakers. These particular books cover a broad range of conventional trade policy issues, strategic trade policy issues (and related questions of technology and investment policy), and policy formation issues, one under the direction of Krueger and the other, of Alasdair Smith and (again) Paul Krugman.

In these volumes many of the familiar defects in trade policy formation are once more discovered: the policy process in the United States is producer-driven, consumer interests are underrepresented, adjudicative bodies do not (or are forbidden to) take into account the impact of trade restraints on the entire economy, users of sheltered inputs are particularly damaged, and protectionist policies frequently do not help even those industries that seek them. There is good reason to question, as Krueger concludes, "the degree to which current U.S. trade policy achieves objectives that are in the interest of the American people and economic efficiency."(28)

Because of the diverse character of the studies, one might not necessarily expect (despite the ostensible NBER objective) to find all the ingredients needed to define the issues, weigh alternatives, and debate the trade-offs required for a realistic national strategy. But with strategic trade theory figuring prominently at various places in each volume, with extensive examination of two of those high-tech industries most filled with policy contentiousness (aerospace and semiconductors), and with eleven chapters devoted to regional trade agreements, administrative protection, and the industries most affected by selective liberalization (like steel, automobiles, textiles, apparel, lumber, and agricultural products), one would hope this to be fertile ground for some insights and guidelines for integrating the concerns Gowa thinks are inherent in the design of national strategy with the concerns Krugman warns may lead in dangerous directions.

The reality is otherwise, particularly in three of the policy arenas where a new synthesis will most evidently be needed.

Strategic trade theory and high-tech industries

Following the example of Krugman and R. E. Baldwin in an earlier simulation of the aerospace industry, the strategic trade modeling by Gernot Klepper, for example, casts doubt on the prospects for Airbus to become profitable soon, even once a complete family of aircraft has been launched. Klepper finds that the projected subsidies of $20 billion for Airbus are roughly twice as high over twenty years as the $10 billion gain in European consumer welfare when compared with a hypothetical Boeing monopoly. Hence, he concludes, "from the view point of European governments, Airbus's market entry as an 'anti monopoly' policy was not successful."(29)

Similarly, in the prior NBER study, Krugman and Baldwin had labeled the Airbus 300 project a "beggar-thyself policy for Europe" in comparison to "a world without Airbus" because the gain to Europe's consumers (in their parent model) outweighed the cost of the Airbus subsidy only for a low discount rate of 3 percent.(30)

Are these serious suggestions that the Europeans abandon their aerospace industry in favor of having the United States as sole aerospace supplier? How would the appraisal change if one expanded the concept of welfare, along Gowa-like or Albert Hirschman-like lines, to include concern that dependence on an external aerospace monopolist might pose a threat to the autonomy of European governments as actors in international affairs?(31) Would less than a half billion dollars a year ($10 billion over twenty years) seem like a large or small price to pay in comparison to the freedom to conduct foreign and defense policy without being constantly under the scrutiny, and approval, of an external monopolistic supplier of airframes and avionics? One is tempted to think that Krugman himself might as well be "wearing a flashing neon sign that reads 'I MISSED THE CLASS WHERE THEY TOLD ABOUT SUEZ.'"

A useful research design for strategic trade theory and high-tech industries might logically compare the strategy of launching a national (or pan-national) champion with the next best alternative a government can choose to avoid external monopoly; that is, in the case of the aerospace industry, for example, to ask how the Airbus effort stacks up against the option of strengthening in-country capabilities via coproduction agreements and transborder corporate alliances, as followed by Japan (with Airbus and Boeing) or China (with the latter two corporations plus McDonnell Douglas).

More broadly, any comprehensive consideration of strategic trade theory and high-tech industries would want to assess the entire array of insurance policies to protect against delay, denial, or manipulation (whether economically or politically motivated) by monopolistic external suppliers. Are other strategic trade industries, like semiconductors, microprocessors, advanced chemicals and materials, or biopharmacology, likely to introduce the same policy dilemmas, or is aerospace unique?

In the NBER volumes, however, there is no attempt at assessment more profound than the demonstration that supply from a foreign monopoly is the "welfare-enhancing" solution.

The question that so-called grand strategy must address is whether to permit nations (including the United States) to try to position themselves as quasi-monopolistic suppliers of the most advanced high-tech products, led by aerospace, or deliberately to allow diffusion of technologies and production sites across borders (excluding from diffusion only the most militarily sensitive products).

Selective liberalization and the formation of blocs or regional alliances

In the negotiation of regional trade agreements, David Orden finds that U.S. industries that are able to remain "moderate" up to the final period (e.g., before the North America Free Trade Agreement, NAFTA, package reached Congress) were able to acquire relatively large payoffs to secure their support. He notes in passing that two major U.S. industrial players, dairy and cotton, came to support the NAFTA accord only after strong rules of origin were adopted.(32)

But neither Orden, nor other authors who cover various aspects of the lumber, steel, autos, textile, and apparel industries, nor Krueger in her concluding overview, takes note of a broader policy question (and policy danger). What does a process that allows NAFTA's breathtaking expansion of the use of rules of origin to divert trade and shift foreign investment (and economic rents) into one regional market portend for the discovery by Jeffrey Frankel and others that regionalism is on the rise, perhaps even leading to the creation of regional blocs?(33) After correcting trade flows for natural determinants such as size, per capita gross national product, proximity, and common borders, Frankel demonstrates the European Union, Western Hemisphere, East Asia, and Asia Pacific Economic Cooperation forum (APEC) all show significant "block effects" - bias toward trading with each other substantially higher than would otherwise be predicted.(34)

A useful research design would seek to probe how such sharp delineation of trade blocs could be taking place in the midst of so much ostensible liberalization: might rules of origin, locational incentives, and other measures to influence patterns of foreign direct investment and trade be the new guise in which Gowa's games of selective liberalization will be played out?

More broadly, what are the implications of imitation and duplication of such exclusionary measures? Trade diversion and rent capture could arguably have made sense in terms of the U.S. national interest (economic and political) vis-a-vis Mexico, but how will the structure of international economic activity and consequent alignment of political relationships evolve if these discriminatory devices are extended throughout this hemisphere and copied (or bested) in Asia and Europe? (Since the predominant assumption has been, following Stephan Hymer, that foreign direct investment takes place in imperfectly competitive industries, the battle to attract multinational corporations is quite likely a struggle over the distribution of inframarginal chunks of good jobs, extra research and development [R&D], and perhaps high profits. Research by Katz and Summers suggests that rents in imperfectly competitive industries are more likely to be reflected in high wages and strong R&D activity than in excessive returns to capital.)

In the NBER series, however, there is no assessment of policy implications deeper than the damage done to efficiency by the play of particular rent-seeking constituencies.

The challenge for grand strategy is to decide the extent to which nations will permit themselves to use trade diversion, rent-switching, and diverse "domestic" measures to bolster their economies and polities selectively or will resolutely deny themselves the ability to capture advantage for their own people, neighbors, and allies.

Trade, technology, and who-is-us issues

Looking at R&D subsidies as a strategic trade issue, David Ulph and Alan Winters estimate that the payoff to gross domestic product from public support for high-tech industries is a surprisingly high 2.5 times the size of the intervention. Ulph and Winters conclude that "giving R&D support to the high-tech sector is potentially an extremely powerful and important policy," with results that are highly dependent on assumptions about the movement of scientists and science itself across borders.(35)

Surely a useful research design would address the question of what are the policy implications for treatment of the most obvious vehicle to affect such movement, i.e., multinational corporations? Should foreign firms be deliberately excluded from national R&D initiatives (the "Sematech" and "clean car" models) or invited to participate (the "flat panel display" model)? Should foreign firm eligibility be extended unilaterally or only on a reciprocal basis in return for access to the national R&D programs of other states? More broadly, what might be the most appropriate way for governments to address who-is-us dilemmas, and when might special measures genuinely be required to limit the potential for external denial or manipulation (a subset of the problem of external monopolistic suppliers above)? This gap is most peculiar in light of the identification of external monopoly as a legitimate national security concern in the Edward Graham and Krugman volume on foreign direct investment in the United States, and Graham's subsequent expansion of policy analysis in this area.(36)

The issue for grand strategy is whether to preserve a clear distinction between "our" firms and "others" or to adopt a studied agnosticism toward the national identity of firms wherever they are found (with special safeguards only in the case of the most concentrated international industries).

Explaining performance below potential

Somewhat surprisingly, therefore, in each of these arenas where the pursuit of power and the pursuit of plenty intersect and where the great debates over trade policy (especially strategic trade policy) and related technology and investment issues must be engaged, one finds the NBER contributing rather far below its potential, given the purely technical virtuosity of the studies assembled in these volumes - not so much wrong as "clueless" (in a precise use of the vernacular) about the larger context.

Why?

Performance below potential is usually explained by protection and insulation from competitive pressures. Could it be that some fraction of the economics community has been content to point out the easy mistakes of others, while sheltering itself within the NBER guildhall from the more serious intellectual challenges, hesitating to stretch the envelope, declining to raise the level of play?

The evidence is not inconsistent with this explanation.

Here is NBER coverage of strategic trade issues in high-tech industries, without citing any of the work of: David Mowery, Richard Samuels, Helen Milner, David Yoffie, Michael Mastanduno, Jeffrey Hart, Miles Kahler, Lynn Mytelka, Jeffry Frieden, or Aaron Friedberg.(37) Here are two entire NBER volumes on trade policy (including a concluding exhortation by Krueger for "multidisciplinary research") without citing the work of John Conybeare, Judith Goldstein, Joseph Grieco, Stephan Haggard, John Ikenberry, David Lake, Charles Lipson, Timothy McKeown, John Odell, Kenneth Oye, Robert Pastor, Ronald Rogowski, John Ruggie, Arthur Stein, or Susan Strange.(38) Further, there are thirty-six articles and commentaries here in the NBER series devoted to international political economy, that show no contact with the corpus of work in this area published by Cornell University Press, Princeton University Press, or the University of California Press or with any article in the principal scholarly journals where the political science community publishes on international political economy.(39) Were it not for Michael Finger, Ann Harrison, Douglas Irwin, David Orden, and the unusually well-read Douglas Nelson (a statistical outlier), the economists in these NBER volumes could claim a perfect record of abstinence from the principal publications where the international relations/political science community debates issues in international political economy.

Surely one might conclude that this is rather narrow and self-absorbed behavior on the part of the successors to those earlier generations in the economics community that included Adam Smith, Ricardo, Marshall, Viner, Hirschman, and Kindleberger.

The point, of course, is not that Mowrey and Samuels are wiser or more knowledgeable about aerospace policy (for example) than Krugman and Baldwin, but that Krugman, Baldwin, and their successors would be even wiser and more knowledgeable than they already are if they were in close dialogue with their counterparts in the international relations/political science community, and vice versa.

(On the other side of the international political economy dialogue, in contrast, the two volumes by Gowa and Mansfield build on nearly 150 sources from the principal researchers in the economics community, from, in alphabetical order, Avinash Dixit through Beth Yarbrough, engaging and debating with a large fraction rather than merely citing them.)

To what extent is a broader perspective needed? Is the design of grand strategy merely a question of good or bad economics or is there a larger choice required in the construction of national policy?

Sketching alternative paths for grand strategy

The policy arenas in which the power/plenty struggle certainly will be played out - strategic trade theory and high-tech industries; selective liberalization and the formation of blocs or regional alliances; and trade, investment, and who-is-us issues - are not well-covered by GATT/WTO disciplines. Each contains an arguable rationale for zero-sum self-interested action to gain national advantage or, alternatively, for cooperative action on behalf of the common good (including the benefit of dampening tensions that otherwise might result from preemption, matching moves, and mutual escalation).

The choices in each policy arena have profound repercussions for how nation-states define themselves and strengthen (or cede) the capability of exercising control over their own economies. Beyond merely asking what might be the most efficient economic outcome, national leaders will have to form their policy choices with a Hobbes-versus-Locke calculation of whether greater potential threats to their domestic well-being come from binding or loosening their own hands and the hands of others in the international system.

Furthermore, without any claim to identifying here all the principal issues involved or to examining all the major alternatives, it becomes nonetheless clear that nations can take one of two distinct paths for grand strategy; the two involve profoundly different approaches to national sovereignty and national identity. They diverge according to whether national sovereignty and national identity are preserved as integrally as possible or are deliberately blurred and diluted so as to preserve only the most basic and minimal domains of national control.

They might be characterized as a path toward a late-twentieth-century neomercantilism or, in contrast, a path that most accurately might be called transnational integration - rather than mere "liberalism" because, as will become apparent, a consistently liberal approach toward trade, investment, and technology flows - not to mention migrant labor flows - will perforce have much more radical consequences for the idea of the nation-state than envisioned in conventional assessments of the policy alternatives.

Strategic trade theory and high-tech industries

The question for grand strategy as it pertains to high-tech industries is whether to permit consolidation and exploitation of national quasi-monopolies or to deliberately encourage diffusion of monopoly power across borders. Calculations of power politics and of economic advantage could lead either way. The outcome will hinge on (1) where to draw the line on launch subsidies and indirect support (via defense budgets) for dual-use technologies; (2) whether to leave Super 301-type trade actions and voluntary import expansion-(VIE) type trade remedy agreements available to be used offensively and antidumping regulations available to be used defensively to support any one nation's high-tech supremacy(40); and (3) how intrusively to involve public authorities in surveillance of transborder corporate alliances and coproduction agreements.

In high-tech strategic trade industries, a late-twentieth-century neomercantilist path might find nations creating considerable leeway for themselves to provide launch support and preferential access for their own industries (as defined by extensive rules of origin) while tightly policing transnational alliances and coproduction agreements to preserve control over the location of jobs and the diffusion of technology. Unless deliberately tempered (see below), the logic of the drive for technological superiority might include aggressive unilateralist measures to insert exports into other markets along with vigorous use of antidumping regulations to hinder imports of similar products or even preempt their development.

A transnational integrationist evolution, in contrast, might find countries limiting each other's ability to bolster their own companies via direct and indirect support (including defense budget support), with a hands-off approach to transnational alliances and coproduction agreements that deliberately spread the creation of good jobs and the creation of codependencies across borders with the aim of creating constituencies to help cross-penetration of markets.(41) To dampen the beggar-thy-neighbor pressures in industries with quite large economies of scale, the treatment of VIEs and antidumping regulations would have to be significantly altered from what is permitted in current WTO procedures.

The direction of policy in this area will be played out, most notably, in the negotiations for extension of the European-U.S. civilian air agreement (with painful choices for the United States in the face of European allegations that the Defense Department budget, still the largest industrial policy tool in the world, is being used indirectly to enhance the competitive position of U.S. civilian aerospace companies) and in the mandatory renegotiation of the Uruguay Round subsidies code five years hence.(42)

Equally important will be the question of whether public authorities take it upon themselves to challenge private corporate technology alliances and production-sharing agreements across borders or provide insulation and buffering from such public-sector intrusion: whether or not there is a repetition of the FSX/Japan kind of dispute while China uses McDonnell Douglas, Boeing, and Airbus as tools to expand its indigenous aerospace industry will be a key case, with precedents being set for similar efforts involving Russia, Ukraine, Brazil, and India. (For antidumping regulations, Super 301, and the use of VIEs, see below.)

Selective liberalization and the formation of blocs or regional alliances

In the regional arena, any grand strategy must determine whether entrenched practices of preference and exclusion will (or will not) be uprooted in order to enhance genuine multilateral access for trade and investment. The answer will emerge from the stance toward: (1) expansion or contraction of NAFTA-like rules of origin in the Western Hemisphere, Europe-Eastern Europe, and Asia; (2) loosening or tightening of locational incentives (including subnational grants and tax preferences); and (3) exploitation or neutralization of antidumping rules as a tool of national and/or regional discrimination.

A neomercantilist approach might resist efforts to bring local incentives (including labor, environment, and regional development incentives) under multilateral discipline and permit expansive use of rules of origin.(43) It might then countenance managed trade demands (variations on VIEs, backed in the case of the United States by Super 301 and perhaps equivalent measures elsewhere) as a method to force international/intraregional penetration.(44)

A transnational integrative approach, in contrast, might institute tight limits on local incentives, harmonize and/or eliminate rules of origin, and prohibit managed trade.

The direction of policy will depend on whether the WTO is empowered to create new disciplines (which were rejected in the Uruguay GATT round) to prohibit VIEs in the way voluntary export restraint agreements now are prohibited and to change the test for antidumping from a cost-based to a price-based standard. More broadly, it will depend upon whether the new agenda of trade negotiations on competition policy, labor, and the environment heightens or diminishes the exclusionary measures available to particular regions.

Trade, investment, and who-is-us issues

The pursuit of grand strategy cannot avoid addressing who is "us" and who is "them," not only in the case of mundane suppliers in mundane industries but also in the case of reliable suppliers in critical industries. This will involve decisions on: (1) intensification or elimination of nationality-based eligibility for public R&D programs; (2) loosening or tightening of control over foreign acquisitions of companies in critical technology or defense industries; and (3) expansion or contraction in the scrutiny of nationality of suppliers for defense procurement. Indicative of concern about dependence upon concentrated foreign suppliers, the General Accounting Office found that 42 percent of a sample of U.S. firms reported that Japanese suppliers had rejected their orders for advanced goods, parts, or technologies or had delayed delivery by more than six months (non-Japanese suppliers were not part of this study).(45)

A neomercantilist approach might require a national identity test for firms to qualify for access to R&D initiatives and to receive permission to engage in takeovers or acquisitions in critical technology or defense industries.

A transnational integrative approach might allow nonnational firms to participate in R&D programs and acquire critical technology companies, subject only to agreement to maintain local R&D and local production in industries with a high degree of global concentration. Only in the case of highly concentrated defense suppliers, with extremely sensitive military technologies (where a takeover would represent the transference of quasi-monopoly control from one sovereign domain to another), might there be a presumption against permitting foreign acquisitions. Drawing on antitrust theory, I have proposed a 4-4-50 rule-of-thumb to test for levels of international market concentration sufficiently tight to make collusion credible; the presumption would be that concentration higher than four companies or four countries supplying 50 percent of the global market is a necessary condition for any genuine threat of delay, denial, blackmail, or manipulation. The 4-4-50 rule can be operationalized in terms of the Hirschman-Herfindahl index and made compatible (in the United States) with Hart-Rodino guidelines for mergers and acquisitions.(46)

Discussion of these issues is in the most preliminary stages, primarily within the Organization for Economic Cooperation and Development. The battle for the soul of technology policy in the United States between the clean car model (only the Big Three U.S. automakers are eligible for R&D subsidies) and the flat panel display model (foreign firms are eligible for R&D subsidies) will set an important precedent for other regions.

A schematic representation of the alternatives for grand strategy is shown in Table 1. My own recommendation for making the terribly complex trade-offs discussed above and summarized in Table 1 would be to follow a rule of minimal activism in the search for national advantage; that is, to try to maximize the opportunity for mutual gain while narrowing the pursuit of national advantage to those measures most necessary for national security and least destabilizing when deployed by some or all states simultaneously. And, to meet this challenge successfully, I conclude (as the final section makes clear) that Kindleberger may have to be credited with more insight than is fashionable in international relations/political science circles today.

The experience of engaging in public service is likely to pull would-be grand strategists in two conflicting directions on the issue of government intervention. On the one hand, it is axiomatic that anyone who has had to negotiate with the Japanese on market access for more than six months will feel the urge to advocate policies, no matter how unwise, that "show them a thing or two." On the other hand, anyone who has witnessed the mills of the U.S. government grind out economic policy (say, on antidumping) for more than six months will, I predict, begin to recommend the reading of Milton and Rose Friedman's Free to Choose to friends.

To assess whether a prudential rule of minimal activism in striving for national advantage might be the appropriate choice, one might begin by asking [TABULAR DATA FOR TABLE 1 OMITTED] to what extent is the impact of the choice
of grand strategy likely to be crucial in its own right for the stability of the international system in the contemporary world? Does the relationship between choice of approach to international economic policy and degree of interstate tension in the past provide grounds for considerable wariness today, or might the current expansion of international economic activity be so overwhelming in the aggregate as to constitute "the end of history" (to coin a phrase)?

Mansfield: does the choice of grand strategy matter at this juncture in history?

Mansfield's research offers an important, if somewhat counterintuitive, perspective on the significance of the choice of path for grand strategy in the contemporary period (albeit buried in by far the least accessible volume reviewed here).

Mansfield investigates the relationship between the distribution of power, international trade, and the deterioration of international relations that ultimately leads to the onset of war. In contrast to the predominant realist approach in the international relations community, which focuses on the importance of polarity in the international system (unipolar, bipolar, multipolar), Mansfield focuses on the concentration of resources and capabilities, or the relative inequality of power and potential among states, using measures closely related to the Hirschman-Herfindahl index of market concentration. Mansfield's analysis suggests that the importance of protectionist and exclusionary policies for interstate stability depends upon where they emerge in the historical pattern of international structures.

The good news is that there is an inverse relationship between the level of trade and interstate hostilities. With considerable care and rigor, Mansfield demonstrates that the liberal contention that trade and peace go together has some merit. Whether one examines wars involving major powers (the leading five to seven states), wars that do not involve a major power, or all interstate wars, higher levels of commerce are associated with a lower incidence of war and vice versa. Moreover, as trade levels increase, so does the quantitative effect on inhibiting hostilities among states as well as the statistical significance.(47)

Further, looking only at polarity, while major-power wars tend to begin less frequently in bipolar than in multipolar systems, little evidence suggests that periods involving the breakdown of a hegemonic system are any more prone to war-inducing tensions than other periods.(48)

The bad news is that there is an inverted U-shaped relationship between the concentration of resources and capabilities, restraints on trade, and tensions leading to interstate hostilities. Since hegemony is a measurement of the relative strength of the most important state, Mansfield argues, it does not adequately capture the distribution of power among all the major actors in the international system. Refocusing the examination of international structure to highlight measurements of the latter, Mansfield finds that the relationship between concentration and patterns of international trade, on the one hand, and tensions leading to hostilities, on the other, is quadratic rather than monotonic; that is, both the highest and lowest levels of concentration are associated with the fewest impediments to trade and the lowest incidence of warfare, while intermediate levels of concentration in the international system lead to both protectionist measures and higher incidence of conflict among the five to seven larger powers. Holding constant the number of major powers, there is an inverted U-shaped relationship between the relative inequality among them, the use of protectionist trade measures, and the propensity for hostilities.

The explanation for the outbreak of hostilities, according to Mansfield, may spring from the fact that deterrence is weakened when (in contrast to a highly concentrated state system) blocking coalitions are less certain to emerge. One of the five to seven larger powers may determine that a move against a smaller state is worth undertaking if success will improve its position relative to the rest and might be completed before others can react cohesively to prevent it. Conversely, the perceived threat posed by one of these five to seven larger powers may lead those with lesser capabilities to band together and launch a preventive war against it.

In this milieu of move and countermove on the part of nation-states, Mansfield also finds that regional trading blocs and enhanced use of protectionist measures are more likely to take place. Whether selective manipulations of markets and exploitations of "predatory opportunities" lead to, or merely accompany, the political maneuvering that results in hostilities is not clear from the data.(49)

Particularly worrisome, however, suggests Mansfield, are periods when the distributions of resources and capabilities within the international system have become less highly concentrated, but shifts in the shares of those resources and capabilities are taking place that may themselves be viewed as threatening. Perhaps the competition for market advantage combined with the expected consequences of inaction may lead states to run risks they otherwise would not.

Mansfield is careful not to suggest that structural conditions alone predict when levels of tension leading to outright conflict are imminent, "but the fact that similar structural conditions historically have been vested with dangerous characteristics should induce caution on the part of, and should not be overlooked by, decision makers."(50)

Clearly, despite the evident successes in trade liberalization in the contemporary period, there is a cautionary tale here. During a period when resources and capabilities are becoming more dispersed among the leading half-dozen or more states, the temptation to pursue measures that will advance any given state's relative position has appeared over the course of history to have been high relative to the more general appeal of maintaining aggregate trade flows. Mansfield's research would suggest that, absent strong institutional mechanisms explicitly to contain such economic rivalries, the potential for considerable tension among states (or blocs) would appear great, judging from historical experience, despite high overall levels of trade.(51)

How serious might such tension be as a threat to international stability in the contemporary era? The answer is likely to depend on the interaction between "getting fundamentals right" (in particular for the United States) and the choice of a minimally activist or a more aggressively activist and unilateral grand strategy.

With regard to the fundamentals, one can profitably return to Krugman's analysis, in which there is in fact an important area of overlap between the economics and the international relations/political science perspectives. While it is clear that the distributional consequences of the choice of grand strategy cannot be trivialized in the way Krugman's presentation suggests (because in some areas the political/security implications are certain to be quite important), Krugman is doubtless right in arguing that the aggregate economic impact of genuine zero-sum policies will probably be relatively small in comparison to the economic impact of improvement in the ratio between savings and consumption.

Consequently, a shift in the allocation of domestic resources from consumption toward savings and investment is likely to be the most important tool national leaders have to raise their own absolute standard of living and relative rates of economic growth, productivity, and technological innovation. Getting the fundamentals right would thus serve the objectives of power and plenty simultaneously, generating both greater economic welfare at home and more resources available to be deployed, ceteris paribus, to influence world events, lead common endeavors, and avoid adverse pressures in the international arena. In short, even those who believe Gowa's view of the international system better describes reality than Krugman's, and who consequently place greater importance on relative gains, will nonetheless agree with the latter's policy prescriptions about getting fundamentals right.

At the same time, better macroeconomic performance is likely to lead, in the case of the United States, to several kinds of political externalities as well. First, higher productivity growth and greater technological innovation will generate greater resources for experimentation with those adjustment-assistance and vocational-retraining initiatives needed to maintain popular support for political engagement abroad (perhaps helping to ward off the Stolper-Samuelson effect a while longer). A country whose incentive structure rewards investment in upgrading human resources, rewards more intensive use of human resources, and rewards the development of labor-intensive technologies is likely to find more support for economic liberalization and political engagement in the international arena than one whose incentive structure ignores upgrading human resources and offers a premium for replacing human resources with capital and labor-substituting technology.

Second, getting the economic fundamentals right may produce a dividend externally in terms of what Joseph Nye has called "soft power," since there is likely to be admiration, emulation, and bandwagon effects for a country "winning" more often than not against foreigners in international markets, for macroeconomic reasons, and piling up claims against the assets of foreigners rather than vice versa.(52) (Changes in the consumption/savings ratio will affect the trade balance, and hence the net accumulation of foreign assets, but not necessarily flows of direct foreign investment or acquisitions of domestic firms.)

Finally, one might expect a kind of "Kindleberger effect" (despite all the learned criticism): a lesser tendency to blame others, a greater willingness to bear burdens on behalf of the common good, and a greater appreciation of "the long shadow of the future."(53) Kindleberger emphasized the need for providing leadership through a willingness to bear a disproportionate share of the costs of system-maintenance. A crucial case in point may be the willingness of the United States to take the lead in integrating China, Russia, and the former Soviet Union firmly within the WTO multilateral trading system without, for example, maintaining the discriminatory and exclusionary anti-dumping and countervailing duty rules that have thus far governed nonmarket economies.

In the United States, better macroeconomic performance, consequently, ought to go hand in hand with a greater tendency, at the margin, to choose policies on the issues listed in Table 1 that fall under the rubric of transnational integration and with less inclination to go belligerently down the neomercantilism route.

On the other hand, no improvement (or deterioration) in the balance between savings and consumption will keep American industries "losing" more often than not against foreigners in international markets, no matter how hard the United States bashes others or others in fact lower their trade barriers, and will keep foreigners piling up claims against the assets of Americans "as far as the eye can see."

As for political externalities, a nation that is self-evidently mortgaging the future of its children to outsiders is unlikely to be the object of esteem and emulation by foreigners who are exercising more self-discipline abroad; a nation that lacks the wherewithal to upgrade its human resources or help its people adapt domestically to competition in international markets is unlikely to find support at home for dependable, constructive engagement in the international arena.

This might well lead to a tendency, at the margin, to choose policies on the issues listed in Table 1 that lie along the more unilateral, aggressive, even belligerent neomercantilism route.

But by far the worst danger would lie in the adoption of an assertive late-twentieth-century neomercantilist grand strategy in place of (or as a substitute for) movement toward greater macroeconomic balance in the United States.

This would turn Kindleberger, upon whose insights about systemic leadership the world may ultimately come to depend, on his head: having the preponderant power in international affairs constantly tearing at the fabric of relations with other major states and with no possible resolution in sight. The impact of unceasing mutual accusation and recrimination on the domestic publics of all the nations involved, as the immediate post-World War II generation passes on, might have a cumulative effect on interstate relations and international alignments that seems unlikely (in the extreme) today but could eventually make Mansfield appear prophetic.

1. In addition to Peddling prosperity (Krugman 1994a), see Krugman 1994b; 1994c; and 1993.

2. Krugman's targets of criticism include Tyson 1992; Thurow 1992; Magaziner and Reich 1983; Magaziner and Patinkin 1990; Luttwak 1993; Phillips 1984; Prestowitz 1988; Dietrich 1991; Garten 1992; and Sandholtz et al. 1992.

3. The quotations are from Krugman 1994b, 31; and 1994c, 270, respectively.

4. In addition to the sources cited above in footnote 2, see Krugman 1991.

5. Lawrence and Slaughter 1993.

6. An earlier example of this ambivalence is found in Krugman 1986.

7. Krugman 1994a, 243-44.

8. Ibid., 239.

9. Ibid., 269.

10. Ibid., 274.

11. Ibid., 280.

12. Ibid., 270.

13. Krugman 1994b, 35.

14.On maximizing power rather than plenty, see Viner 1948.

15. Ibid.

16. Srinivasan 1987.

17. Gowa 1994, 6.

18. This Public Records Office document is cited in ibid., 90.

19. Ibid., 91.

20. See Kindleberger 1973; and 1986.

21. See Conybeare 1983; 1984; and 1987. See also Gilpin 1975.

22. See Snidal 1985a; and 1985b.

23. See Keohane 1980; and 1984.

24. Gowa 1994, 29.

25. Ibid.

26. In particular, Gowa cites Pollins 1989b; and 1989a.

27. For a fascinating example of such critical analysis, see Krugman 1983.

28. See the final sentence of Krueger 1995b.

29. Klepper 1994, 123.

30. Krugman and Baldwin 1988.

31. Hirschman [1945] 1980.

32. Orden 1995.

33. For an empirical assessment of rules of origin and the consequent policy dilemmas, see Jensen-Moran 1995. In earlier papers written before the NAFTA negotiations were complete, Krueger and Richard Snape had noted that rules of origin would be a "key issue," and Robert Baldwin and Kuo-shu Liang had warned about antidumping and unfair trade protests becoming the pretext for creating trade blocs. See the respective contributions by Krueger and Snape and by Baldwin and Liang in Ito and Krueger 1993, 29, 41, and 44. Krueger has shown an interest in exploring rules of origin on a theoretical level in Krueger 1992; Krueger and Krishna 1995; and Krueger 1995a.

34. For evidence on trading blocs, see Frankel, Stein, and Wei 1993; and 1994.

35. Ulph and Winters 1994.

36. See Graham and Krugman 1991; and Graham and Ebert 1991.

37. These works include Mowery 1987; 1985; 1992; Samuels 1994; Samuels and Friedman 1993; Milner and Yoffie 1989; Mastanduno 1991; Hart 1992; Kahler 1985; Kahler and Frankel 1993; Mytelka 1990; Mytelka and Delapierre 1987; Frieden 1988; Friedberg 1989; and 1991. Perhaps it is not fair to put Helen Milner's name on the absentee list, since after reporting a "general belief" that protection will be granted when the industry is unanimous in supporting it, Krueger notes that "the same point has been made by Helen Milner." Also, David Yoffie's prestrategic trade book from 1983 is listed in one bibliography but not cited in any chapter.

38. See Conybeare 1987; 1984; Goldstein 1994; Grieco 1990; Ikenberry, Lake, and Mastanduno 1988; Lake 1985; 1988; Oye and Rogowski 1989; Fishlow and

Haggard 1992; Haggard 1994; Lipson 1984; McKeown 1984; 1991; Odell 1990; Pastor 1980; Ruggie 1982; Stein 1984; and Strange 1988. An article by Robert Pastor is cited in one chapter but his major book on the trade policy process is not.

39. I refer specifically to Conybeare 1987; Encarnation 1992; Friedman 1988; Gilpin 1981; Goldstein 1994; Grieco 1990; Ikenberry, Lake, and Mastanduno 1988; Lake 1988; 1985; Milner 1988; Oye 1992; Rogowski 1989; and Sharp 1986.

40. The concern about antidumping was originally focused on prohibiting international price discrimination, with the predatory intent to injure central in the determination of dumping. Over time the laws have changed from international price discrimination to a test of selling below cost, regardless of intent to injure. Moreover, U.S. law artificially defines dumping as selling below average cost plus 10 percent overhead and 8 percent profit. Since, under competitive conditions, producers will sell near marginal cost, foreign firms that are merely acting competitively and are not engaged in predatory practices can be found to be dumping (whereas their domestic counterparts cannot). In high-tech industries where forward pricing is standard practice, antidumping measures based on average cost, plus 18 percent mark-up, without adequate recoupment of start-up expenses, are strongly exclusionary. The Uruguay Round text on antidumping requires that cost calculations "reflect the costs at the end of the start-up period." But, according to an estimate produced for the U.S. Commerce Department, the per-unit cost of a hypothetical 150-seat commercial airliner, for example, does not level off until the two hundredth aircraft is finished; early output is some 300 percent more costly. See Boltuck and Litan 1991; and Schlie 1986.

41. For efficiency gains from liberalization in imperfectly competitive markets, see Richardson 1989.

42. Schott and Buurman 1994, 90.

43. On rules of origin, particularly as they apply to U.S. policy options, see Jensen-Moran 1995.

44. On Super 301 and possible EU equivalents and on VIEs, see Schott and Buurman 1994.

45. U.S. General Accounting Office 1991. For a broader historical perspective

on the manipulation of access to monopolistically controlled goods, services, and technologies (including manipulation on the part of the U.S. government), see Moran 1990.

46. Moran 1993.

47. Mansfield 1994, 149.

48. Ibid., 227-28.

49. On market manipulations, see ibid., 180. Mansfield draws on Conybeare for this explanation. See also Conybeare 1985; and Gilpin 1981. For an argument that economic regionalism can have a potentially liberalizing influence, see Oye 1992.

50. Mansfield 1994.

51. On Germany and Japan, Mansfield cites Mearsheimer 1990. For a perspective on Asia, see Betts 1993-94.

52. Nye 1990.

53. See Axelrod 1984; and Axelrod and Keohane 1985.

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What is the relationship between the pursuit of power and the pursuit of plenty? How does trade policy fit as part of a nation's strategy to build larger political and security relationships abroad? When are the economic rivalries among nations most difficult to manage so as to avoid undermining the stability of the international system?

This article reviews five books by grand masters of international political economy, from both the economics and the international relations/political science communities. The first and second sections introduce alternative frameworks for integrating trade policy within broader national strategy via studies by Paul Krugman and Joanne Gowa. The third section examines the challenges in designing national policies toward trade (and related areas of investment and technology) in the contemporary era, as represented in two recent volumes from the National Bureau of Economic Research (NBER), one edited by Anne Krueger and the other by Alasdair Smith and Paul Krugman.

The fourth section summarizes the most important areas of controversy and sketches the principal alternative paths for constructing a coherent national strategy (a grand strategy, so to speak, of power and plenty) to address them. The concluding section asks to what extent the choice of path for such a grand strategy genuinely matters at the current juncture in history, drawing on the analysis of Edward Mansfield.

(None of the volumes reviewed here addresses the use of economic sanctions to apply pressure on other states to alter their behavior.)

The review of these books shows that both the economics and the international relations/political science communities have distinctive insights and important lessons that can be used to understand the past and guide strategy for the future. More important, however, this review demonstrates that the analytic synergies between these two communities are dramatically underexploited. To be more precise, it suggests that each community would benefit immensely by deepening and enriching its interaction with the other in place of ever more introversion and insularity among its own members.

Krugman: the obsession with competitiveness is a threat to the international system

Peddling Prosperity is Krugman's virtuoso tour d'horizon, surveying the current state of economic theory and practice. He offers a brilliant, iconoclastic, indispensable, but ultimately inadequate assessment of how trade and related economic policies fit into the broader strategy of nation-states.

The international sections of Peddling Prosperity, and Krugman's other closely related recent writings, concentrate on the debate about the competitiveness of national economies.(1) Building on ideas about trade policy, industrial policy, and strategic trade theory he has been developing since the early 1980s, Krugman argues that the preoccupation of national leaders with something "noneconomists" and "clever policy entrepreneurs" have labeled competitiveness is not only misguided but also dangerous to the stability of the international system.(2)

"Let's start telling the truth: competitiveness is a meaningless term when applied to national economies" is the most succinct statement of his thesis. The phrase itself springs from the mistaken idea that competition among nations is like competition among firms. "When we say that a corporation is uncompetitive, we mean that its market position is unsustainable - that unless it improves its performance, it will cease to exist. Countries, on the other hand, do not go out of business."(3)

Beyond misplaced analogy, argues Krugman, the competitiveness debate combines three strands of unsound analysis: about trade deficits and consequent job losses or gains, about industrial policy and the creation of high value-added industries, and about strategic trade theory and the capture of rents among nations. These lead to a policy perspective that is not only unsound itself but also fraught with danger, to wit, that economic competition among nations produces winners and losers, with national strategy assigned the task of ensuring victory and avoiding defeat.

Trade deficits and job losses

Perhaps the most popularly accepted measure of how well one nation, like the United States, is doing in competition with its economic rivals, suggests Krugman, is whether the country is running a trade deficit or a trade surplus and gaining or losing jobs to others. This will indicate how tough the leadership must be in forcing open external markets and ensuring adequate jobs at home.

But the reality, of course, is that trade deficits are caused by a disparity between national savings and investment or, alternatively, between national production and spending in the deficit country, not by either the superior corporate performance or the unfair economic practices of others.(4) When national saving falls while consumption and investment spending remain high, overall spending necessarily rises faster than national income, as has happened in the United States. The only option for an economy in these circumstances is to import more than it exports; hence, to run a trade deficit. If U.S. national saving were to rise and consumption fall, the trade deficit would vanish or turn into a surplus, independent of what other countries did about opening their markets. Trade barriers may affect the composition of the U.S. deficit among products and the distribution of the U.S. trade deficit among countries, but the overall size is determined by U.S. behavior at home. Bashing others will not, and cannot, cure the problem.

As for jobs, trade agreements to open markets do not lead to a greater number of jobs, nor do trade restrictions on the part of others to block exports lead to a lower number of jobs in the would-be exporter's country. U.S. employment levels over the long run (in general equilibrium analysis) are determined by macroeconomic policy, in particular the monetary policies of the Federal Reserve Board. So other nations, emphasizes Krugman, cannot correctly be blamed for aggregate unemployment or net job losses.

Even the rising income inequality in the United States, asserts Krugman (drawing on the work of Robert Lawrence and Matthew Slaughter),(5) cannot be traced to competition from abroad. While Stolper-Samuelson and subsequent factor price equalization theory does suggest that rising levels of trade might depress wages for unskilled labor in the United States because there is lower-wage unskilled labor embodied in imports, the wage rates in the statistically typical U.S. trading partner are almost 90 percent of the U.S. wage rate, and imports from truly low-wage suppliers like China have hardly changed over more than three decades (2.0 percent of gross domestic product in 1960, 2.7 percent in 1990). Instead, Krugman points to the increasing sophistication of technology, and the premium paid to those who know how to make use of it (and not paid to those who do not), to explain most of the rise in wage inequality.

As for declining terms of trade, Krugman points out that in the U.S. case the magnitude is quite small (a drag on U.S. real income growth of less than 0.1 percent annually 1973-91). He questions moreover whether this decline actually was due to a relative productivity lag on the part of the United States.

Industrial policy and the creation of high value-added industries

For more than a decade, private consultants, led (according to Krugman) by the likes of the Boston Consulting Group, have advised corporations to shift resources internally from lagging activities to high-growth, high value-added areas to enable them to compete more successfully in international markets. The faulty logic of using industrial policy to strengthen national competitiveness, he suggests, can be traced to this legacy.

But a nation trying to follow the same path will discover, however, that it can devote extra resources to such preferred sectors only by withdrawing them from other activities. Unless there are externalities that generate extra benefits for the nation greater than what private actors would receive anyway to compensate for the penalty imposed on the rest of the economy, government intervention will leave the country in worse condition than would have been the case with no intervention. This is particularly true when the targeted sectors are high-wage, high value-added sectors, which require much greater use of other resource inputs (such as capital) per unit output than the activities from which they are drawn, imposing an especially harsh burden on more labor-intensive sectors.

In short, there is no free lunch for national economic policy; even if the targeting could be done as proponents advocate without contamination from pork barrel politics, the country would find its economy less efficient and less productive as a result. The only genuine method to strengthen the economy runs parallel to the advice given on the trade deficit, namely, to alter the savings/consumption ratio, devote more resources to investment, and allow competitive forces at home and abroad to dictate the allocation process.

Strategic trade policy and the capture of rents from other nations

In contrast to the raw mistakenness of industrial policy, strategic trade theory has offered a rigorous argument that subsidizing and protecting imperfectly competitive industries might capture rents that otherwise would accrue to others.

Here Krugman shows a professional ambivalence, as he has earlier, that combines admiration for the theoretical justification for intervention under conditions of imperfect competition to shift rents to one's own country and skepticism about proper implementation or significant results.(6) Identifying those particular externalities that can be used as guides for the targeting of public policies, Krugman argues, has turned out to be extremely subtle, and the prospect that the new theory would be taken over by those who want to use it for pet projects backed by "good old-fashioned protectionism" is not at all improbable. Finally, the decisive factor in the argument against using strategic trade theory is that those efforts that have been made by serious economists to simulate the behavior of industries where rent-shifting might be possible in fact "did not seem to suggest very much potential gain." Thus, despite initial excitement, Krugman endorses a "cautious" approach to strategic trade theory with "a bit of relief."(7)

The larger argument in Krugman's analysis is not just that each of these three strands of economic analysis is incorrect, but that the three fit together all too easily into a "deeply wrongheaded" national strategy toward trade: that competition between nations is like a sports event with the goal being to see who is better off afterward. The logical conclusion is, "it seems only common sense to do everything you can to help your side win."(8)

But this is built upon the greatest economic misunderstanding of all, the failure to follow David Ricardo in distinguishing between absolute and comparative advantage. The popular view, he suggests, is that if you are not better than your rivals in something, you will not be able to sell anything on world markets. "The right answer," in contrast, "is that being less productive than your trading partners poses no special problems."(9)

In 1950, for example, points out Krugman, U.S. productivity was higher than British productivity in thirty-nine separate industries (that is, the British lacked an absolute advantage in literally everything), but Britain's exports were almost as great in quantity as those of the United States. The reason is that Britain had a comparative advantage in those areas where British productivity exceeded 30 percent of the U.S. level. The United Kingdom paid for this differential through lower wages and a lower standard of living, but both were higher than they would have been in the absence of trade. "So, while low productivity is a problem, low productivity relative to other countries is not only not a disaster; it is irrelevant."(10) Krugman is exuberant in discovering others making the most basic analytical mistakes. "So, if you hear someone say something along the lines of 'America needs higher productivity so that it can compete in today's global economy,' never mind who he is, or how plausible he sounds. He might as well be wearing a flashing neon sign that reads: 'I DON'T KNOW WHAT I'M TALKING ABOUT.'"(11)

What is the key to national strategy, then, in a world of rival states? The correct answer, according to Krugman, is for each to try to enhance its own economic performance, most notably by bolstering investment rather than consumption in order to improve domestic productivity, and leave the allocation process to ever more open international markets. Improving productivity within any given state is important to raise one's own standard of living, but, among states, reiterates Krugman, relative economic position is merely a distraction: "how fast productivity is growing abroad, and whether we are ahead of or behind the pack, is irrelevant."(12)

Raising the absolute standard of living, therefore, is the summum bonum of Krugman's concept of national strategy. But what about other objectives? Does he simply ignore political and security concerns upon which continued enjoyment of the domestic standard of living depends?

In fact, he does not: "of course there is always a rivalry for status and power - countries that grow faster will see their political rank rise."(13) But Krugman belittles and trivializes any preoccupation with national power (which rests on absolute capabilities but is inherently a relative calculation). As a consequence, while he draws on Adam Smith and Ricardo, his strategic logic has more in common, as the next section reveals, with John Locke: its persuasiveness depends directly upon the assumption of a benign state of nature in the international system.

To put Krugman's approach to the design of national strategy (and the approach of much of the economics community) into perspective, one first has to confront the other (equally brilliant) extreme, Thomas Hobbes, in the person of Gowa.

Gowa: states maximize power rather than plenty

The idea that nation-states confine the definition of their national interests to raising their absolute standard of living without circumspection about the impact their economic policies might have on their position vis-a-vis major rivals (and real or potential adversaries) is incorrect, argues Gowa, both positively and normatively.

>From her perspective, and that of much of the international relations/political science community (most particularly the realist

subcommunity), any consideration of the standard of living of particular citizens ultimately is dependent upon the security they hope to enjoy in relations with other states. Far from being simply poor students of economics, national strategists have calculated that relative rates of productivity growth, technological innovation, and overall economic expansion determine which states are better able to influence world events, shape and lead common endeavors, manage risks, resist external pressure, and counter or thwart antagonistic moves by others.

As a consequence, in an anarchic state system nations have been pursuing policies that fit Jacob Viner's distinction of maximizing power rather than plenty, with trade policy but one component of a larger strategy toward other nations, and they have been doing this for as far back as one can study.(14) As Viner's analysis makes clear, Krugman versus Gowa is not simply a replay of the debate between mercantilists and liberals of the seventeenth and eighteenth centuries. Unlike Krugman, Adam Smith acknowledged the importance of power ("the great object of political economy of every country, is to increase the riches and power of that country") and supported the Navigation Acts, for example, on national security grounds. While Viner criticizes the mercantilist tradition for overemphasizing power as an end in itself, leading to bad economics, he also defends the liberal tradition (as represented by Adam Smith) from the charge of being insensitive to power considerations or advocating any "irrational" idea "that the promotion of economic welfare is the sole sensible objective of national policy."(15) Gowa, for her part, will not tolerate dumb economic arguments favored by the mercantilists.

Gowa argues that the gains from trade generate additional resources that, ceteris paribus, can be used for military purposes. Constraints on trade, or denial of access to a free trade community, can deny benefits to potential rivals. Gowa follows T. N. Srinivasan in pointing out that whether a state will actually use its gains from trade to increase its defense budget depends on its social-welfare function.(16) She argues, however, that this does not affect the analysis because, if conditions change, increased gross national product will allow a state to increase its military power more easily than it would otherwise have been able to do.

Building on a rational-choice theory of alliance formation, she shows that tariff games between allies differ systematically from those played between actual or potential adversaries and that both differ from the standard prisoners' dilemma matrix in which states simultaneously try to exert power over their terms of trade. A utility-maximizing state in a potentially hostile environment will internalize not only private but also social returns in calculating the payoff from trade with allies and adversaries. Power considerations predict, therefore, that trade liberalization will take place highly selectively, to the extent that states can manipulate imperfections in international markets - with greater openness toward allies and lesser openness toward those with whom political relationships are more problematic.

Using data from an eighty-year period starting in 1908 with a widely accepted gravity model of bilateral trade flows, Gowa then tests the impact of alliances on trade. The analysis shows that political-military alliances have a direct, statistically significant, and large effect on bilateral trade, a phenomenon not at all limited to the days of the cold war. The bottom line is that "the play of power politics is an inexorable element of any agreement to open international markets, because of the security externalities that trade produces."(17)

Even a seeming exception proves the rule, for Gowa, that power politics dictates trade policy. During the period of the Anglo-French Entente (1904-14), one might expect that for both economic and political reasons Britain would have pursued a market-opening strategy with France - whose vitalness to Britain's national security was on the rise from the Moroccan crisis of 1905 to the outbreak of World War I, when Britain entered on the side of France. Instead, Britain twice rejected proposals to liberalize trade with France. The reason is that the 1871 Franco-Prussian peace treaty bound France to grant Germany unconditional most-favored nation status allowing Germany to "claim for her trade and commerce any advantages conceded to us [i.e. Britain] by France."(18)

A refinement of the power-enhancing approach might be to seek tariff concessions that would give exclusive advantage to Britain. But, as Alfred Marshall, among others, had pointed out, it was very difficult to devise tariff reductions that would redound to Britain's benefit alone without including potential adversaries.(19) In this instance, the similarity between British and German exports severely limited British ability to privatize the benefits of any Anglo-French trade agreement.

This case, as well as the aggregate statistical analysis, leads Gowa to be tenacious in arguing that considerations of power rather than plenty drive the policies of major states. One might hope, for example, as Charles Kindleberger has hypothesized, that hegemonic states have a special perspective, a special discount rate, and a special conception of long-run self-interest that dispose them to bear a disproportionate share of the risks and burdens of promoting trade liberalization for the benefit of all.(20) Kindleberger has worried that since international free trade is a public good, it depends upon the existence of a dominant state to ensure its supply. Britain, he suggested, played the role of free trade enforcer in the nineteenth and early twentieth centuries. The inability of the British to act as hegemon in the interwar period, and the unwillingness of the United States actively to replace Britain, led to a beggar-thy-neighbor collapse of the world trading system in the interwar period. Any design of national strategy for the future will need to be informed about how hegemons, including the United States, have viewed their interests in the past.

For a moment Gowa's line of argument helps buttress the theoretical foundations of Kindleberger's position. Whereas some critics of hegemonic stability theory have suggested that rational hegemons would find it in their self-interest to adopt an optimal tariff rather than free trade,(21) Gowa argues that any attempt to exploit an optimal tariff in the short run would undermine the power to do so over time, leading a nonmyopic hegemon to reject it. Whereas other critics of hegemonic stability theory have suggested that participation in open markets is excludable and hence not a public good,(22) Gowa argues that exclusion of defectors is likely to be costly enough that the sanctioning process itself becomes a public good. Whereas yet other critics of hegemonic stability theory have suggested that small groups are close substitutes for hegemons,(23) Gowa argues that agreements on how, where, and when to cooperate, along with side-payments that redistribute the net benefits of cooperation, are formidable obstacles to the assumption that small groups can play the role of a hegemon. In sum, for her, the theoretical criticisms of Kindleberger are "not definitive."

But these rebuttals on the level of theory do not lead Gowa to resuscitate Kindleberger. Instead her purpose is to report that the behavior she has observed for Britain, and parallel evidence she alludes to for the behavior of the United States, shows that neither "state subordinated the pursuit of its national interests to global interests during the period in which it reigned as the alleged free-trade hegemon."(24) This, for her, delivers an empirical coup de grace to the idea that the interstate system is ever likely to be able to look to any "benevolent despot" to keep international markets open. "Debates about hegemonic theory have neglected what may be the most durable barrier to free trade among the constituent great powers of any given international political system: that is, the primacy of concerns about security that characterize life in an anarchic world."(25)

Gowa's depiction of the value of selective liberalization in the service of enhancing a state's position in the international system probably understates (rather than overstates) the case: for nations concerned about influencing the foreign policies of other states, building international coalitions directed to common purposes, and resisting the pressures of others, an economic statecraft calibrated to the pursuit of relative gains could, if effective, yield benefits far more usable and significant on a practical level than her oft-repeated "freeing up resources for military purposes." Moreover, her search for "product differentiation" in her research probably weakens her argument unnecessarily, since avoiding excessive dependence on potential adversaries (a motive she says she avoids since it has been dealt with by other writers) offers a strong complementary rationale for selective liberalization.(26)

But, except for the Anglo-French Entente, the model of tariff games between allies and adversaries in fact sits there as no more than a plausible hypothesis, untested as to whether national leaders actually are able to conduct economic policy with the subtlety, craftiness, and beneficial impact on themselves that the model suggests may be possible. One suspects that if analysis with a healthy measure of Krugman's skepticism about effective public intervention were turned loose at diverse moments in history, one would find myriad examples of dumbly conceived and counterproductively executed policies.(27)

But the fact that states might be shown to have mixed in some ill-conceived advice from earlier incarnations of "noneconomists" and "clever policy entrepreneurs" in nationally harmful directions as they made calculations about relative power does not vitiate the basic point: the distributional consequences among states of national policies, including trade policy, are far from irrelevant; they have been central to the welfare and well-being of citizens. More than one state that witnessed trends in economic capabilities move against itself found its role in world affairs diminished and, in extreme cases, the way of life as the inhabitants knew it destroyed (as close as a body politic can come, one supposes, to going out of business).

Of greater practical import, perhaps, one does not have to adopt as extreme and Hobbesian a view of the dire consequences of international anarchy as Gowa uses for her point of departure to take the realists' concerns about the distributional implications of economic policies seriously: a nation whose resources and capabilities decline in relation to others will enjoy less control over its own life along many margins and less voice or influence in international affairs even if the threat of actually being taken over by adversaries is infinitesimal.

Thus the anarchic structure of the international system, says Gowa, compels its constituent states to attend closely to their own position in relation to the power and potential of both prospective and actual allies and adversaries. The rational state will and should utilize a policy of selective liberalization to enhance its place in the interstate system.

The emergence of strategic trade theory, according to Gowa, bolsters the logic of this argument and expands the range of policy instruments to which it can be applied. After all, realists (and perhaps others) in the international relations/political science community would note that in the case of high-technology strategic trade industries whose economies of scale are greater than national markets, some countries (or regions) are likely to be left without players of their own, at the mercy of external monopolists. The potential threat this poses to national autonomy, and the potential vulnerability it carries for foreign manipulation, may be much more significant than whatever economic rents might or might not be captured by one nation or another. The rationale for public intervention to field a national presence in key high-tech strategic trade sectors appears compelling: sins of omission may be as damaging as sins of commission.

As a consequence, the realist perspective in the international relations/political science community in general, and Gowa in particular, seems to give license to the very kind of zero-sum calculations for national strategy that Krugman (and the economics community more broadly) fears will be so destructive to the international system.

More disturbing, there is no way to brush over differences between the economics and the international relations/political science communities by suggesting, for example, that the two communities are merely focused on different objectives (indeed it is difficult to argue with rigor that they even postulate different utility functions). The realist tradition in the international relations/political science community simply takes the economists' definition of the national interest - maximization of a country's ability to consume goods and services over some discounted time horizon - and extends it to encompass (at a minimum) a concern about a country's ability to insulate or defend itself from threats to present and future consumption similarly discounted. In any interstate system that is not always benevolent, therefore, even the narrowest economic definition of welfare implicitly carries a security dimension.

Moreover, as long as there is any possibility of manipulating imperfections in international markets (due to size of states in extremely competitive international markets, barriers to entry in particular sectors in imperfectly competitive international markets, and differential treatment toward outsiders by regional economic blocs), the issue of relative gains cannot be ignored. The pursuit of power and the pursuit of plenty end up inextricably linked. National leaders have no choice but to fashion a strategy that combines calculations of absolute and relative gain simultaneously; that is, to design what might be described (too pretentiously) as a grand strategy for trade and related economic policies to advance the long-term interest of the nation-state in enhancing its position in the international system.

How might such a grand strategy be constructed? Clearly the answer cannot be found in simply letting each state follow its own narrow interests (or the interests of its immediate allies or regional partners) in crafting economic policy without letting the Hobbesian vision become a self-fulfilling prophecy. In contrast to the supercilious dismissal of power considerations in Krugman's work, there is a relentlessly ahistorical determinism in Gowa's invocation of international anarchy that ignores any potential learning curve and belies any potential progress in building international economic institutions over the past fifty years. Surely the stability of the international system requires maintaining and strengthening some of these safeguards against the kind of self-centered impulses Gowa finds so endemic.

Gowa's thesis that potential adversaries should be denied access to international markets to the extent possible is further complicated by the observation that greater access may in fact hasten internal reform that will decrease the likelihood of a future adversarial relationship, a controversial but supportable proposition advanced, for example, in the China most-favored nation debate or the debate about ending the U.S. embargo on Cuba.

To design a grand strategy for the contemporary era, therefore, one has no option but to combine the insights of Krugman and Gowa, producing a subtle balance between agnosticism and self-centeredness toward the distribution of national gains from indigenous economic policy choices. One might try to restage the Hobbes-Locke debate about the state of nature, this time on the international level, with the tools of modern social science to establish which view of the international system is the "more correct" model to use, never mind how complicated such a validating process would be. But real-world policymakers still will be left with having to make complex assessments about: (1) how much of a loss in efficiency or welfare is worth how much of a gain or alleged gain in security, as an insurance policy within an international system that shows both benign and malevolent characteristics; (2) how great a risk of systemic disintegration might be appropriate to run, in light of the adverse secondary and tertiary effects on all concerned if the disintegration were to materialize; and (3) how effective and controllable are the resulting strategic policy recommendations likely to be in multiple national policymaking environments, each of which is prone to special-interest capture and myopic distortion?

Where might one look to begin to frame the issues, compare alternatives, and search out answers about the key issues in trade policy (and related areas of investment and technology policy) that are needed in the construction of grand strategy today? Might the pursuit of power and the pursuit of plenty be integrated, for example, within the agreements already established under General Agreement on Tariffs and Trade/World Trade Organization (GATT/WTO) auspices, or will new self-denying mechanisms (familiar indeed to those dealing with the state of nature as Hobbes conceived of it) be needed to bind the hands of national leaders in ways that extend far beyond the GATT/WTO disciplines?

The logical place to turn, at least initially, is to the latest policy-oriented NBER research on these topics, perhaps the largest and most prestigious collective effort from the economics community in this area in the world.

NBER research on strategic trade theory, trade policy, and the political economy of protection

The two NBER volumes under review here, like all NBER studies, are devoted to bringing together the foremost research on questions of theory, policy, and process with interpretive synthesis by leading figures in the field in a manner that makes the results as useful and accessible as possible to policymakers. These particular books cover a broad range of conventional trade policy issues, strategic trade policy issues (and related questions of technology and investment policy), and policy formation issues, one under the direction of Krueger and the other, of Alasdair Smith and (again) Paul Krugman.

In these volumes many of the familiar defects in trade policy formation are once more discovered: the policy process in the United States is producer-driven, consumer interests are underrepresented, adjudicative bodies do not (or are forbidden to) take into account the impact of trade restraints on the entire economy, users of sheltered inputs are particularly damaged, and protectionist policies frequently do not help even those industries that seek them. There is good reason to question, as Krueger concludes, "the degree to which current U.S. trade policy achieves objectives that are in the interest of the American people and economic efficiency."(28)

Because of the diverse character of the studies, one might not necessarily expect (despite the ostensible NBER objective) to find all the ingredients needed to define the issues, weigh alternatives, and debate the trade-offs required for a realistic national strategy. But with strategic trade theory figuring prominently at various places in each volume, with extensive examination of two of those high-tech industries most filled with policy contentiousness (aerospace and semiconductors), and with eleven chapters devoted to regional trade agreements, administrative protection, and the industries most affected by selective liberalization (like steel, automobiles, textiles, apparel, lumber, and agricultural products), one would hope this to be fertile ground for some insights and guidelines for integrating the concerns Gowa thinks are inherent in the design of national strategy with the concerns Krugman warns may lead in dangerous directions.

The reality is otherwise, particularly in three of the policy arenas where a new synthesis will most evidently be needed.

Strategic trade theory and high-tech industries

Following the example of Krugman and R. E. Baldwin in an earlier simulation of the aerospace industry, the strategic trade modeling by Gernot Klepper, for example, casts doubt on the prospects for Airbus to become profitable soon, even once a complete family of aircraft has been launched. Klepper finds that the projected subsidies of $20 billion for Airbus are roughly twice as high over twenty years as the $10 billion gain in European consumer welfare when compared with a hypothetical Boeing monopoly. Hence, he concludes, "from the view point of European governments, Airbus's market entry as an 'anti monopoly' policy was not successful."(29)

Similarly, in the prior NBER study, Krugman and Baldwin had labeled the Airbus 300 project a "beggar-thyself policy for Europe" in comparison to "a world without Airbus" because the gain to Europe's consumers (in their parent model) outweighed the cost of the Airbus subsidy only for a low discount rate of 3 percent.(30)

Are these serious suggestions that the Europeans abandon their aerospace industry in favor of having the United States as sole aerospace supplier? How would the appraisal change if one expanded the concept of welfare, along Gowa-like or Albert Hirschman-like lines, to include concern that dependence on an external aerospace monopolist might pose a threat to the autonomy of European governments as actors in international affairs?(31) Would less than a half billion dollars a year ($10 billion over twenty years) seem like a large or small price to pay in comparison to the freedom to conduct foreign and defense policy without being constantly under the scrutiny, and approval, of an external monopolistic supplier of airframes and avionics? One is tempted to think that Krugman himself might as well be "wearing a flashing neon sign that reads 'I MISSED THE CLASS WHERE THEY TOLD ABOUT SUEZ.'"

A useful research design for strategic trade theory and high-tech industries might logically compare the strategy of launching a national (or pan-national) champion with the next best alternative a government can choose to avoid external monopoly; that is, in the case of the aerospace industry, for example, to ask how the Airbus effort stacks up against the option of strengthening in-country capabilities via coproduction agreements and transborder corporate alliances, as followed by Japan (with Airbus and Boeing) or China (with the latter two corporations plus McDonnell Douglas).

More broadly, any comprehensive consideration of strategic trade theory and high-tech industries would want to assess the entire array of insurance policies to protect against delay, denial, or manipulation (whether economically or politically motivated) by monopolistic external suppliers. Are other strategic trade industries, like semiconductors, microprocessors, advanced chemicals and materials, or biopharmacology, likely to introduce the same policy dilemmas, or is aerospace unique?

In the NBER volumes, however, there is no attempt at assessment more profound than the demonstration that supply from a foreign monopoly is the "welfare-enhancing" solution.

The question that so-called grand strategy must address is whether to permit nations (including the United States) to try to position themselves as quasi-monopolistic suppliers of the most advanced high-tech products, led by aerospace, or deliberately to allow diffusion of technologies and production sites across borders (excluding from diffusion only the most militarily sensitive products).

Selective liberalization and the formation of blocs or regional alliances

In the negotiation of regional trade agreements, David Orden finds that U.S. industries that are able to remain "moderate" up to the final period (e.g., before the North America Free Trade Agreement, NAFTA, package reached Congress) were able to acquire relatively large payoffs to secure their support. He notes in passing that two major U.S. industrial players, dairy and cotton, came to support the NAFTA accord only after strong rules of origin were adopted.(32)

But neither Orden, nor other authors who cover various aspects of the lumber, steel, autos, textile, and apparel industries, nor Krueger in her concluding overview, takes note of a broader policy question (and policy danger). What does a process that allows NAFTA's breathtaking expansion of the use of rules of origin to divert trade and shift foreign investment (and economic rents) into one regional market portend for the discovery by Jeffrey Frankel and others that regionalism is on the rise, perhaps even leading to the creation of regional blocs?(33) After correcting trade flows for natural determinants such as size, per capita gross national product, proximity, and common borders, Frankel demonstrates the European Union, Western Hemisphere, East Asia, and Asia Pacific Economic Cooperation forum (APEC) all show significant "block effects" - bias toward trading with each other substantially higher than would otherwise be predicted.(34)

A useful research design would seek to probe how such sharp delineation of trade blocs could be taking place in the midst of so much ostensible liberalization: might rules of origin, locational incentives, and other measures to influence patterns of foreign direct investment and trade be the new guise in which Gowa's games of selective liberalization will be played out?

More broadly, what are the implications of imitation and duplication of such exclusionary measures? Trade diversion and rent capture could arguably have made sense in terms of the U.S. national interest (economic and political) vis-a-vis Mexico, but how will the structure of international economic activity and consequent alignment of political relationships evolve if these discriminatory devices are extended throughout this hemisphere and copied (or bested) in Asia and Europe? (Since the predominant assumption has been, following Stephan Hymer, that foreign direct investment takes place in imperfectly competitive industries, the battle to attract multinational corporations is quite likely a struggle over the distribution of inframarginal chunks of good jobs, extra research and development [R&D], and perhaps high profits. Research by Katz and Summers suggests that rents in imperfectly competitive industries are more likely to be reflected in high wages and strong R&D activity than in excessive returns to capital.)

In the NBER series, however, there is no assessment of policy implications deeper than the damage done to efficiency by the play of particular rent-seeking constituencies.

The challenge for grand strategy is to decide the extent to which nations will permit themselves to use trade diversion, rent-switching, and diverse "domestic" measures to bolster their economies and polities selectively or will resolutely deny themselves the ability to capture advantage for their own people, neighbors, and allies.

Trade, technology, and who-is-us issues

Looking at R&D subsidies as a strategic trade issue, David Ulph and Alan Winters estimate that the payoff to gross domestic product from public support for high-tech industries is a surprisingly high 2.5 times the size of the intervention. Ulph and Winters conclude that "giving R&D support to the high-tech sector is potentially an extremely powerful and important policy," with results that are highly dependent on assumptions about the movement of scientists and science itself across borders.(35)

Surely a useful research design would address the question of what are the policy implications for treatment of the most obvious vehicle to affect such movement, i.e., multinational corporations? Should foreign firms be deliberately excluded from national R&D initiatives (the "Sematech" and "clean car" models) or invited to participate (the "flat panel display" model)? Should foreign firm eligibility be extended unilaterally or only on a reciprocal basis in return for access to the national R&D programs of other states? More broadly, what might be the most appropriate way for governments to address who-is-us dilemmas, and when might special measures genuinely be required to limit the potential for external denial or manipulation (a subset of the problem of external monopolistic suppliers above)? This gap is most peculiar in light of the identification of external monopoly as a legitimate national security concern in the Edward Graham and Krugman volume on foreign direct investment in the United States, and Graham's subsequent expansion of policy analysis in this area.(36)

The issue for grand strategy is whether to preserve a clear distinction between "our" firms and "others" or to adopt a studied agnosticism toward the national identity of firms wherever they are found (with special safeguards only in the case of the most concentrated international industries).

Explaining performance below potential

Somewhat surprisingly, therefore, in each of these arenas where the pursuit of power and the pursuit of plenty intersect and where the great debates over trade policy (especially strategic trade policy) and related technology and investment issues must be engaged, one finds the NBER contributing rather far below its potential, given the purely technical virtuosity of the studies assembled in these volumes - not so much wrong as "clueless" (in a precise use of the vernacular) about the larger context.

Why?

Performance below potential is usually explained by protection and insulation from competitive pressures. Could it be that some fraction of the economics community has been content to point out the easy mistakes of others, while sheltering itself within the NBER guildhall from the more serious intellectual challenges, hesitating to stretch the envelope, declining to raise the level of play?

The evidence is not inconsistent with this explanation.

Here is NBER coverage of strategic trade issues in high-tech industries, without citing any of the work of: David Mowery, Richard Samuels, Helen Milner, David Yoffie, Michael Mastanduno, Jeffrey Hart, Miles Kahler, Lynn Mytelka, Jeffry Frieden, or Aaron Friedberg.(37) Here are two entire NBER volumes on trade policy (including a concluding exhortation by Krueger for "multidisciplinary research") without citing the work of John Conybeare, Judith Goldstein, Joseph Grieco, Stephan Haggard, John Ikenberry, David Lake, Charles Lipson, Timothy McKeown, John Odell, Kenneth Oye, Robert Pastor, Ronald Rogowski, John Ruggie, Arthur Stein, or Susan Strange.(38) Further, there are thirty-six articles and commentaries here in the NBER series devoted to international political economy, that show no contact with the corpus of work in this area published by Cornell University Press, Princeton University Press, or the University of California Press or with any article in the principal scholarly journals where the political science community publishes on international political economy.(39) Were it not for Michael Finger, Ann Harrison, Douglas Irwin, David Orden, and the unusually well-read Douglas Nelson (a statistical outlier), the economists in these NBER volumes could claim a perfect record of abstinence from the principal publications where the international relations/political science community debates issues in international political economy.

Surely one might conclude that this is rather narrow and self-absorbed behavior on the part of the successors to those earlier generations in the economics community that included Adam Smith, Ricardo, Marshall, Viner, Hirschman, and Kindleberger.

The point, of course, is not that Mowrey and Samuels are wiser or more knowledgeable about aerospace policy (for example) than Krugman and Baldwin, but that Krugman, Baldwin, and their successors would be even wiser and more knowledgeable than they already are if they were in close dialogue with their counterparts in the international relations/political science community, and vice versa.

(On the other side of the international political economy dialogue, in contrast, the two volumes by Gowa and Mansfield build on nearly 150 sources from the principal researchers in the economics community, from, in alphabetical order, Avinash Dixit through Beth Yarbrough, engaging and debating with a large fraction rather than merely citing them.)

To what extent is a broader perspective needed? Is the design of grand strategy merely a question of good or bad economics or is there a larger choice required in the construction of national policy?

Sketching alternative paths for grand strategy

The policy arenas in which the power/plenty struggle certainly will be played out - strategic trade theory and high-tech industries; selective liberalization and the formation of blocs or regional alliances; and trade, investment, and who-is-us issues - are not well-covered by GATT/WTO disciplines. Each contains an arguable rationale for zero-sum self-interested action to gain national advantage or, alternatively, for cooperative action on behalf of the common good (including the benefit of dampening tensions that otherwise might result from preemption, matching moves, and mutual escalation).

The choices in each policy arena have profound repercussions for how nation-states define themselves and strengthen (or cede) the capability of exercising control over their own economies. Beyond merely asking what might be the most efficient economic outcome, national leaders will have to form their policy choices with a Hobbes-versus-Locke calculation of whether greater potential threats to their domestic well-being come from binding or loosening their own hands and the hands of others in the international system.

Furthermore, without any claim to identifying here all the principal issues involved or to examining all the major alternatives, it becomes nonetheless clear that nations can take one of two distinct paths for grand strategy; the two involve profoundly different approaches to national sovereignty and national identity. They diverge according to whether national sovereignty and national identity are preserved as integrally as possible or are deliberately blurred and diluted so as to preserve only the most basic and minimal domains of national control.

They might be characterized as a path toward a late-twentieth-century neomercantilism or, in contrast, a path that most accurately might be called transnational integration - rather than mere "liberalism" because, as will become apparent, a consistently liberal approach toward trade, investment, and technology flows - not to mention migrant labor flows - will perforce have much more radical consequences for the idea of the nation-state than envisioned in conventional assessments of the policy alternatives.

Strategic trade theory and high-tech industries

The question for grand strategy as it pertains to high-tech industries is whether to permit consolidation and exploitation of national quasi-monopolies or to deliberately encourage diffusion of monopoly power across borders. Calculations of power politics and of economic advantage could lead either way. The outcome will hinge on (1) where to draw the line on launch subsidies and indirect support (via defense budgets) for dual-use technologies; (2) whether to leave Super 301-type trade actions and voluntary import expansion-(VIE) type trade remedy agreements available to be used offensively and antidumping regulations available to be used defensively to support any one nation's high-tech supremacy(40); and (3) how intrusively to involve public authorities in surveillance of transborder corporate alliances and coproduction agreements.

In high-tech strategic trade industries, a late-twentieth-century neomercantilist path might find nations creating considerable leeway for themselves to provide launch support and preferential access for their own industries (as defined by extensive rules of origin) while tightly policing transnational alliances and coproduction agreements to preserve control over the location of jobs and the diffusion of technology. Unless deliberately tempered (see below), the logic of the drive for technological superiority might include aggressive unilateralist measures to insert exports into other markets along with vigorous use of antidumping regulations to hinder imports of similar products or even preempt their development.

A transnational integrationist evolution, in contrast, might find countries limiting each other's ability to bolster their own companies via direct and indirect support (including defense budget support), with a hands-off approach to transnational alliances and coproduction agreements that deliberately spread the creation of good jobs and the creation of codependencies across borders with the aim of creating constituencies to help cross-penetration of markets.(41) To dampen the beggar-thy-neighbor pressures in industries with quite large economies of scale, the treatment of VIEs and antidumping regulations would have to be significantly altered from what is permitted in current WTO procedures.

The direction of policy in this area will be played out, most notably, in the negotiations for extension of the European-U.S. civilian air agreement (with painful choices for the United States in the face of European allegations that the Defense Department budget, still the largest industrial policy tool in the world, is being used indirectly to enhance the competitive position of U.S. civilian aerospace companies) and in the mandatory renegotiation of the Uruguay Round subsidies code five years hence.(42)

Equally important will be the question of whether public authorities take it upon themselves to challenge private corporate technology alliances and production-sharing agreements across borders or provide insulation and buffering from such public-sector intrusion: whether or not there is a repetition of the FSX/Japan kind of dispute while China uses McDonnell Douglas, Boeing, and Airbus as tools to expand its indigenous aerospace industry will be a key case, with precedents being set for similar efforts involving Russia, Ukraine, Brazil, and India. (For antidumping regulations, Super 301, and the use of VIEs, see below.)

Selective liberalization and the formation of blocs or regional alliances

In the regional arena, any grand strategy must determine whether entrenched practices of preference and exclusion will (or will not) be uprooted in order to enhance genuine multilateral access for trade and investment. The answer will emerge from the stance toward: (1) expansion or contraction of NAFTA-like rules of origin in the Western Hemisphere, Europe-Eastern Europe, and Asia; (2) loosening or tightening of locational incentives (including subnational grants and tax preferences); and (3) exploitation or neutralization of antidumping rules as a tool of national and/or regional discrimination.

A neomercantilist approach might resist efforts to bring local incentives (including labor, environment, and regional development incentives) under multilateral discipline and permit expansive use of rules of origin.(43) It might then countenance managed trade demands (variations on VIEs, backed in the case of the United States by Super 301 and perhaps equivalent measures elsewhere) as a method to force international/intraregional penetration.(44)

A transnational integrative approach, in contrast, might institute tight limits on local incentives, harmonize and/or eliminate rules of origin, and prohibit managed trade.

The direction of policy will depend on whether the WTO is empowered to create new disciplines (which were rejected in the Uruguay GATT round) to prohibit

VIEs in the way voluntary export restraint agreements now are prohibited and to change the test for antidumping from a cost-based to a price-based standard. More broadly, it will depend upon whether the new agenda of trade negotiations on competition policy, labor, and the environment heightens or diminishes the exclusionary measures available to particular regions.

Trade, investment, and who-is-us issues

The pursuit of grand strategy cannot avoid addressing who is "us" and who is "them," not only in the case of mundane suppliers in mundane industries but also in the case of reliable suppliers in critical industries. This will involve decisions on: (1) intensification or elimination of nationality-based eligibility for public R&D programs; (2) loosening or tightening of control over foreign acquisitions of companies in critical technology or defense industries; and (3) expansion or contraction in the scrutiny of nationality of suppliers for defense procurement. Indicative of concern about dependence upon concentrated foreign suppliers, the General Accounting Office found that 42 percent of a sample of U.S. firms reported that Japanese suppliers had rejected their orders for advanced goods, parts, or technologies or had delayed delivery by more than six months (non-Japanese suppliers were not part of this study).(45)

A neomercantilist approach might require a national identity test for firms to qualify for access to R&D initiatives and to receive permission to engage in takeovers or acquisitions in critical technology or defense industries.

A transnational integrative approach might allow nonnational firms to participate in R&D programs and acquire critical technology companies, subject only to agreement to maintain local R&D and local production in industries with a high degree of global concentration. Only in the case of highly concentrated defense suppliers, with extremely sensitive military technologies (where a takeover would represent the transference of quasi-monopoly control from one sovereign domain to another), might there be a presumption against permitting foreign acquisitions. Drawing on antitrust theory, I have proposed a 4-4-50 rule-of-thumb to test for levels of international market concentration sufficiently tight to make collusion credible; the presumption would be that concentration higher than four companies or four countries supplying 50 percent of the global market is a necessary condition for any genuine threat of delay, denial, blackmail, or manipulation. The 4-4-50 rule can be operationalized in terms of the Hirschman-Herfindahl index and made compatible (in the United States) with Hart-Rodino guidelines for mergers and acquisitions.(46)

Discussion of these issues is in the most preliminary stages, primarily within the Organization for Economic Cooperation and Development. The battle for the soul of technology policy in the United States between the clean car model (only the Big Three U.S. automakers are eligible for R&D subsidies) and the flat panel display model (foreign firms are eligible for R&D subsidies) will set an important precedent for other regions.

A schematic representation of the alternatives for grand strategy is shown in Table 1. My own recommendation for making the terribly complex trade-offs discussed above and summarized in Table 1 would be to follow a rule of minimal activism in the search for national advantage; that is, to try to maximize the opportunity for mutual gain while narrowing the pursuit of national advantage to those measures most necessary for national security and least destabilizing when deployed by some or all states simultaneously. And, to meet this challenge successfully, I conclude (as the final section makes clear) that Kindleberger may have to be credited with more insight than is fashionable in international relations/political science circles today.

The experience of engaging in public service is likely to pull would-be grand strategists in two conflicting directions on the issue of government intervention. On the one hand, it is axiomatic that anyone who has had to negotiate with the Japanese on market access for more than six months will feel the urge to advocate policies, no matter how unwise, that "show them a thing or two." On the other hand, anyone who has witnessed the mills of the U.S. government grind out economic policy (say, on antidumping) for more than six months will, I predict, begin to recommend the reading of Milton and Rose Friedman's Free to Choose to friends.

To assess whether a prudential rule of minimal activism in striving for national advantage might be the appropriate choice, one might begin by asking [TABULAR DATA FOR TABLE 1 OMITTED] to what extent is the impact of the choice
of grand strategy likely to be crucial in its own right for the stability of the international system in the contemporary world? Does the relationship between choice of approach to international economic policy and degree of interstate tension in the past provide grounds for considerable wariness today, or might the current expansion of international economic activity be so

overwhelming in the aggregate as to constitute "the end of history" (to coin a phrase)?

Mansfield: does the choice of grand strategy matter at this juncture in history?

Mansfield's research offers an important, if somewhat counterintuitive, perspective on the significance of the choice of path for grand strategy in the contemporary period (albeit buried in by far the least accessible volume reviewed here).

Mansfield investigates the relationship between the distribution of power, international trade, and the deterioration of international relations that ultimately leads to the onset of war. In contrast to the predominant realist approach in the international relations community, which focuses on the importance of polarity in the international system (unipolar, bipolar, multipolar), Mansfield focuses on the concentration of resources and capabilities, or the relative inequality of power and potential among states, using measures closely related to the Hirschman-Herfindahl index of market concentration. Mansfield's analysis suggests that the importance of protectionist and exclusionary policies for interstate stability depends upon where they emerge in the historical pattern of international structures.

The good news is that there is an inverse relationship between the level of trade and interstate hostilities. With considerable care and rigor, Mansfield demonstrates that the liberal contention that trade and peace go together has some merit. Whether one examines wars involving major powers (the leading five to seven states), wars that do not involve a major power, or all interstate wars, higher levels of commerce are associated with a lower incidence of war and vice versa. Moreover, as trade levels increase, so does the quantitative effect on inhibiting hostilities among states as well as the statistical significance.(47)

Further, looking only at polarity, while major-power wars tend to begin less frequently in bipolar than in multipolar systems, little evidence suggests that periods involving the breakdown of a hegemonic system are any more prone to war-inducing tensions than other periods.(48)

The bad news is that there is an inverted U-shaped relationship between the concentration of resources and capabilities, restraints on trade, and tensions leading to interstate hostilities. Since hegemony is a measurement of the relative strength of the most important state, Mansfield argues, it does not adequately capture the distribution of power among all the major actors in the international system. Refocusing the examination of international structure to highlight measurements of the latter, Mansfield finds that the relationship between concentration and patterns of international trade, on the one hand, and tensions leading to hostilities, on the other, is quadratic rather than monotonic; that is, both the highest and lowest levels of concentration are associated with the fewest impediments to trade and the lowest incidence of warfare, while intermediate levels of concentration in the international system lead to both protectionist measures and higher incidence of conflict among the five to seven larger powers. Holding constant the number of major powers, there is an inverted U-shaped relationship between the relative inequality among them, the use of protectionist trade measures, and the propensity for hostilities.

The explanation for the outbreak of hostilities, according to Mansfield, may spring from the fact that deterrence is weakened when (in contrast to a highly concentrated state system) blocking coalitions are less certain to emerge. One of the five to seven larger powers may determine that a move against a smaller state is worth undertaking if success will improve its position relative to the rest and might be completed before others can react cohesively to prevent it. Conversely, the perceived threat posed by one of these five to seven larger powers may lead those with lesser capabilities to band together and launch a preventive war against it.

In this milieu of move and countermove on the part of nation-states, Mansfield also finds that regional trading blocs and enhanced use of protectionist measures are more likely to take place. Whether selective manipulations of markets and exploitations of "predatory opportunities" lead to, or merely accompany, the political maneuvering that results in hostilities is not clear from the data.(49)

Particularly worrisome, however, suggests Mansfield, are periods when the distributions of resources and capabilities within the international system have become less highly concentrated, but shifts in the shares of those resources and capabilities are taking place that may themselves be viewed as threatening. Perhaps the competition for market advantage combined with the expected consequences of inaction may lead states to run risks they otherwise would not.

Mansfield is careful not to suggest that structural conditions alone predict when levels of tension leading to outright conflict are imminent, "but the fact that similar structural conditions historically have been vested with dangerous characteristics should induce caution on the part of, and should not be overlooked by, decision makers."(50)

Clearly, despite the evident successes in trade liberalization in the contemporary period, there is a cautionary tale here. During a period when resources and capabilities are becoming more dispersed among the leading half-dozen or more states, the temptation to pursue measures that will advance any given state's relative position has appeared over the course of history to have been high relative to the more general appeal of maintaining aggregate trade flows. Mansfield's research would suggest that, absent strong institutional mechanisms explicitly to contain such economic rivalries, the potential for considerable tension among states (or blocs) would appear great, judging from historical experience, despite high overall levels of trade.(51)

How serious might such tension be as a threat to international stability in the contemporary era? The answer is likely to depend on the interaction between "getting fundamentals right" (in particular for the United States) and the choice of a minimally activist or a more aggressively activist and unilateral grand strategy.

With regard to the fundamentals, one can profitably return to Krugman's analysis, in which there is in fact an important area of overlap between the economics and the international relations/political science perspectives. While it is clear that the distributional consequences of the choice of grand strategy cannot be trivialized in the way Krugman's presentation suggests (because in some areas the political/security implications are certain to be quite important), Krugman is doubtless right in arguing that the aggregate economic impact of genuine zero-sum policies will probably be relatively small in comparison to the economic impact of improvement in the ratio between savings and consumption.

Consequently, a shift in the allocation of domestic resources from consumption toward savings and investment is likely to be the most important tool national leaders have to raise their own absolute standard of living and relative rates of economic growth, productivity, and technological innovation. Getting the fundamentals right would thus serve the objectives of power and plenty simultaneously, generating both greater economic welfare at home and more resources available to be deployed, ceteris paribus, to influence world events, lead common endeavors, and avoid adverse pressures in the international arena. In short, even those who believe Gowa's view of the international system better describes reality than Krugman's, and who consequently place greater importance on relative gains, will nonetheless agree with the latter's policy prescriptions about getting fundamentals right.

At the same time, better macroeconomic performance is likely to lead, in the case of the United States, to several kinds of political externalities as well. First, higher productivity growth and greater technological innovation will generate greater resources for experimentation with those adjustment-assistance and vocational-retraining initiatives needed to maintain popular support for political engagement abroad (perhaps helping to ward off the Stolper-Samuelson effect a while longer). A country whose incentive structure rewards investment in upgrading human resources, rewards more intensive use of human resources, and rewards the development of labor-intensive technologies is likely to find more support for economic liberalization and political engagement in the international arena than one whose incentive structure ignores upgrading human resources and offers a premium for replacing human resources with capital and labor-substituting technology.

Second, getting the economic fundamentals right may produce a dividend externally in terms of what Joseph Nye has called "soft power," since there is likely to be admiration, emulation, and bandwagon effects for a country "winning" more often than not against foreigners in international markets, for macroeconomic reasons, and piling up claims against the assets of foreigners rather than vice versa.(52) (Changes in the consumption/savings ratio will affect the trade balance, and hence the net accumulation of foreign assets, but not necessarily flows of direct foreign investment or acquisitions of domestic firms.)

Finally, one might expect a kind of "Kindleberger effect" (despite all the learned criticism): a lesser tendency to blame others, a greater willingness to bear burdens on behalf of the common good, and a greater appreciation of "the long shadow of the future."(53) Kindleberger emphasized the need for providing leadership through a willingness to bear a disproportionate share of the costs of system-maintenance. A crucial case in point may be the willingness of the United States to take the lead in integrating China, Russia, and the former Soviet Union firmly within the WTO multilateral trading system without, for example, maintaining the discriminatory and exclusionary anti-dumping and countervailing duty rules that have thus far governed nonmarket economies.

In the United States, better macroeconomic performance, consequently, ought to go hand in hand with a greater tendency, at the margin, to choose policies on the issues listed in Table 1 that fall under the rubric of transnational integration and with less inclination to go belligerently down the neomercantilism route.

On the other hand, no improvement (or deterioration) in the balance between savings and consumption will keep American industries "losing" more often than not against foreigners in international markets, no matter how hard the United States bashes others or others in fact lower their trade barriers, and will keep foreigners piling up claims against the assets of Americans "as far as the eye can see."

As for political externalities, a nation that is self-evidently mortgaging the future of its children to outsiders is unlikely to be the object of esteem and emulation by foreigners who are exercising more self-discipline abroad; a nation that lacks the wherewithal to upgrade its human resources or help its people adapt domestically to competition in international markets is unlikely to find support at home for dependable, constructive engagement in the international arena.

This might well lead to a tendency, at the margin, to choose policies on the issues listed in Table 1 that lie along the more unilateral, aggressive, even belligerent neomercantilism route.

But by far the worst danger would lie in the adoption of an assertive late-twentieth-century neomercantilist grand strategy in place of (or as a substitute for) movement toward greater macroeconomic balance in the United States.

This would turn Kindleberger, upon whose insights about systemic leadership the world may ultimately come to depend, on his head: having the preponderant power in international affairs constantly tearing at the fabric of relations with other major states and with no possible resolution in sight. The impact of unceasing mutual accusation and recrimination on the domestic publics of all the nations involved, as the immediate post-World War II generation passes on, might have a cumulative effect on interstate relations and international alignments that seems unlikely (in the extreme) today but could eventually make Mansfield appear prophetic.

1. In addition to Peddling prosperity (Krugman 1994a), see Krugman 1994b; 1994c; and 1993.

2. Krugman's targets of criticism include Tyson 1992; Thurow 1992; Magaziner and Reich 1983; Magaziner and Patinkin 1990; Luttwak 1993; Phillips 1984; Prestowitz 1988; Dietrich 1991; Garten 1992; and Sandholtz et al. 1992.

3. The quotations are from Krugman 1994b, 31; and 1994c, 270, respectively.

4. In addition to the sources cited above in footnote 2, see Krugman 1991.

5. Lawrence and Slaughter 1993.

6. An earlier example of this ambivalence is found in Krugman 1986.

7. Krugman 1994a, 243-44.

8. Ibid., 239.

9. Ibid., 269.

10. Ibid., 274.

11. Ibid., 280.

12. Ibid., 270.

13. Krugman 1994b, 35.

14.On maximizing power rather than plenty, see Viner 1948.

15. Ibid.

16. Srinivasan 1987.

17. Gowa 1994, 6.

18. This Public Records Office document is cited in ibid., 90.

19. Ibid., 91.

20. See Kindleberger 1973; and 1986.

21. See Conybeare 1983; 1984; and 1987. See also Gilpin 1975.

22. See Snidal 1985a; and 1985b.

23. See Keohane 1980; and 1984.

24. Gowa 1994, 29.

25. Ibid.

26. In particular, Gowa cites Pollins 1989b; and 1989a.

27. For a fascinating example of such critical analysis, see Krugman 1983.

28. See the final sentence of Krueger 1995b.

29. Klepper 1994, 123.

30. Krugman and Baldwin 1988.

31. Hirschman [1945] 1980.

32. Orden 1995.

33. For an empirical assessment of rules of origin and the consequent policy dilemmas, see Jensen-Moran 1995. In earlier papers written before the NAFTA negotiations were complete, Krueger and Richard Snape had noted that rules of origin would be a "key issue," and Robert Baldwin and Kuo-shu Liang had warned about antidumping and unfair trade protests becoming the pretext for creating trade blocs. See the respective contributions by Krueger and Snape and by Baldwin and Liang in Ito and Krueger 1993, 29, 41, and 44. Krueger has shown an interest in exploring rules of origin on a theoretical level in Krueger

1992; Krueger and Krishna 1995; and Krueger 1995a.

34. For evidence on trading blocs, see Frankel, Stein, and Wei 1993; and 1994.

35. Ulph and Winters 1994.

36. See Graham and Krugman 1991; and Graham and Ebert 1991.

37. These works include Mowery 1987; 1985; 1992; Samuels 1994; Samuels and Friedman 1993; Milner and Yoffie 1989; Mastanduno 1991; Hart 1992; Kahler 1985; Kahler and Frankel 1993; Mytelka 1990; Mytelka and Delapierre 1987; Frieden 1988; Friedberg 1989; and 1991. Perhaps it is not fair to put Helen Milner's name on the absentee list, since after reporting a "general belief" that protection will be granted when the industry is unanimous in supporting it, Krueger notes that "the same point has been made by Helen Milner." Also, David Yoffie's prestrategic trade book from 1983 is listed in one bibliography but not cited in any chapter.

38. See Conybeare 1987; 1984; Goldstein 1994; Grieco 1990; Ikenberry, Lake, and Mastanduno 1988; Lake 1985; 1988; Oye and Rogowski 1989; Fishlow and Haggard 1992; Haggard 1994; Lipson 1984; McKeown 1984; 1991; Odell 1990; Pastor 1980; Ruggie 1982; Stein 1984; and Strange 1988. An article by Robert Pastor is cited in one chapter but his major book on the trade policy process is not.

39. I refer specifically to Conybeare 1987; Encarnation 1992; Friedman 1988; Gilpin 1981; Goldstein 1994; Grieco 1990; Ikenberry, Lake, and Mastanduno 1988; Lake 1988; 1985; Milner 1988; Oye 1992; Rogowski 1989; and Sharp 1986.

40. The concern about antidumping was originally focused on prohibiting international price discrimination, with the predatory intent to injure central in the determination of dumping. Over time the laws have changed from international price discrimination to a test of selling below cost, regardless of intent to injure. Moreover, U.S. law artificially defines dumping as selling below average cost plus 10 percent overhead and 8 percent profit. Since, under competitive conditions, producers will sell near marginal cost, foreign firms that are merely acting competitively and are not engaged in predatory practices can be found to be dumping (whereas their domestic counterparts cannot). In high-tech industries where forward pricing is standard practice, antidumping measures based on average cost, plus 18 percent

mark-up, without adequate recoupment of start-up expenses, are strongly exclusionary. The Uruguay Round text on antidumping requires that cost calculations "reflect the costs at the end of the start-up period." But, according to an estimate produced for the U.S. Commerce Department, the per-unit cost of a hypothetical 150-seat commercial airliner, for example, does not level off until the two hundredth aircraft is finished; early output is some 300 percent more costly. See Boltuck and Litan 1991; and Schlie 1986.

41. For efficiency gains from liberalization in imperfectly competitive markets, see Richardson 1989.

42. Schott and Buurman 1994, 90.

43. On rules of origin, particularly as they apply to U.S. policy options, see Jensen-Moran 1995.

44. On Super 301 and possible EU equivalents and on VIEs, see Schott and Buurman 1994.

45. U.S. General Accounting Office 1991. For a broader historical perspective on the manipulation of access to monopolistically controlled goods, services, and technologies (including manipulation on the part of the U.S. government), see Moran 1990.

46. Moran 1993.

47. Mansfield 1994, 149.

48. Ibid., 227-28.

49. On market manipulations, see ibid., 180. Mansfield draws on Conybeare for this explanation. See also Conybeare 1985; and Gilpin 1981. For an argument that economic regionalism can have a potentially liberalizing influence, see Oye 1992.

50. Mansfield 1994.

51. On Germany and Japan, Mansfield cites Mearsheimer 1990. For a perspective on Asia, see Betts 1993-94.

52. Nye 1990.

53. See Axelrod 1984; and Axelrod and Keohane 1985.

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What is the relationship between the pursuit of power and the pursuit of plenty? How does trade policy fit as part of a nation's strategy to build larger political and security relationships abroad? When are the economic rivalries among nations most difficult to manage so as to avoid undermining the stability of the international system?

This article reviews five books by grand masters of international political economy, from both the economics and the international relations/political science communities. The first and second sections introduce alternative frameworks for integrating trade policy within broader national strategy via studies by Paul Krugman and Joanne Gowa. The third section examines the challenges in designing national policies toward trade (and related areas of investment and technology) in the contemporary era, as represented in two recent volumes from the National Bureau of Economic Research (NBER), one edited by Anne Krueger and the other by Alasdair Smith and Paul Krugman.

The fourth section summarizes the most important areas of controversy and sketches the principal alternative paths for constructing a coherent national strategy (a grand strategy, so to speak, of power and plenty) to address them. The concluding section asks to what extent the choice of path for such a grand strategy genuinely matters at the current juncture in history, drawing on the analysis of Edward Mansfield.

(None of the volumes reviewed here addresses the use of economic sanctions to apply pressure on other states to alter their behavior.)

The review of these books shows that both the economics and the international relations/political science communities have distinctive insights and important lessons that can be used to understand the past and guide strategy for the future. More important, however, this review demonstrates that the analytic synergies between these two communities are dramatically underexploited. To be more precise, it suggests that each community would benefit immensely by deepening and enriching its interaction with the other in place of ever more introversion and insularity among its own members.

Krugman: the obsession with competitiveness is a threat to the international system

Peddling Prosperity is Krugman's virtuoso tour d'horizon, surveying the current state of economic theory and practice. He offers a brilliant, iconoclastic, indispensable, but ultimately inadequate assessment of how trade and related economic policies fit into the broader strategy of nation-states.

The international sections of Peddling Prosperity, and Krugman's other closely related recent writings, concentrate on the debate about the competitiveness of national economies.(1) Building on ideas about trade policy, industrial policy, and strategic trade theory he has been developing since the early 1980s, Krugman argues that the preoccupation of national leaders with something "noneconomists" and "clever policy entrepreneurs" have labeled competitiveness is not only misguided but also dangerous to the stability of the international system.(2)

"Let's start telling the truth: competitiveness is a meaningless term when applied to national economies" is the most succinct statement of his thesis. The phrase itself springs from the mistaken idea that competition among nations is like competition among firms. "When we say that a corporation is uncompetitive, we mean that its market position is unsustainable - that unless it improves its performance, it will cease to exist. Countries, on the other hand, do not go out of business."(3)

Beyond misplaced analogy, argues Krugman, the competitiveness debate combines three strands of unsound analysis: about trade deficits and consequent job losses or gains, about industrial policy and the creation of high value-added industries, and about strategic trade theory and the capture of rents among nations. These lead to a policy perspective that is not only unsound itself but also fraught with danger, to wit, that economic competition among nations produces winners and losers, with national strategy assigned the task of ensuring victory and avoiding defeat.

Trade deficits and job losses

Perhaps the most popularly accepted measure of how well one nation, like the United States, is doing in competition with its economic rivals, suggests Krugman, is whether the country is running a trade deficit or a trade surplus and gaining or losing jobs to others. This will indicate how tough the leadership must be in forcing open external markets and ensuring adequate jobs at home.

But the reality, of course, is that trade deficits are caused by a disparity between national savings and investment or, alternatively, between national production and spending in the deficit country, not by either the superior corporate performance or the unfair economic practices of others.(4) When national saving falls while consumption and investment spending remain high, overall spending necessarily rises faster than national income, as has happened in the United States. The only option for an economy in these circumstances is to import more than it exports; hence, to run a trade deficit. If U.S. national saving were to rise and consumption fall, the trade deficit would vanish or turn into a surplus, independent of what other countries did about opening their markets. Trade barriers may affect the composition of the U.S. deficit among products and the distribution of the U.S. trade deficit among countries, but the overall size is determined by U.S. behavior at home. Bashing others will not, and cannot, cure the problem.

As for jobs, trade agreements to open markets do not lead to a greater number of jobs, nor do trade restrictions on the part of others to block exports lead to a lower number of jobs in the would-be exporter's country. U.S. employment levels over the long run (in general equilibrium analysis) are determined by macroeconomic policy, in particular the monetary policies of the Federal Reserve Board. So other nations, emphasizes Krugman, cannot correctly be blamed for aggregate unemployment or net job losses.

Even the rising income inequality in the United States, asserts Krugman (drawing on the work of Robert Lawrence and Matthew Slaughter),(5) cannot be traced to competition from abroad. While Stolper-Samuelson and subsequent factor price equalization theory does suggest that rising levels of trade might depress wages for unskilled labor in the United States because there is lower-wage unskilled labor embodied in imports, the wage rates in the statistically typical U.S. trading partner are almost 90 percent of the U.S. wage rate, and imports from truly low-wage suppliers like China have hardly changed over more than three decades (2.0 percent of gross domestic product in 1960, 2.7 percent in 1990). Instead, Krugman points to the increasing sophistication of technology, and the premium paid to those who know how to make use of it (and not paid to those who do not), to explain most of the rise in wage inequality.

As for declining terms of trade, Krugman points out that in the U.S. case the magnitude is quite small (a drag on U.S. real income growth of less than 0.1 percent annually 1973-91). He questions moreover whether this decline actually was due to a relative productivity lag on the part of the United States.

Industrial policy and the creation of high value-added industries

For more than a decade, private consultants, led (according to Krugman) by the likes of the Boston Consulting Group, have advised corporations to shift resources internally from lagging activities to high-growth, high value-added areas to enable them to compete more successfully in international markets. The faulty logic of using industrial policy to strengthen national competitiveness, he suggests, can be traced to this legacy.

But a nation trying to follow the same path will discover, however, that it can devote extra resources to such preferred sectors only by withdrawing them from other activities. Unless there are externalities that generate extra benefits for the nation greater than what private actors would receive anyway to compensate for the penalty imposed on the rest of the economy, government intervention will leave the country in worse condition than would have been the case with no intervention. This is particularly true when the targeted sectors are high-wage, high value-added sectors, which require much greater use of other resource inputs (such as capital) per unit output than the activities from which they are drawn, imposing an especially harsh burden on more labor-intensive sectors.

In short, there is no free lunch for national economic policy; even if the targeting could be done as proponents advocate without contamination from pork barrel politics, the country would find its economy less efficient and less productive as a result. The only genuine method to strengthen the economy runs parallel to the advice given on the trade deficit, namely, to alter the savings/consumption ratio, devote more resources to investment, and allow competitive forces at home and abroad to dictate the allocation process.

Strategic trade policy and the capture of rents from other nations

In contrast to the raw mistakenness of industrial policy, strategic trade theory has offered a rigorous argument that subsidizing and protecting imperfectly competitive industries might capture rents that otherwise would accrue to others.

Here Krugman shows a professional ambivalence, as he has earlier, that combines admiration for the theoretical justification for intervention under conditions of imperfect competition to shift rents to one's own country and skepticism about proper implementation or significant results.(6) Identifying those particular externalities that can be used as guides for the targeting of public policies, Krugman argues, has turned out to be extremely subtle, and the prospect that the new theory would be taken over by those who want to use it for pet projects backed by "good old-fashioned protectionism" is not at all improbable. Finally, the decisive factor in the argument against using strategic trade theory is that those efforts that have been made by serious economists to simulate the behavior of industries where rent-shifting might be possible in fact "did not seem to suggest very much potential gain." Thus, despite initial excitement, Krugman endorses a "cautious" approach to strategic trade theory with "a bit of relief."(7)

The larger argument in Krugman's analysis is not just that each of these three strands of economic analysis is incorrect, but that the three fit together all too easily into a "deeply wrongheaded" national strategy toward trade: that competition between nations is like a sports event with the goal being to see who is better off afterward. The logical conclusion is, "it seems only common sense to do everything you can to help your side win."(8)

But this is built upon the greatest economic misunderstanding of all, the failure to follow David Ricardo in distinguishing between absolute and comparative advantage. The popular view, he suggests, is that if you are not better than your rivals in something, you will not be able to sell anything on world markets. "The right answer," in contrast, "is that being less productive than your trading partners poses no special problems."(9)

In 1950, for example, points out Krugman, U.S. productivity was higher than British productivity in thirty-nine separate industries (that is, the British lacked an absolute advantage in literally everything), but Britain's exports were almost as great in quantity as those of the United States. The reason is that Britain had a comparative advantage in those areas where British productivity exceeded 30 percent of the U.S. level. The United Kingdom paid for this differential through lower wages and a lower standard of living, but both were higher than they would have been in the absence of trade. "So, while low productivity is a problem, low productivity relative to other countries is not only not a disaster; it is irrelevant."(10) Krugman is exuberant in discovering others making the most basic analytical mistakes. "So, if you hear someone say something along the lines of 'America needs higher productivity so that it can compete in today's global economy,' never mind who he is, or how plausible he sounds. He might as well be wearing a flashing neon sign that reads: 'I DON'T KNOW WHAT I'M TALKING ABOUT.'"(11)

What is the key to national strategy, then, in a world of rival states? The correct answer, according to Krugman, is for each to try to enhance its own economic performance, most notably by bolstering investment rather than consumption in order to improve domestic productivity, and leave the allocation process to ever more open international markets. Improving productivity within any given state is important to raise one's own standard of living, but, among states, reiterates Krugman, relative economic position is merely a distraction: "how fast productivity is growing abroad, and whether we are ahead of or behind the pack, is irrelevant."(12)

Raising the absolute standard of living, therefore, is the summum bonum of Krugman's concept of national strategy. But what about other objectives? Does he simply ignore political and security concerns upon which continued enjoyment of the domestic standard of living depends?

In fact, he does not: "of course there is always a rivalry for status and power - countries that grow faster will see their political rank rise."(13) But Krugman belittles and trivializes any preoccupation with national power (which rests on absolute capabilities but is inherently a relative calculation). As a consequence, while he draws on Adam Smith and Ricardo, his strategic logic has more in common, as the next section reveals, with John Locke: its persuasiveness depends directly upon the assumption of a benign state of nature in the international system.

To put Krugman's approach to the design of national strategy (and the approach of much of the economics community) into perspective, one first has to confront the other (equally brilliant) extreme, Thomas Hobbes, in the person of Gowa.

Gowa: states maximize power rather than plenty

The idea that nation-states confine the definition of their national interests to raising their absolute standard of living without circumspection about the impact their economic policies might have on their position vis-a-vis major rivals (and real or potential adversaries) is incorrect, argues Gowa, both positively and normatively.

>From her perspective, and that of much of the international relations/political science community (most particularly the realist subcommunity), any consideration of the standard of living of particular citizens ultimately is dependent upon the security they hope to enjoy in relations with other states. Far from being simply poor students of economics, national strategists have calculated that relative rates of productivity growth, technological innovation, and overall economic expansion determine

which states are better able to influence world events, shape and lead common endeavors, manage risks, resist external pressure, and counter or thwart antagonistic moves by others.

As a consequence, in an anarchic state system nations have been pursuing policies that fit Jacob Viner's distinction of maximizing power rather than plenty, with trade policy but one component of a larger strategy toward other nations, and they have been doing this for as far back as one can study.(14) As Viner's analysis makes clear, Krugman versus Gowa is not simply a replay of the debate between mercantilists and liberals of the seventeenth and eighteenth centuries. Unlike Krugman, Adam Smith acknowledged the importance of power ("the great object of political economy of every country, is to increase the riches and power of that country") and supported the Navigation Acts, for example, on national security grounds. While Viner criticizes the mercantilist tradition for overemphasizing power as an end in itself, leading to bad economics, he also defends the liberal tradition (as represented by Adam Smith) from the charge of being insensitive to power considerations or advocating any "irrational" idea "that the promotion of economic welfare is the sole sensible objective of national policy."(15) Gowa, for her part, will not tolerate dumb economic arguments favored by the mercantilists.

Gowa argues that the gains from trade generate additional resources that, ceteris paribus, can be used for military purposes. Constraints on trade, or denial of access to a free trade community, can deny benefits to potential rivals. Gowa follows T. N. Srinivasan in pointing out that whether a state will actually use its gains from trade to increase its defense budget depends on its social-welfare function.(16) She argues, however, that this does not affect the analysis because, if conditions change, increased gross national product will allow a state to increase its military power more easily than it would otherwise have been able to do.

Building on a rational-choice theory of alliance formation, she shows that tariff games between allies differ systematically from those played between actual or potential adversaries and that both differ from the standard prisoners' dilemma matrix in which states simultaneously try to exert power over their terms of trade. A utility-maximizing state in a potentially hostile environment will internalize not only private but also social returns in calculating the payoff from trade with allies and adversaries. Power considerations predict, therefore, that trade liberalization will take place highly selectively, to the extent that states can manipulate imperfections in international markets - with greater openness toward allies and lesser openness toward those with whom political relationships are more problematic.

Using data from an eighty-year period starting in 1908 with a widely accepted gravity model of bilateral trade flows, Gowa then tests the impact of alliances on trade. The analysis shows that political-military alliances have a direct, statistically significant, and large effect on bilateral trade, a phenomenon not at all limited to the days of the cold war. The bottom line is that "the play of power politics is an inexorable element of any agreement to open international markets, because of the security externalities that trade produces."(17)

Even a seeming exception proves the rule, for Gowa, that power politics dictates trade policy. During the period of the Anglo-French Entente (1904-14), one might expect that for both economic and political reasons Britain would have pursued a market-opening strategy with France - whose vitalness to Britain's national security was on the rise from the Moroccan crisis of 1905 to the outbreak of World War I, when Britain entered on the side of France. Instead, Britain twice rejected proposals to liberalize trade with France. The reason is that the 1871 Franco-Prussian peace treaty bound France to grant Germany unconditional most-favored nation status allowing Germany to "claim for her trade and commerce any advantages conceded to us [i.e. Britain] by France."(18)

A refinement of the power-enhancing approach might be to seek tariff concessions that would give exclusive advantage to Britain. But, as Alfred Marshall, among others, had pointed out, it was very difficult to devise tariff reductions that would redound to Britain's benefit alone without including potential adversaries.(19) In this instance, the similarity between British and German exports severely limited British ability to privatize the benefits of any Anglo-French trade agreement.

This case, as well as the aggregate statistical analysis, leads Gowa to be tenacious in arguing that considerations of power rather than plenty drive the policies of major states. One might hope, for example, as Charles Kindleberger has hypothesized, that hegemonic states have a special perspective, a special discount rate, and a special conception of long-run self-interest that dispose them to bear a disproportionate share of the risks and burdens of promoting trade liberalization for the benefit of all.(20) Kindleberger has worried that since international free trade is a public good, it depends upon the existence of a dominant state to ensure its supply. Britain, he suggested, played the role of free trade enforcer in the nineteenth and early twentieth centuries. The inability of the British to act as hegemon in the interwar period, and the unwillingness of the United States actively to replace Britain, led to a beggar-thy-neighbor collapse of the world trading system in the interwar period. Any design of national strategy for the future will need to be informed about how hegemons, including the United States, have viewed their interests in the past.

For a moment Gowa's line of argument helps buttress the theoretical foundations of Kindleberger's position. Whereas some critics of hegemonic stability theory have suggested that rational hegemons would find it in their self-interest to adopt an optimal tariff rather than free trade,(21) Gowa argues that any attempt to exploit an optimal tariff in the short run would undermine the power to do so over time, leading a nonmyopic hegemon to reject it. Whereas other critics of hegemonic stability theory have suggested that participation in open markets is excludable and hence not a public good,(22) Gowa argues that exclusion of defectors is likely to be costly enough that the sanctioning process itself becomes a public good. Whereas yet other critics of hegemonic stability theory have suggested that small groups are close substitutes for hegemons,(23) Gowa argues that agreements on how, where, and when to cooperate, along with side-payments that redistribute the net benefits of cooperation, are formidable obstacles to the assumption that small groups can play the role of a hegemon. In sum, for her, the theoretical criticisms of Kindleberger are "not definitive."

But these rebuttals on the level of theory do not lead Gowa to resuscitate Kindleberger. Instead her purpose is to report that the behavior she has observed for Britain, and parallel evidence she alludes to for the behavior of the United States, shows that neither "state subordinated the pursuit of its national interests to global interests during the period in which it reigned as the alleged free-trade hegemon."(24) This, for her, delivers an empirical coup de grace to the idea that the interstate system is ever likely to be able to look to any "benevolent despot" to keep international markets open. "Debates about hegemonic theory have neglected what may be the most durable barrier to free trade among the constituent great powers of any given international political system: that is, the primacy of concerns about security that characterize life in an anarchic world."(25)

Gowa's depiction of the value of selective liberalization in the service of enhancing a state's position in the international system probably understates (rather than overstates) the case: for nations concerned about influencing the foreign policies of other states, building international coalitions directed to common purposes, and resisting the pressures of others, an economic statecraft calibrated to the pursuit of relative gains could, if effective, yield benefits far more usable and significant on a practical level than her oft-repeated "freeing up resources for military purposes." Moreover, her search for "product differentiation" in her research probably weakens her argument unnecessarily, since avoiding excessive dependence on potential adversaries (a motive she says she avoids since it has been dealt with by other writers) offers a strong complementary rationale for selective liberalization.(26)

But, except for the Anglo-French Entente, the model of tariff games between allies and adversaries in fact sits there as no more than a plausible hypothesis, untested as to whether national leaders actually are able to conduct economic policy with the subtlety, craftiness, and beneficial impact on themselves that the model suggests may be possible. One suspects that if analysis with a healthy measure of Krugman's skepticism about effective public intervention were turned loose at diverse moments in history, one would find myriad examples of dumbly conceived and counterproductively executed policies.(27)

But the fact that states might be shown to have mixed in some ill-conceived advice from earlier incarnations of "noneconomists" and "clever policy entrepreneurs" in nationally harmful directions as they made calculations about relative power does not vitiate the basic point: the distributional consequences among states of national policies, including trade policy, are far from irrelevant; they have been central to the welfare and well-being of citizens. More than one state that witnessed trends in economic capabilities move against itself found its role in world affairs diminished and, in extreme cases, the way of life as the inhabitants knew it destroyed (as close as a body politic can come, one supposes, to going out of business).

Of greater practical import, perhaps, one does not have to adopt as extreme and Hobbesian a view of the dire consequences of international anarchy as Gowa uses for her point of departure to take the realists' concerns about the distributional implications of economic policies seriously: a nation whose resources and capabilities decline in relation to others will enjoy less control over its own life along many margins and less voice or influence in international affairs even if the threat of actually being taken over by adversaries is infinitesimal.

Thus the anarchic structure of the international system, says Gowa, compels its constituent states to attend closely to their own position in relation to the power and potential of both prospective and actual allies and adversaries. The rational state will and should utilize a policy of selective liberalization to enhance its place in the interstate system.

The emergence of strategic trade theory, according to Gowa, bolsters the logic of this argument and expands the range of policy instruments to which it can be applied. After all, realists (and perhaps others) in the international relations/political science community would note that in the case of high-technology strategic trade industries whose economies of scale are greater than national markets, some countries (or regions) are likely to be left without players of their own, at the mercy of external monopolists. The potential threat this poses to national autonomy, and the potential vulnerability it carries for foreign manipulation, may be much more significant than whatever economic rents might or might not be captured by one nation or another. The rationale for public intervention to field a national presence in key high-tech strategic trade sectors appears compelling: sins of omission may be as damaging as sins of commission.

As a consequence, the realist perspective in the international relations/political science community in general, and Gowa in particular, seems to give license to the very kind of zero-sum calculations for national strategy that Krugman (and the economics community more broadly) fears will be so destructive to the international system.

More disturbing, there is no way to brush over differences between the economics and the international relations/political science communities by suggesting, for example, that the two communities are merely focused on different objectives (indeed it is difficult to argue with rigor that they even postulate different utility functions). The realist tradition in the international relations/political science community simply takes the economists' definition of the national interest - maximization of a country's ability to consume goods and services over some discounted time horizon - and extends it to encompass (at a minimum) a concern about a country's ability to insulate or defend itself from threats to present and future consumption similarly discounted. In any interstate system that is not always benevolent, therefore, even the narrowest economic definition of welfare implicitly carries a security dimension.

Moreover, as long as there is any possibility of manipulating imperfections in international markets (due to size of states in extremely competitive international markets, barriers to entry in particular sectors in imperfectly competitive international markets, and differential treatment toward outsiders by regional economic blocs), the issue of relative gains cannot be ignored. The pursuit of power and the pursuit of plenty end up inextricably linked. National leaders have no choice but to fashion a strategy that combines calculations of absolute and relative gain simultaneously; that is, to design what might be described (too pretentiously) as a grand strategy for trade and related economic policies to advance the long-term interest of the nation-state in enhancing its position in the international system.

How might such a grand strategy be constructed? Clearly the answer cannot be found in simply letting each state follow its own narrow interests (or the interests of its immediate allies or regional partners) in crafting economic policy without letting the Hobbesian vision become a self-fulfilling prophecy. In contrast to the supercilious dismissal of power considerations in Krugman's work, there is a relentlessly ahistorical determinism in Gowa's invocation of international anarchy that ignores any potential learning curve and belies any potential progress in building international economic institutions over the past fifty years. Surely the stability of the international system requires maintaining and strengthening some of these safeguards against the kind of self-centered impulses Gowa finds so endemic.

Gowa's thesis that potential adversaries should be denied access to international markets to the extent possible is further complicated by the observation that greater access may in fact hasten internal reform that will decrease the likelihood of a future adversarial relationship, a controversial but supportable proposition advanced, for example, in the China most-favored nation debate or the debate about ending the U.S. embargo on Cuba.

To design a grand strategy for the contemporary era, therefore, one has no option but to combine the insights of Krugman and Gowa, producing a subtle balance between agnosticism and self-centeredness toward the distribution of national gains from indigenous economic policy choices. One might try to restage the Hobbes-Locke debate about the state of nature, this time on the international level, with the tools of modern social science to establish which view of the international system is the "more correct" model to use, never mind how complicated such a validating process would be. But real-world policymakers still will be left with having to make complex assessments about: (1) how much of a loss in efficiency or welfare is worth how much of a gain or alleged gain in security, as an insurance policy within an international system that shows both benign and malevolent characteristics; (2) how great a risk of systemic disintegration might be appropriate to run, in light of the adverse secondary and tertiary effects on all concerned if the disintegration were to materialize; and (3) how effective and controllable are the resulting strategic policy recommendations likely to be in multiple national policymaking environments, each of which is prone to special-interest capture and myopic distortion?

Where might one look to begin to frame the issues, compare alternatives, and search out answers about the key issues in trade policy (and related areas of investment and technology policy) that are needed in the construction of grand strategy today? Might the pursuit of power and the pursuit of plenty be integrated, for example, within the agreements already established under General Agreement on Tariffs and Trade/World Trade Organization (GATT/WTO) auspices, or will new self-denying mechanisms (familiar indeed to those dealing with the state of nature as Hobbes conceived of it) be needed to bind the hands of national leaders in ways that extend far beyond the GATT/WTO disciplines?

The logical place to turn, at least initially, is to the latest policy-oriented NBER research on these topics, perhaps the largest and most prestigious collective effort from the economics community in this area in the world.

NBER research on strategic trade theory, trade policy, and the political economy of protection

The two NBER volumes under review here, like all NBER studies, are devoted to bringing together the foremost research on questions of theory, policy, and process with interpretive synthesis by leading figures in the field in a manner that makes the results as useful and accessible as possible to policymakers. These particular books cover a broad range of conventional trade policy issues, strategic trade policy issues (and related questions of technology and investment policy), and policy formation issues, one under the direction of Krueger and the other, of Alasdair Smith and (again) Paul

Krugman.

In these volumes many of the familiar defects in trade policy formation are once more discovered: the policy process in the United States is producer-driven, consumer interests are underrepresented, adjudicative bodies do not (or are forbidden to) take into account the impact of trade restraints on the entire economy, users of sheltered inputs are particularly damaged, and protectionist policies frequently do not help even those industries that seek them. There is good reason to question, as Krueger concludes, "the degree to which current U.S. trade policy achieves objectives that are in the interest of the American people and economic efficiency."(28)

Because of the diverse character of the studies, one might not necessarily expect (despite the ostensible NBER objective) to find all the ingredients needed to define the issues, weigh alternatives, and debate the trade-offs required for a realistic national strategy. But with strategic trade theory figuring prominently at various places in each volume, with extensive examination of two of those high-tech industries most filled with policy contentiousness (aerospace and semiconductors), and with eleven chapters devoted to regional trade agreements, administrative protection, and the industries most affected by selective liberalization (like steel, automobiles, textiles, apparel, lumber, and agricultural products), one would hope this to be fertile ground for some insights and guidelines for integrating the concerns Gowa thinks are inherent in the design of national strategy with the concerns Krugman warns may lead in dangerous directions.

The reality is otherwise, particularly in three of the policy arenas where a new synthesis will most evidently be needed.

Strategic trade theory and high-tech industries

Following the example of Krugman and R. E. Baldwin in an earlier simulation of the aerospace industry, the strategic trade modeling by Gernot Klepper, for example, casts doubt on the prospects for Airbus to become profitable soon, even once a complete family of aircraft has been launched. Klepper finds that the projected subsidies of $20 billion for Airbus are roughly twice as high over twenty years as the $10 billion gain in European consumer welfare when compared with a hypothetical Boeing monopoly. Hence, he concludes, "from the view point of European governments, Airbus's market entry as an 'anti monopoly' policy was not successful."(29)

Similarly, in the prior NBER study, Krugman and Baldwin had labeled the Airbus 300 project a "beggar-thyself policy for Europe" in comparison to "a world without Airbus" because the gain to Europe's consumers (in their parent model) outweighed the cost of the Airbus subsidy only for a low discount rate of 3 percent.(30)

Are these serious suggestions that the Europeans abandon their aerospace industry in favor of having the United States as sole aerospace supplier? How would the appraisal change if one expanded the concept of welfare, along Gowa-like or Albert Hirschman-like lines, to include concern that dependence on an external aerospace monopolist might pose a threat to the autonomy of European governments as actors in international affairs?(31) Would less than a half billion dollars a year ($10 billion over twenty years) seem like a large or small price to pay in comparison to the freedom to conduct foreign and defense policy without being constantly under the scrutiny, and approval, of an external monopolistic supplier of airframes and avionics? One is tempted to think that Krugman himself might as well be "wearing a flashing neon sign that reads 'I MISSED THE CLASS WHERE THEY TOLD ABOUT SUEZ.'"

A useful research design for strategic trade theory and high-tech industries might logically compare the strategy of launching a national (or pan-national) champion with the next best alternative a government can choose to avoid external monopoly; that is, in the case of the aerospace industry, for example, to ask how the Airbus effort stacks up against the option of strengthening in-country capabilities via coproduction agreements and transborder corporate alliances, as followed by Japan (with Airbus and Boeing) or China (with the latter two corporations plus McDonnell Douglas).

More broadly, any comprehensive consideration of strategic trade theory and high-tech industries would want to assess the entire array of insurance policies to protect against delay, denial, or manipulation (whether economically or politically motivated) by monopolistic external suppliers. Are other strategic trade industries, like semiconductors, microprocessors, advanced chemicals and materials, or biopharmacology, likely to introduce the same policy dilemmas, or is aerospace unique?

In the NBER volumes, however, there is no attempt at assessment more profound than the demonstration that supply from a foreign monopoly is the "welfare-enhancing" solution.

The question that so-called grand strategy must address is whether to permit nations (including the United States) to try to position themselves as quasi-monopolistic suppliers of the most advanced high-tech products, led by aerospace, or deliberately to allow diffusion of technologies and production sites across borders (excluding from diffusion only the most militarily sensitive products).

Selective liberalization and the formation of blocs or regional alliances

In the negotiation of regional trade agreements, David Orden finds that U.S. industries that are able to remain "moderate" up to the final period (e.g., before the North America Free Trade Agreement, NAFTA, package reached Congress) were able to acquire relatively large payoffs to secure their support. He notes in passing that two major U.S. industrial players, dairy and cotton, came to support the NAFTA accord only after strong rules of origin were adopted.(32)

But neither Orden, nor other authors who cover various aspects of the lumber, steel, autos, textile, and apparel industries, nor Krueger in her concluding overview, takes note of a broader policy question (and policy danger). What does a process that allows NAFTA's breathtaking expansion of the use of rules of origin to divert trade and shift foreign investment (and economic rents) into one regional market portend for the discovery by Jeffrey Frankel and others that regionalism is on the rise, perhaps even leading to the creation of regional blocs?(33) After correcting trade flows for natural determinants such as size, per capita gross national product, proximity, and common borders, Frankel demonstrates the European Union, Western Hemisphere, East Asia, and Asia Pacific Economic Cooperation forum (APEC) all show significant "block effects" - bias toward trading with each other substantially higher than would otherwise be predicted.(34)

A useful research design would seek to probe how such sharp delineation of trade blocs could be taking place in the midst of so much ostensible liberalization: might rules of origin, locational incentives, and other measures to influence patterns of foreign direct investment and trade be the new guise in which Gowa's games of selective liberalization will be played out?

More broadly, what are the implications of imitation and duplication of such exclusionary measures? Trade diversion and rent capture could arguably have made sense in terms of the U.S. national interest (economic and political) vis-a-vis Mexico, but how will the structure of international economic activity and consequent alignment of political relationships evolve if these discriminatory devices are extended throughout this hemisphere and copied (or bested) in Asia and Europe? (Since the predominant assumption has been, following Stephan Hymer, that foreign direct investment takes place in imperfectly competitive industries, the battle to attract multinational corporations is quite likely a struggle over the distribution of inframarginal chunks of good jobs, extra research and development [R&D], and perhaps high profits. Research by Katz and Summers suggests that rents in imperfectly competitive industries are more likely to be reflected in high wages and strong R&D activity than in excessive returns to capital.)

In the NBER series, however, there is no assessment of policy implications deeper than the damage done to efficiency by the play of particular rent-seeking constituencies.

The challenge for grand strategy is to decide the extent to which nations will permit themselves to use trade diversion, rent-switching, and diverse "domestic" measures to bolster their economies and polities selectively or will resolutely deny themselves the ability to capture advantage for their own people, neighbors, and allies.

Trade, technology, and who-is-us issues

Looking at R&D subsidies as a strategic trade issue, David Ulph and Alan Winters estimate that the payoff to gross domestic product from public support for high-tech industries is a surprisingly high 2.5 times the size of the intervention. Ulph and Winters conclude that "giving R&D support to the high-tech sector is potentially an extremely powerful and important policy," with results that are highly dependent on assumptions about the movement of scientists and science itself across borders.(35)

Surely a useful research design would address the question of what are the policy implications for treatment of the most obvious vehicle to affect such movement, i.e., multinational corporations? Should foreign firms be deliberately excluded from national R&D initiatives (the "Sematech" and "clean car" models) or invited to participate (the "flat panel display" model)? Should foreign firm eligibility be extended unilaterally or only on a reciprocal basis in return for access to the national R&D programs of other states? More broadly, what might be the most appropriate way for governments to address who-is-us dilemmas, and when might special measures genuinely be required to limit the potential for external denial or manipulation (a subset of the problem of external monopolistic suppliers above)? This gap is most peculiar in light of the identification of external monopoly as a legitimate national security concern in the Edward Graham and Krugman volume on foreign direct investment in the United States, and Graham's subsequent expansion of policy analysis in this area.(36)

The issue for grand strategy is whether to preserve a clear distinction between "our" firms and "others" or to adopt a studied agnosticism toward the national identity of firms wherever they are found (with special safeguards only in the case of the most concentrated international industries).

Explaining performance below potential

Somewhat surprisingly, therefore, in each of these arenas where the pursuit of power and the pursuit of plenty intersect and where the great debates over trade policy (especially strategic trade policy) and related technology and investment issues must be engaged, one finds the NBER contributing rather far below its potential, given the purely technical virtuosity of the studies assembled in these volumes - not so much wrong as "clueless" (in a precise use of the vernacular) about the larger context.

Why?

Performance below potential is usually explained by protection and insulation from competitive pressures. Could it be that some fraction of the economics community has been content to point out the easy mistakes of others, while sheltering itself within the NBER guildhall from the more serious intellectual challenges, hesitating to stretch the envelope, declining to raise the level of play?

The evidence is not inconsistent with this explanation.

Here is NBER coverage of strategic trade issues in high-tech industries, without citing any of the work of: David Mowery, Richard Samuels, Helen Milner, David Yoffie, Michael Mastanduno, Jeffrey Hart, Miles Kahler, Lynn Mytelka, Jeffry Frieden, or Aaron Friedberg.(37) Here are two entire NBER volumes on trade policy (including a concluding exhortation by Krueger for "multidisciplinary research") without citing the work of John Conybeare, Judith Goldstein, Joseph Grieco, Stephan Haggard, John Ikenberry, David Lake, Charles Lipson, Timothy McKeown, John Odell, Kenneth Oye, Robert Pastor, Ronald Rogowski, John Ruggie, Arthur Stein, or Susan Strange.(38) Further, there are thirty-six articles and commentaries here in the NBER series devoted to international political economy, that show no contact with the corpus of work in this area published by Cornell University Press, Princeton University Press, or the University of California Press or with any article in the principal scholarly journals where the political science community publishes on international political economy.(39) Were it not for Michael Finger, Ann Harrison, Douglas Irwin, David Orden, and the unusually well-read Douglas Nelson (a statistical outlier), the economists in these NBER volumes could claim a perfect record of abstinence from the principal publications where the international relations/political science community debates issues in international political economy.

Surely one might conclude that this is rather narrow and self-absorbed behavior on the part of the successors to those earlier generations in the economics community that included Adam Smith, Ricardo, Marshall, Viner, Hirschman, and Kindleberger.

The point, of course, is not that Mowrey and Samuels are wiser or more knowledgeable about aerospace policy (for example) than Krugman and Baldwin, but that Krugman, Baldwin, and their successors would be even wiser and more knowledgeable than they already are if they were in close dialogue with their counterparts in the international relations/political science community, and vice versa.

(On the other side of the international political economy dialogue, in contrast, the two volumes by Gowa and Mansfield build on nearly 150 sources from the principal researchers in the economics community, from, in alphabetical order, Avinash Dixit through Beth Yarbrough, engaging and debating with a large fraction rather than merely citing them.)

To what extent is a broader perspective needed? Is the design of grand strategy merely a question of good or bad economics or is there a larger choice required in the construction of national policy?

Sketching alternative paths for grand strategy

The policy arenas in which the power/plenty struggle certainly will be played out - strategic trade theory and high-tech industries; selective liberalization and the formation of blocs or regional alliances; and trade, investment, and who-is-us issues - are not well-covered by GATT/WTO disciplines. Each contains an arguable rationale for zero-sum self-interested action to gain national advantage or, alternatively, for cooperative action on behalf of the common good (including the benefit of dampening tensions that otherwise might result from preemption, matching moves, and mutual escalation).

The choices in each policy arena have profound repercussions for how nation-states define themselves and strengthen (or cede) the capability of exercising control over their own economies. Beyond merely asking what might be the most efficient economic outcome, national leaders will have to form their policy choices with a Hobbes-versus-Locke calculation of whether greater potential threats to their domestic well-being come from binding or loosening their own hands and the hands of others in the international system.

Furthermore, without any claim to identifying here all the principal issues involved or to examining all the major alternatives, it becomes nonetheless clear that nations can take one of two distinct paths for grand strategy; the two involve profoundly different approaches to national sovereignty and national identity. They diverge according to whether national sovereignty and national identity are preserved as integrally as possible or are deliberately blurred and diluted so as to preserve only the most basic and minimal domains of national control.

They might be characterized as a path toward a late-twentieth-century neomercantilism or, in contrast, a path that most accurately might be called transnational integration - rather than mere "liberalism" because, as will become apparent, a consistently liberal approach toward trade, investment, and technology flows - not to mention migrant labor flows - will perforce have much more radical consequences for the idea of the nation-state than envisioned in conventional assessments of the policy alternatives.

Strategic trade theory and high-tech industries

The question for grand strategy as it pertains to high-tech industries is whether to permit consolidation and exploitation of national quasi-monopolies or to deliberately encourage diffusion of monopoly power across borders. Calculations of power politics and of economic advantage could lead either way. The outcome will hinge on (1) where to draw the line on launch subsidies and indirect support (via defense budgets) for dual-use technologies; (2) whether to leave Super 301-type trade actions and voluntary import expansion-(VIE) type trade remedy agreements available to be used offensively and antidumping regulations available to be used defensively to support any one nation's high-tech supremacy(40); and (3) how intrusively to involve public authorities in surveillance of transborder corporate alliances and coproduction agreements.

In high-tech strategic trade industries, a late-twentieth-century neomercantilist path might find nations creating considerable leeway for themselves to provide launch support and preferential access for their own industries (as defined by extensive rules of origin) while tightly policing transnational alliances and coproduction agreements to preserve control over the location of jobs and the diffusion of technology. Unless deliberately tempered (see below), the logic of the drive for technological superiority might include aggressive unilateralist measures to insert exports into other markets along with vigorous use of antidumping regulations to hinder imports of similar products or even preempt their development.

A transnational integrationist evolution, in contrast, might find countries limiting each other's ability to bolster their own companies via direct and indirect support (including defense budget support), with a hands-off approach to transnational alliances and coproduction agreements that deliberately spread the creation of good jobs and the creation of codependencies across borders with the aim of creating constituencies to help cross-penetration of markets.(41) To dampen the beggar-thy-neighbor pressures in industries with quite large economies of scale, the treatment of VIEs and antidumping regulations would have to be significantly altered from what is permitted in current WTO procedures.

The direction of policy in this area will be played out, most notably, in the negotiations for extension of the European-U.S. civilian air agreement (with painful choices for the United States in the face of European allegations that the Defense Department budget, still the largest industrial policy tool in the world, is being used indirectly to enhance the competitive position of U.S. civilian aerospace companies) and in the mandatory renegotiation of the Uruguay Round subsidies code five years hence.(42)

Equally important will be the question of whether public authorities take it upon themselves to challenge private corporate technology alliances and production-sharing agreements across borders or provide insulation and buffering from such public-sector intrusion: whether or not there is a repetition of the FSX/Japan kind of dispute while China uses McDonnell Douglas, Boeing, and Airbus as tools to expand its indigenous aerospace industry will be a key case, with precedents being set for similar efforts involving Russia, Ukraine, Brazil, and India. (For antidumping regulations, Super 301, and the use of VIEs, see below.)

Selective liberalization and the formation of blocs or regional alliances

In the regional arena, any grand strategy must determine whether entrenched practices of preference and exclusion will (or will not) be uprooted in order to enhance genuine multilateral access for trade and investment. The answer will emerge from the stance toward: (1) expansion or contraction of NAFTA-like rules of origin in the Western Hemisphere, Europe-Eastern Europe, and Asia; (2) loosening or tightening of locational incentives (including subnational grants and tax preferences); and (3) exploitation or neutralization of antidumping rules as a tool of national and/or regional discrimination.

A neomercantilist approach might resist efforts to bring local incentives (including labor, environment, and regional development incentives) under multilateral discipline and permit expansive use of rules of origin.(43) It might then countenance managed trade demands (variations on VIEs, backed in the case of the United States by Super 301 and perhaps equivalent measures elsewhere) as a method to force international/intraregional penetration.(44)

A transnational integrative approach, in contrast, might institute tight limits on local incentives, harmonize and/or eliminate rules of origin, and prohibit managed trade.

The direction of policy will depend on whether the WTO is empowered to create new disciplines (which were rejected in the Uruguay GATT round) to prohibit VIEs in the way voluntary export restraint agreements now are prohibited and to change the test for antidumping from a cost-based to a price-based standard. More broadly, it will depend upon whether the new agenda of trade negotiations on competition policy, labor, and the environment heightens or diminishes the exclusionary measures available to particular regions.

Trade, investment, and who-is-us issues

The pursuit of grand strategy cannot avoid addressing who is "us" and who is "them," not only in the case of mundane suppliers in mundane industries but also in the case of reliable suppliers in critical industries. This will involve decisions on: (1) intensification or elimination of nationality-based eligibility for public R&D programs; (2) loosening or tightening of control over foreign acquisitions of companies in critical technology or defense industries; and (3) expansion or contraction in the scrutiny of nationality of suppliers for defense procurement. Indicative of concern about dependence upon concentrated foreign suppliers, the General Accounting Office found that 42 percent of a sample of U.S. firms reported that Japanese suppliers had rejected their orders for advanced goods, parts, or technologies or had delayed delivery by more than six months (non-Japanese suppliers were not part of this study).(45)

A neomercantilist approach might require a national identity test for firms to qualify for access to R&D initiatives and to receive permission to engage in takeovers or acquisitions in critical technology or defense industries.

A transnational integrative approach might allow nonnational firms to participate in R&D programs and acquire critical technology companies, subject only to agreement to maintain local R&D and local production in industries with a high degree of global concentration. Only in the case of highly concentrated defense suppliers, with extremely sensitive military technologies (where a takeover would represent the transference of quasi-monopoly control from one sovereign domain to another), might there be a presumption against permitting foreign acquisitions. Drawing on antitrust theory, I have proposed a 4-4-50 rule-of-thumb to test for levels of international market concentration sufficiently tight to make collusion credible; the presumption would be that concentration higher than four companies or four countries supplying 50 percent of the global market is a necessary condition for any genuine threat of delay, denial, blackmail, or manipulation. The 4-4-50 rule can be operationalized in terms of the Hirschman-Herfindahl index and made compatible (in the United States) with Hart-Rodino guidelines for mergers and acquisitions.(46)

Discussion of these issues is in the most preliminary stages, primarily within the Organization for Economic Cooperation and Development. The battle for the soul of technology policy in the United States between the clean car model (only the Big Three U.S. automakers are eligible for R&D subsidies) and the flat panel display model (foreign firms are eligible for R&D subsidies) will set an important precedent for other regions.

A schematic representation of the alternatives for grand strategy is shown in Table 1. My own recommendation for making the terribly complex trade-offs discussed above and summarized in Table 1 would be to follow a rule of minimal activism in the search for national advantage; that is, to try to maximize the opportunity for mutual gain while narrowing the pursuit of national advantage to those measures most necessary for national security and least destabilizing when deployed by some or all states simultaneously. And, to meet this challenge successfully, I conclude (as the final section makes clear) that Kindleberger may have to be credited with more insight than is fashionable in international relations/political science circles today.

The experience of engaging in public service is likely to pull would-be grand strategists in two conflicting directions on the issue of government intervention. On the one hand, it is axiomatic that anyone who has had to negotiate with the Japanese on market access for more than six months will feel the urge to advocate policies, no matter how unwise, that "show them a thing or two." On the other hand, anyone who has witnessed the mills of the U.S. government grind out economic policy (say, on antidumping) for more than six months will, I predict, begin to recommend the reading of Milton and Rose Friedman's Free to Choose to friends.

To assess whether a prudential rule of minimal activism in striving for national advantage might be the appropriate choice, one might begin by asking [TABULAR DATA FOR TABLE 1 OMITTED] to what extent is the impact of the choice
of grand strategy likely to be crucial in its own right for the stability of the international system in the contemporary world? Does the relationship between choice of approach to international economic policy and degree of interstate tension in the past provide grounds for considerable wariness today, or might the current expansion of international economic activity be so overwhelming in the aggregate as to constitute "the end of history" (to coin a phrase)?

Mansfield: does the choice of grand strategy matter at this juncture in history?

Mansfield's research offers an important, if somewhat counterintuitive, perspective on the significance of the choice of path for grand strategy in the contemporary period (albeit buried in by far the least accessible volume reviewed here).

Mansfield investigates the relationship between the distribution of power, international trade, and the deterioration of international relations that ultimately leads to the onset of war. In contrast to the predominant realist approach in the international relations community, which focuses on the importance of polarity in the international system (unipolar, bipolar, multipolar), Mansfield focuses on the concentration of resources and capabilities, or the relative inequality of power and potential among states, using measures closely related to the Hirschman-Herfindahl index of market concentration. Mansfield's analysis suggests that the importance of protectionist and exclusionary policies for interstate stability depends upon where they emerge in the historical pattern of international structures.

The good news is that there is an inverse relationship between the level of trade and interstate hostilities. With considerable care and rigor, Mansfield demonstrates that the liberal contention that trade and peace go together has some merit. Whether one examines wars involving major powers (the leading five to seven states), wars that do not involve a major power, or all interstate wars, higher levels of commerce are associated with a lower incidence of war and vice versa. Moreover, as trade levels increase, so does the quantitative effect on inhibiting hostilities among states as well as the statistical significance.(47)

Further, looking only at polarity, while major-power wars tend to begin less frequently in bipolar than in multipolar systems, little evidence suggests that periods involving the breakdown of a hegemonic system are any more prone to war-inducing tensions than other periods.(48)

The bad news is that there is an inverted U-shaped relationship between the concentration of resources and capabilities, restraints on trade, and tensions leading to interstate hostilities. Since hegemony is a measurement of the relative strength of the most important state, Mansfield argues, it does not adequately capture the distribution of power among all the major actors in the international system. Refocusing the examination of international structure to highlight measurements of the latter, Mansfield finds that the relationship between concentration and patterns of international trade, on the one hand, and tensions leading to hostilities, on the other, is quadratic rather than monotonic; that is, both the highest and lowest levels of concentration are associated with the fewest impediments to trade and the lowest incidence of warfare, while intermediate levels of concentration in the international system lead to both protectionist measures and higher incidence of conflict among the five to seven larger powers. Holding constant the number of major powers, there is an inverted U-shaped relationship between the relative inequality among them, the use of protectionist trade measures, and the propensity for hostilities.

The explanation for the outbreak of hostilities, according to Mansfield, may spring from the fact that deterrence is weakened when (in contrast to a highly concentrated state system) blocking coalitions are less certain to emerge. One of the five to seven larger powers may determine that a move against a smaller state is worth undertaking if success will improve its position relative to the rest and might be completed before others can react cohesively to prevent it. Conversely, the perceived threat posed by one of these five to seven larger powers may lead those with lesser capabilities to band together and launch a preventive war against it.

In this milieu of move and countermove on the part of nation-states, Mansfield also finds that regional trading blocs and enhanced use of protectionist measures are more likely to take place. Whether selective manipulations of markets and exploitations of "predatory opportunities" lead to, or merely accompany, the political maneuvering that results in hostilities is not clear from the data.(49)

Particularly worrisome, however, suggests Mansfield, are periods when the distributions of resources and capabilities within the international system have become less highly concentrated, but shifts in the shares of those resources and capabilities are taking place that may themselves be viewed as threatening. Perhaps the competition for market advantage combined with the expected consequences of inaction may lead states to run risks they otherwise would not.

Mansfield is careful not to suggest that structural conditions alone predict when levels of tension leading to outright conflict are imminent, "but the fact that similar structural conditions historically have been vested with dangerous characteristics should induce caution on the part of, and should not be overlooked by, decision makers."(50)

Clearly, despite the evident successes in trade liberalization in the contemporary period, there is a cautionary tale here. During a period when resources and capabilities are becoming more dispersed among the leading half-dozen or more states, the temptation to pursue measures that will advance any given state's relative position has appeared over the course of history to have been high relative to the more general appeal of maintaining aggregate trade flows. Mansfield's research would suggest that, absent strong institutional mechanisms explicitly to contain such economic rivalries, the potential for considerable tension among states (or blocs) would appear great, judging from historical experience, despite high overall levels of trade.(51)

How serious might such tension be as a threat to international stability in the contemporary era? The answer is likely to depend on the interaction between "getting fundamentals right" (in particular for the United States) and the choice of a minimally activist or a more aggressively activist and unilateral grand strategy.

With regard to the fundamentals, one can profitably return to Krugman's analysis, in which there is in fact an important area of overlap between the economics and the international relations/political science perspectives. While it is clear that the distributional consequences of the choice of grand strategy cannot be trivialized in the way Krugman's presentation suggests (because in some areas the political/security implications are certain to be quite important), Krugman is doubtless right in arguing that the aggregate economic impact of genuine zero-sum policies will probably be relatively small in comparison to the economic impact of improvement in the ratio between savings and consumption.

Consequently, a shift in the allocation of domestic resources from consumption toward savings and investment is likely to be the most important tool national leaders have to raise their own absolute standard of living and relative rates of economic growth, productivity, and technological innovation. Getting the fundamentals right would thus serve the objectives of power and plenty simultaneously, generating both greater economic welfare at home and more resources available to be deployed, ceteris paribus, to influence world events, lead common endeavors, and avoid adverse pressures in the international arena. In short, even those who believe Gowa's view of the international system better describes reality than Krugman's, and who consequently place greater importance on relative gains, will nonetheless agree with the latter's policy prescriptions about getting fundamentals right.

At the same time, better macroeconomic performance is likely to lead, in the case of the United States, to several kinds of political externalities as well. First, higher productivity growth and greater technological innovation will generate greater resources for experimentation with those adjustment-assistance and vocational-retraining initiatives needed to maintain popular support for political engagement abroad (perhaps helping to ward off the Stolper-Samuelson effect a while longer). A country whose incentive structure rewards investment in upgrading human resources, rewards more intensive use of human resources, and rewards the development of labor-intensive technologies is likely to find more support for economic liberalization and political engagement in the international arena than one whose incentive structure ignores upgrading human resources and offers a premium for replacing human resources with capital and labor-substituting technology.

Second, getting the economic fundamentals right may produce a dividend externally in terms of what Joseph Nye has called "soft power," since there is likely to be admiration, emulation, and bandwagon effects for a country "winning" more often than not against foreigners in international markets, for macroeconomic reasons, and piling up claims against the assets of foreigners rather than vice versa.(52) (Changes in the consumption/savings ratio will affect the trade balance, and hence the net accumulation of foreign assets, but not necessarily flows of direct foreign investment or acquisitions of domestic firms.)

Finally, one might expect a kind of "Kindleberger effect" (despite all the learned criticism): a lesser tendency to blame others, a greater willingness to bear burdens on behalf of the common good, and a greater appreciation of "the long shadow of the future."(53) Kindleberger emphasized the need for providing leadership through a willingness to bear a disproportionate share of the costs of system-maintenance. A crucial case in point may be the willingness of the United States to take the lead in integrating China, Russia, and the former Soviet Union firmly within the WTO multilateral trading system without, for example, maintaining the discriminatory and exclusionary anti-dumping and countervailing duty rules that have thus far governed nonmarket economies.

In the United States, better macroeconomic performance, consequently, ought to go hand in hand with a greater tendency, at the margin, to choose policies on the issues listed in Table 1 that fall under the rubric of transnational integration and with less inclination to go belligerently down the neomercantilism route.

On the other hand, no improvement (or deterioration) in the balance between savings and consumption will keep American industries "losing" more often than not against foreigners in international markets, no matter how hard the United States bashes others or others in fact lower their trade barriers, and will keep foreigners piling up claims against the assets of Americans "as far as the eye can see."

As for political externalities, a nation that is self-evidently mortgaging the future of its children to outsiders is unlikely to be the object of esteem and emulation by foreigners who are exercising more self-discipline abroad; a nation that lacks the wherewithal to upgrade its human resources or help its people adapt domestically to competition in international markets is unlikely to find support at home for dependable, constructive engagement in the international arena.

This might well lead to a tendency, at the margin, to choose policies on the issues listed in Table 1 that lie along the more unilateral, aggressive, even belligerent neomercantilism route.

But by far the worst danger would lie in the adoption of an assertive late-twentieth-century neomercantilist grand strategy in place of (or as a substitute for) movement toward greater macroeconomic balance in the United States.

This would turn Kindleberger, upon whose insights about systemic leadership the world may ultimately come to depend, on his head: having the preponderant power in international affairs constantly tearing at the fabric of relations with other major states and with no possible resolution in sight. The impact of unceasing mutual accusation and recrimination on the domestic publics of all the nations involved, as the immediate post-World War II generation passes on, might have a cumulative effect on interstate relations and international alignments that seems unlikely (in the extreme) today but could eventually make Mansfield appear prophetic.

1. In addition to Peddling prosperity (Krugman 1994a), see Krugman 1994b; 1994c; and 1993.

2. Krugman's targets of criticism include Tyson 1992; Thurow 1992; Magaziner and Reich 1983; Magaziner and Patinkin 1990; Luttwak 1993; Phillips 1984; Prestowitz 1988; Dietrich 1991; Garten 1992; and Sandholtz et al. 1992.

3. The quotations are from Krugman 1994b, 31; and 1994c, 270, respectively.

4. In addition to the sources cited above in footnote 2, see Krugman 1991.

5. Lawrence and Slaughter 1993.

6. An earlier example of this ambivalence is found in Krugman 1986.

7. Krugman 1994a, 243-44.

8. Ibid., 239.

9. Ibid., 269.

10. Ibid., 274.

11. Ibid., 280.

12. Ibid., 270.

13. Krugman 1994b, 35.

14.On maximizing power rather than plenty, see Viner 1948.

15. Ibid.

16. Srinivasan 1987.

17. Gowa 1994, 6.

18. This Public Records Office document is cited in ibid., 90.

19. Ibid., 91.

20. See Kindleberger 1973; and 1986.

21. See Conybeare 1983; 1984; and 1987. See also Gilpin 1975.

22. See Snidal 1985a; and 1985b.

23. See Keohane 1980; and 1984.

24. Gowa 1994, 29.

25. Ibid.

26. In particular, Gowa cites Pollins 1989b; and 1989a.

27. For a fascinating example of such critical analysis, see Krugman 1983.

28. See the final sentence of Krueger 1995b.

29. Klepper 1994, 123.

30. Krugman and Baldwin 1988.

31. Hirschman [1945] 1980.

32. Orden 1995.

33. For an empirical assessment of rules of origin and the consequent policy dilemmas, see Jensen-Moran 1995. In earlier papers written before the NAFTA negotiations were complete, Krueger and Richard Snape had noted that rules of origin would be a "key issue," and Robert Baldwin and Kuo-shu Liang had warned about antidumping and unfair trade protests becoming the pretext for creating trade blocs. See the respective contributions by Krueger and Snape and by Baldwin and Liang in Ito and Krueger 1993, 29, 41, and 44. Krueger has shown an interest in exploring rules of origin on a theoretical level in Krueger 1992; Krueger and Krishna 1995; and Krueger 1995a.

34. For evidence on trading blocs, see Frankel, Stein, and Wei 1993; and 1994.

35. Ulph and Winters 1994.

36. See Graham and Krugman 1991; and Graham and Ebert 1991.

37. These works include Mowery 1987; 1985; 1992; Samuels 1994; Samuels and Friedman 1993; Milner and Yoffie 1989; Mastanduno 1991; Hart 1992; Kahler 1985; Kahler and Frankel 1993; Mytelka 1990; Mytelka and Delapierre 1987; Frieden 1988; Friedberg 1989; and 1991. Perhaps it is not fair to put Helen Milner's name on the absentee list, since after reporting a "general belief" that protection will be granted when the industry is unanimous in supporting it, Krueger notes that "the same point has been made by Helen Milner." Also, David Yoffie's prestrategic trade book from 1983 is listed in one bibliography but not cited in any chapter.

38. See Conybeare 1987; 1984; Goldstein 1994; Grieco 1990; Ikenberry, Lake, and Mastanduno 1988; Lake 1985; 1988; Oye and Rogowski 1989; Fishlow and Haggard 1992; Haggard 1994; Lipson 1984; McKeown 1984; 1991; Odell 1990; Pastor 1980; Ruggie 1982; Stein 1984; and Strange 1988. An article by Robert Pastor is cited in one chapter but his major book on the trade policy process is not.

39. I refer specifically to Conybeare 1987; Encarnation 1992; Friedman 1988; Gilpin 1981; Goldstein 1994; Grieco 1990; Ikenberry, Lake, and Mastanduno 1988; Lake 1988; 1985; Milner 1988; Oye 1992; Rogowski 1989; and Sharp 1986.

40. The concern about antidumping was originally focused on prohibiting international price discrimination, with the predatory intent to injure central in the determination of dumping. Over time the laws have changed from international price discrimination to a test of selling below cost, regardless of intent to injure. Moreover, U.S. law artificially defines dumping as selling below average cost plus 10 percent overhead and 8 percent profit. Since, under competitive conditions, producers will sell near marginal cost, foreign firms that are merely acting competitively and are not engaged in predatory practices can be found to be dumping (whereas their domestic counterparts cannot). In high-tech industries where forward pricing is standard practice, antidumping measures based on average cost, plus 18 percent mark-up, without adequate recoupment of start-up expenses, are strongly exclusionary. The Uruguay Round text on antidumping requires that cost calculations "reflect the costs at the end of the start-up period." But, according to an estimate produced for the U.S. Commerce Department, the per-unit cost of a hypothetical 150-seat commercial airliner, for example,

does not level off until the two hundredth aircraft is finished; early output is some 300 percent more costly. See Boltuck and Litan 1991; and Schlie 1986.

41. For efficiency gains from liberalization in imperfectly competitive markets, see Richardson 1989.

42. Schott and Buurman 1994, 90.

43. On rules of origin, particularly as they apply to U.S. policy options, see Jensen-Moran 1995.

44. On Super 301 and possible EU equivalents and on VIEs, see Schott and Buurman 1994.

45. U.S. General Accounting Office 1991. For a broader historical perspective on the manipulation of access to monopolistically controlled goods, services, and technologies (including manipulation on the part of the U.S. government), see Moran 1990.

46. Moran 1993.

47. Mansfield 1994, 149.

48. Ibid., 227-28.

49. On market manipulations, see ibid., 180. Mansfield draws on Conybeare for this explanation. See also Conybeare 1985; and Gilpin 1981. For an argument that economic regionalism can have a potentially liberalizing influence, see Oye 1992.

50. Mansfield 1994.

51. On Germany and Japan, Mansfield cites Mearsheimer 1990. For a perspective on Asia, see Betts 1993-94.

52. Nye 1990.

53. See Axelrod 1984; and Axelrod and Keohane 1985.

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What is the relationship between the pursuit of power and the pursuit of plenty? How does trade policy fit as part of a nation's strategy to build larger political and security relationships abroad? When are the economic rivalries among nations most difficult to manage so as to avoid undermining the stability of the international system?

This article reviews five books by grand masters of international political economy, from both the economics and the international relations/political science communities. The first and second sections introduce alternative frameworks for integrating trade policy within broader national strategy via studies by Paul Krugman and Joanne Gowa. The third section examines the challenges in designing national policies toward trade (and related areas of investment and technology) in the contemporary era, as represented in two recent volumes from the National Bureau of Economic Research (NBER), one edited by Anne Krueger and the other by Alasdair Smith and Paul Krugman.

The fourth section summarizes the most important areas of controversy and sketches the principal alternative paths for constructing a coherent national strategy (a grand strategy, so to speak, of power and plenty) to address them. The concluding section asks to what extent the choice of path for such a grand strategy genuinely matters at the current juncture in history, drawing on the analysis of Edward Mansfield.

(None of the volumes reviewed here addresses the use of economic sanctions to apply pressure on other states to alter their behavior.)

The review of these books shows that both the economics and the international relations/political science communities have distinctive insights and important lessons that can be used to understand the past and guide strategy for the future. More important, however, this review demonstrates that the analytic synergies between these two communities are dramatically underexploited. To be more precise, it suggests that each community would benefit immensely by deepening and enriching its interaction with the other in place of ever more introversion and insularity among its own members.

Krugman: the obsession with competitiveness is a threat to the international system

Peddling Prosperity is Krugman's virtuoso tour d'horizon, surveying the current state of economic theory and practice. He offers a brilliant, iconoclastic, indispensable, but ultimately inadequate assessment of how trade and related economic policies fit into the broader strategy of nation-states.

The international sections of Peddling Prosperity, and Krugman's other closely related recent writings, concentrate on the debate about the competitiveness of national economies.(1) Building on ideas about trade policy, industrial policy, and strategic trade theory he has been developing since the early 1980s, Krugman argues that the preoccupation of national leaders with something "noneconomists" and "clever policy entrepreneurs" have labeled competitiveness is not only misguided but also dangerous to the stability of the international system.(2)

"Let's start telling the truth: competitiveness is a meaningless term when applied to national economies" is the most succinct statement of his thesis. The phrase itself springs from the mistaken idea that competition among nations is like competition among firms. "When we say that a corporation is uncompetitive, we mean that its market position is unsustainable - that unless it improves its performance, it will cease to exist. Countries, on the other hand, do not go out of business."(3)

Beyond misplaced analogy, argues Krugman, the competitiveness debate combines three strands of unsound analysis: about trade deficits and consequent job losses or gains, about industrial policy and the creation of high value-added industries, and about strategic trade theory and the capture of rents among nations. These lead to a policy perspective that is not only unsound itself but also fraught with danger, to wit, that economic competition among nations produces winners and losers, with national strategy assigned the task of ensuring victory and avoiding defeat.

Trade deficits and job losses

Perhaps the most popularly accepted measure of how well one nation, like the United States, is doing in competition with its economic rivals, suggests Krugman, is whether the country is running a trade deficit or a trade surplus and gaining or losing jobs to others. This will indicate how tough the leadership must be in forcing open external markets and ensuring adequate jobs at home.

But the reality, of course, is that trade deficits are caused by a disparity between national savings and investment or, alternatively, between national production and spending in the deficit country, not by either the superior corporate performance or the unfair economic practices of others.(4) When national saving falls while consumption and investment spending remain high, overall spending necessarily rises faster than national income, as has happened in the United States. The only option for an economy in these circumstances is to import more than it exports; hence, to run a trade deficit. If U.S. national saving were to rise and consumption fall, the trade deficit would vanish or turn into a surplus, independent of what other countries did about opening their markets. Trade barriers may affect the composition of the U.S. deficit among products and the distribution of the U.S. trade deficit among countries, but the overall size is determined by U.S. behavior at home. Bashing others will not, and cannot, cure the problem.

As for jobs, trade agreements to open markets do not lead to a greater number of jobs, nor do trade restrictions on the part of others to block exports lead to a lower number of jobs in the would-be exporter's country. U.S. employment levels over the long run (in general equilibrium analysis) are determined by macroeconomic policy, in particular the monetary policies of the Federal Reserve Board. So other nations, emphasizes Krugman, cannot correctly be blamed for aggregate unemployment or net job losses.

Even the rising income inequality in the United States, asserts Krugman (drawing on the work of Robert Lawrence and Matthew Slaughter),(5) cannot be traced to competition from abroad. While Stolper-Samuelson and subsequent factor price equalization theory does suggest that rising levels of trade might depress wages for unskilled labor in the United States because there is lower-wage unskilled labor embodied in imports, the wage rates in the statistically typical U.S. trading partner are almost 90 percent of the U.S. wage rate, and imports from truly low-wage suppliers like China have hardly changed over more than three decades (2.0 percent of gross domestic product in 1960, 2.7 percent in 1990). Instead, Krugman points to the increasing sophistication of technology, and the premium paid to those who know how to make use of it (and not paid to those who do not), to explain most of the rise in wage inequality.

As for declining terms of trade, Krugman points out that in the U.S. case the magnitude is quite small (a drag on U.S. real income growth of less than 0.1 percent annually 1973-91). He questions moreover whether this decline actually was due to a relative productivity lag on the part of the United States.

Industrial policy and the creation of high value-added industries

For more than a decade, private consultants, led (according to Krugman) by the likes of the Boston Consulting Group, have advised corporations to shift resources internally from lagging activities to high-growth, high value-added areas to enable them to compete more successfully in international markets. The faulty logic of using industrial policy to strengthen national competitiveness, he suggests, can be traced to this legacy.

But a nation trying to follow the same path will discover, however, that it can devote extra resources to such preferred sectors only by withdrawing them from other activities. Unless there are externalities that generate extra benefits for the nation greater than what private actors would receive anyway to compensate for the penalty imposed on the rest of the economy, government intervention will leave the country in worse condition than would have been the case with no intervention. This is particularly true when the targeted sectors are high-wage, high value-added sectors, which require much greater use of other resource inputs (such as capital) per unit output than the activities from which they are drawn, imposing an especially harsh burden on more labor-intensive sectors.

In short, there is no free lunch for national economic policy; even if the targeting could be done as proponents advocate without contamination from pork barrel politics, the country would find its economy less efficient and less productive as a result. The only genuine method to strengthen the economy runs parallel to the advice given on the trade deficit, namely, to alter the savings/consumption ratio, devote more resources to investment, and allow competitive forces at home and abroad to dictate the allocation process.

Strategic trade policy and the capture of rents from other nations

In contrast to the raw mistakenness of industrial policy, strategic trade theory has offered a rigorous argument that subsidizing and protecting imperfectly competitive industries might capture rents that otherwise would accrue to others.

Here Krugman shows a professional ambivalence, as he has earlier, that combines admiration for the theoretical justification for intervention under conditions of imperfect competition to shift rents to one's own country and skepticism about proper implementation or significant results.(6) Identifying those particular externalities that can be used as guides for the targeting of public policies, Krugman argues, has turned out to be extremely subtle, and the prospect that the new theory would be taken over by those who want to use it for pet projects backed by "good old-fashioned protectionism" is not at all improbable. Finally, the decisive factor in the argument against using strategic trade theory is that those efforts that have been made by serious economists to simulate the behavior of industries where rent-shifting might be possible in fact "did not seem to suggest very much potential gain." Thus, despite initial excitement, Krugman endorses a "cautious" approach to strategic trade theory with "a bit of relief."(7)

The larger argument in Krugman's analysis is not just that each of these three strands of economic analysis is incorrect, but that the three fit together all too easily into a "deeply wrongheaded" national strategy toward trade: that competition between nations is like a sports event with the goal being to see who is better off afterward. The logical conclusion is, "it seems only common sense to do everything you can to help your side win."(8)

But this is built upon the greatest economic misunderstanding of all, the failure to follow David Ricardo in distinguishing between absolute and comparative advantage. The popular view, he suggests, is that if you are not better than your rivals in something, you will not be able to sell anything on world markets. "The right answer," in contrast, "is that being less productive than your trading partners poses no special problems."(9)

In 1950, for example, points out Krugman, U.S. productivity was higher than British productivity in thirty-nine separate industries (that is, the British lacked an absolute advantage in literally everything), but Britain's exports were almost as great in quantity as those of the United States. The reason is that Britain had a comparative advantage in those areas where British productivity exceeded 30 percent of the U.S. level. The United Kingdom paid for this differential through lower wages and a lower standard of living, but both were higher than they would have been in the absence of trade. "So, while low productivity is a problem, low productivity relative to other countries is not only not a disaster; it is irrelevant."(10) Krugman is exuberant in discovering others making the most basic analytical mistakes. "So, if you hear someone say something along the lines of 'America needs higher productivity so that it can compete in today's global economy,' never mind who he is, or how plausible he sounds. He might as well be wearing a flashing neon sign that reads: 'I DON'T KNOW WHAT I'M TALKING ABOUT.'"(11)

What is the key to national strategy, then, in a world of rival states? The correct answer, according to Krugman, is for each to try to enhance its own economic performance, most notably by bolstering investment rather than consumption in order to improve domestic productivity, and leave the allocation process to ever more open international markets. Improving productivity within any given state is important to raise one's own standard of living, but, among states, reiterates Krugman, relative economic position is merely a distraction: "how fast productivity is growing abroad, and whether we are ahead of or behind the pack, is irrelevant."(12)

Raising the absolute standard of living, therefore, is the summum bonum of Krugman's concept of national strategy. But what about other objectives? Does he simply ignore political and security concerns upon which continued enjoyment of the domestic standard of living depends?

In fact, he does not: "of course there is always a rivalry for status and power - countries that grow faster will see their political rank rise."(13) But Krugman belittles and trivializes any preoccupation with national power (which rests on absolute capabilities but is inherently a relative calculation). As a consequence, while he draws on Adam Smith and Ricardo, his strategic logic has more in common, as the next section reveals, with John Locke: its persuasiveness depends directly upon the assumption of a benign state of nature in the international system.

To put Krugman's approach to the design of national strategy (and the approach of much of the economics community) into perspective, one first has to confront the other (equally brilliant) extreme, Thomas Hobbes, in the person of Gowa.

Gowa: states maximize power rather than plenty

The idea that nation-states confine the definition of their national interests to raising their absolute standard of living without circumspection about the impact their economic policies might have on their position vis-a-vis major rivals (and real or potential adversaries) is incorrect, argues Gowa, both positively and normatively.

>From her perspective, and that of much of the international relations/political science community (most particularly the realist subcommunity), any consideration of the standard of living of particular citizens ultimately is dependent upon the security they hope to enjoy in relations with other states. Far from being simply poor students of economics, national strategists have calculated that relative rates of productivity growth, technological innovation, and overall economic expansion determine which states are better able to influence world events, shape and lead common endeavors, manage risks, resist external pressure, and counter or thwart antagonistic moves by others.

As a consequence, in an anarchic state system nations have been pursuing policies that fit Jacob Viner's distinction of maximizing power rather than plenty, with trade policy but one component of a larger strategy toward other nations, and they have been doing this for as far back as one can study.(14) As Viner's analysis makes clear, Krugman versus Gowa is not simply a replay of the debate between mercantilists and liberals of the seventeenth and eighteenth centuries. Unlike Krugman, Adam Smith acknowledged the importance of power ("the great object of political economy of every country, is to increase the riches and power of that country") and supported the Navigation Acts, for example, on national security grounds. While Viner criticizes the mercantilist tradition for overemphasizing power as an end in itself, leading to bad economics, he also defends the liberal tradition (as represented by Adam Smith) from the charge of being insensitive to power considerations or advocating any "irrational" idea "that the promotion of economic welfare is the sole sensible objective of national policy."(15) Gowa, for her part, will not tolerate dumb economic arguments favored by the mercantilists.

Gowa argues that the gains from trade generate additional resources that, ceteris paribus, can be used for military purposes. Constraints on trade, or denial of access to a free trade community, can deny benefits to potential rivals. Gowa follows T. N. Srinivasan in pointing out that whether a state will actually use its gains from trade to increase its defense budget depends on its social-welfare function.(16) She argues, however, that this does not affect the analysis because, if conditions change, increased gross national product will allow a state to increase its military power more easily than it would otherwise have been able to do.

Building on a rational-choice theory of alliance formation, she shows that tariff games between allies differ systematically from those played between actual or potential adversaries and that both differ from the standard prisoners' dilemma matrix in which states simultaneously try to exert power over their terms of trade. A utility-maximizing state in a potentially hostile environment will internalize not only private but also social returns in calculating the payoff from trade with allies and adversaries. Power considerations predict, therefore, that trade liberalization will take place highly selectively, to the extent that states can manipulate imperfections in international markets - with greater openness toward allies and lesser openness toward those with whom political relationships are more problematic.

Using data from an eighty-year period starting in 1908 with a widely accepted gravity model of bilateral trade flows, Gowa then tests the impact of alliances on trade. The analysis shows that political-military alliances have a direct, statistically significant, and large effect on bilateral trade, a phenomenon not at all limited to the days of the cold war. The bottom line is that "the play of power politics is an inexorable element of any agreement to open international markets, because of the security externalities that trade produces."(17)

Even a seeming exception proves the rule, for Gowa, that power politics dictates trade policy. During the period of the Anglo-French Entente (1904-14), one might expect that for both economic and political reasons Britain would have pursued a market-opening strategy with France - whose vitalness to Britain's national security was on the rise from the Moroccan crisis of 1905 to the outbreak of World War I, when Britain entered on the side of France. Instead, Britain twice rejected proposals to liberalize trade with France. The reason is that the 1871 Franco-Prussian peace treaty bound

France to grant Germany unconditional most-favored nation status allowing Germany to "claim for her trade and commerce any advantages conceded to us [i.e. Britain] by France."(18)

A refinement of the power-enhancing approach might be to seek tariff concessions that would give exclusive advantage to Britain. But, as Alfred Marshall, among others, had pointed out, it was very difficult to devise tariff reductions that would redound to Britain's benefit alone without including potential adversaries.(19) In this instance, the similarity between British and German exports severely limited British ability to privatize the benefits of any Anglo-French trade agreement.

This case, as well as the aggregate statistical analysis, leads Gowa to be tenacious in arguing that considerations of power rather than plenty drive the policies of major states. One might hope, for example, as Charles Kindleberger has hypothesized, that hegemonic states have a special perspective, a special discount rate, and a special conception of long-run self-interest that dispose them to bear a disproportionate share of the risks and burdens of promoting trade liberalization for the benefit of all.(20) Kindleberger has worried that since international free trade is a public good, it depends upon the existence of a dominant state to ensure its supply. Britain, he suggested, played the role of free trade enforcer in the nineteenth and early twentieth centuries. The inability of the British to act as hegemon in the interwar period, and the unwillingness of the United States actively to replace Britain, led to a beggar-thy-neighbor collapse of the world trading system in the interwar period. Any design of national strategy for the future will need to be informed about how hegemons, including the United States, have viewed their interests in the past.

For a moment Gowa's line of argument helps buttress the theoretical foundations of Kindleberger's position. Whereas some critics of hegemonic stability theory have suggested that rational hegemons would find it in their self-interest to adopt an optimal tariff rather than free trade,(21) Gowa argues that any attempt to exploit an optimal tariff in the short run would undermine the power to do so over time, leading a nonmyopic hegemon to reject it. Whereas other critics of hegemonic stability theory have suggested that participation in open markets is excludable and hence not a public good,(22) Gowa argues that exclusion of defectors is likely to be costly enough that the sanctioning process itself becomes a public good. Whereas yet other critics of hegemonic stability theory have suggested that small groups are close substitutes for hegemons,(23) Gowa argues that agreements on how, where, and when to cooperate, along with side-payments that redistribute the net benefits of cooperation, are formidable obstacles to the assumption that small groups can play the role of a hegemon. In sum, for her, the theoretical criticisms of Kindleberger are "not definitive."

But these rebuttals on the level of theory do not lead Gowa to resuscitate Kindleberger. Instead her purpose is to report that the behavior she has observed for Britain, and parallel evidence she alludes to for the behavior of the United States, shows that neither "state subordinated the pursuit of its national interests to global interests during the period in which it reigned as the alleged free-trade hegemon."(24) This, for her, delivers an empirical coup de grace to the idea that the interstate system is ever likely to be able to look to any "benevolent despot" to keep international markets open. "Debates about hegemonic theory have neglected what may be the most durable barrier to free trade among the constituent great powers of any given international political system: that is, the primacy of concerns about security that characterize life in an anarchic world."(25)

Gowa's depiction of the value of selective liberalization in the service of enhancing a state's position in the international system probably understates (rather than overstates) the case: for nations concerned about influencing the foreign policies of other states, building international coalitions directed to common purposes, and resisting the pressures of others, an economic statecraft calibrated to the pursuit of relative gains could, if effective, yield benefits far more usable and significant on a practical level than her oft-repeated "freeing up resources for military purposes." Moreover, her search for "product differentiation" in her research probably weakens her argument unnecessarily, since avoiding excessive dependence on potential adversaries (a motive she says she avoids since it has been dealt with by other writers) offers a strong complementary rationale for selective liberalization.(26)

But, except for the Anglo-French Entente, the model of tariff games between allies and adversaries in fact sits there as no more than a plausible hypothesis, untested as to whether national leaders actually are able to conduct economic policy with the subtlety, craftiness, and beneficial impact on themselves that the model suggests may be possible. One suspects that if analysis with a healthy measure of Krugman's skepticism about effective public intervention were turned loose at diverse moments in history, one would find myriad examples of dumbly conceived and counterproductively executed policies.(27)

But the fact that states might be shown to have mixed in some ill-conceived advice from earlier incarnations of "noneconomists" and "clever policy entrepreneurs" in nationally harmful directions as they made calculations about relative power does not vitiate the basic point: the distributional consequences among states of national policies, including trade policy, are far from irrelevant; they have been central to the welfare and well-being of citizens. More than one state that witnessed trends in economic capabilities move against itself found its role in world affairs diminished and, in extreme cases, the way of life as the inhabitants knew it destroyed (as close as a body politic can come, one supposes, to going out of business).

Of greater practical import, perhaps, one does not have to adopt as extreme and Hobbesian a view of the dire consequences of international anarchy as Gowa uses for her point of departure to take the realists' concerns about the distributional implications of economic policies seriously: a nation whose resources and capabilities decline in relation to others will enjoy less control over its own life along many margins and less voice or influence in international affairs even if the threat of actually being taken over by adversaries is infinitesimal.

Thus the anarchic structure of the international system, says Gowa, compels its constituent states to attend closely to their own position in relation to the power and potential of both prospective and actual allies and adversaries. The rational state will and should utilize a policy of selective liberalization to enhance its place in the interstate system.

The emergence of strategic trade theory, according to Gowa, bolsters the logic of this argument and expands the range of policy instruments to which it can be applied. After all, realists (and perhaps others) in the international relations/political science community would note that in the case of high-technology strategic trade industries whose economies of scale are greater than national markets, some countries (or regions) are likely to be left without players of their own, at the mercy of external monopolists. The potential threat this poses to national autonomy, and the potential vulnerability it carries for foreign manipulation, may be much more significant than whatever economic rents might or might not be captured by one nation or another. The rationale for public intervention to field a national presence in key high-tech strategic trade sectors appears compelling: sins of omission may be as damaging as sins of commission.

As a consequence, the realist perspective in the international relations/political science community in general, and Gowa in particular, seems to give license to the very kind of zero-sum calculations for national strategy that Krugman (and the economics community more broadly) fears will be so destructive to the international system.

More disturbing, there is no way to brush over differences between the economics and the international relations/political science communities by suggesting, for example, that the two communities are merely focused on different objectives (indeed it is difficult to argue with rigor that they even postulate different utility functions). The realist tradition in the international relations/political science community simply takes the economists' definition of the national interest - maximization of a country's ability to consume goods and services over some discounted time horizon - and extends it to encompass (at a minimum) a concern about a country's ability to insulate or defend itself from threats to present and future consumption similarly discounted. In any interstate system that is not always benevolent, therefore, even the narrowest economic definition of welfare implicitly carries a security dimension.

Moreover, as long as there is any possibility of manipulating imperfections in international markets (due to size of states in extremely competitive international markets, barriers to entry in particular sectors in imperfectly competitive international markets, and differential treatment toward outsiders by regional economic blocs), the issue of relative gains cannot be ignored. The pursuit of power and the pursuit of plenty end up inextricably linked. National leaders have no choice but to fashion a strategy that combines calculations of absolute and relative gain simultaneously; that is, to design what might be described (too pretentiously) as a grand strategy for trade and related economic policies to advance the long-term interest of the nation-state in enhancing its position in the international system.

How might such a grand strategy be constructed? Clearly the answer cannot be found in simply letting each state follow its own narrow interests (or the interests of its immediate allies or regional partners) in crafting economic policy without letting the Hobbesian vision become a self-fulfilling prophecy. In contrast to the supercilious dismissal of power considerations in Krugman's work, there is a relentlessly ahistorical determinism in Gowa's invocation of international anarchy that ignores any potential learning curve and belies any potential progress in building international economic institutions over the past fifty years. Surely the stability of the international system requires maintaining and strengthening some of these safeguards against the kind of self-centered impulses Gowa finds so endemic.

Gowa's thesis that potential adversaries should be denied access to international markets to the extent possible is further complicated by the observation that greater access may in fact hasten internal reform that will decrease the likelihood of a future adversarial relationship, a controversial but supportable proposition advanced, for example, in the China most-favored nation debate or the debate about ending the U.S. embargo on Cuba.

To design a grand strategy for the contemporary era, therefore, one has no option but to combine the insights of Krugman and Gowa, producing a subtle balance between agnosticism and self-centeredness toward the distribution of national gains from indigenous economic policy choices. One might try to restage the Hobbes-Locke debate about the state of nature, this time on the international level, with the tools of modern social science to establish which view of the international system is the "more correct" model to use, never mind how complicated such a validating process would be. But real-world policymakers still will be left with having to make complex assessments about: (1) how much of a loss in efficiency or welfare is worth how much of a gain or alleged gain in security, as an insurance policy within an international system that shows both benign and malevolent characteristics; (2) how great a risk of systemic disintegration might be appropriate to run, in light of the adverse secondary and tertiary effects on all concerned if the disintegration were to materialize; and (3) how effective and controllable are the resulting strategic policy recommendations likely to be in multiple national policymaking environments, each of which is prone to special-interest capture and myopic distortion?

Where might one look to begin to frame the issues, compare alternatives, and search out answers about the key issues in trade policy (and related areas of investment and technology policy) that are needed in the construction of grand strategy today? Might the pursuit of power and the pursuit of plenty be integrated, for example, within the agreements already established under General Agreement on Tariffs and Trade/World Trade Organization (GATT/WTO) auspices, or will new self-denying mechanisms (familiar indeed to those dealing with the state of nature as Hobbes conceived of it) be needed to bind the hands of national leaders in ways that extend far beyond the GATT/WTO disciplines?

The logical place to turn, at least initially, is to the latest policy-oriented NBER research on these topics, perhaps the largest and most prestigious collective effort from the economics community in this area in the world.

NBER research on strategic trade theory, trade policy, and the political economy of protection

The two NBER volumes under review here, like all NBER studies, are devoted to bringing together the foremost research on questions of theory, policy, and process with interpretive synthesis by leading figures in the field in a manner that makes the results as useful and accessible as possible to policymakers. These particular books cover a broad range of conventional trade policy issues, strategic trade policy issues (and related questions of technology and investment policy), and policy formation issues, one under the direction of Krueger and the other, of Alasdair Smith and (again) Paul Krugman.

In these volumes many of the familiar defects in trade policy formation are once more discovered: the policy process in the United States is producer-driven, consumer interests are underrepresented, adjudicative bodies do not (or are forbidden to) take into account the impact of trade restraints on the entire economy, users of sheltered inputs are particularly damaged, and protectionist policies frequently do not help even those industries that seek them. There is good reason to question, as Krueger concludes, "the degree to which current U.S. trade policy achieves objectives that are in the interest of the American people and economic efficiency."(28)

Because of the diverse character of the studies, one might not necessarily expect (despite the ostensible NBER objective) to find all the ingredients needed to define the issues, weigh alternatives, and debate the trade-offs required for a realistic national strategy. But with strategic trade theory figuring prominently at various places in each volume, with extensive examination of two of those high-tech industries most filled with policy contentiousness (aerospace and semiconductors), and with eleven chapters devoted to regional trade agreements, administrative protection, and the industries most affected by selective liberalization (like steel, automobiles, textiles, apparel, lumber, and agricultural products), one would hope this to be fertile ground for some insights and guidelines for integrating the concerns Gowa thinks are inherent in the design of national strategy with the concerns Krugman warns may lead in dangerous directions.

The reality is otherwise, particularly in three of the policy arenas where a new synthesis will most evidently be needed.

Strategic trade theory and high-tech industries

Following the example of Krugman and R. E. Baldwin in an earlier simulation of the aerospace industry, the strategic trade modeling by Gernot Klepper, for example, casts doubt on the prospects for Airbus to become profitable soon, even once a complete family of aircraft has been launched. Klepper finds that the projected subsidies of $20 billion for Airbus are roughly twice as high over twenty years as the $10 billion gain in European consumer welfare when compared with a hypothetical Boeing monopoly. Hence, he concludes, "from the view point of European governments, Airbus's market entry as an 'anti monopoly' policy was not successful."(29)

Similarly, in the prior NBER study, Krugman and Baldwin had labeled the Airbus 300 project a "beggar-thyself policy for Europe" in comparison to "a world without Airbus" because the gain to Europe's consumers (in their parent model) outweighed the cost of the Airbus subsidy only for a low discount rate of 3 percent.(30)

Are these serious suggestions that the Europeans abandon their aerospace industry in favor of having the United States as sole aerospace supplier? How would the appraisal change if one expanded the concept of welfare, along Gowa-like or Albert Hirschman-like lines, to include concern that dependence on an external aerospace monopolist might pose a threat to the autonomy of European governments as actors in international affairs?(31) Would less than a half billion dollars a year ($10 billion over twenty years) seem like a large or small price to pay in comparison to the freedom to conduct foreign and defense policy without being constantly under the scrutiny, and approval, of an external monopolistic supplier of airframes and avionics? One is tempted to think that Krugman himself might as well be "wearing a flashing neon sign that reads 'I MISSED THE CLASS WHERE THEY TOLD ABOUT SUEZ.'"

A useful research design for strategic trade theory and high-tech industries might logically compare the strategy of launching a national (or pan-national) champion with the next best alternative a government can choose to avoid external monopoly; that is, in the case of the aerospace industry, for example, to ask how the Airbus effort stacks up against the option of strengthening in-country capabilities via coproduction agreements and transborder corporate alliances, as followed by Japan (with Airbus and Boeing) or China (with the latter two corporations plus McDonnell Douglas).

More broadly, any comprehensive consideration of strategic trade theory and high-tech industries would want to assess the entire array of insurance policies to protect against delay, denial, or manipulation (whether economically or politically motivated) by monopolistic external suppliers. Are other strategic trade industries, like semiconductors, microprocessors, advanced chemicals and materials, or biopharmacology, likely to introduce the same policy dilemmas, or is aerospace unique?

In the NBER volumes, however, there is no attempt at assessment more profound than the demonstration that supply from a foreign monopoly is the "welfare-enhancing" solution.

The question that so-called grand strategy must address is whether to permit nations (including the United States) to try to position themselves as quasi-monopolistic suppliers of the most advanced high-tech products, led by aerospace, or deliberately to allow diffusion of technologies and production sites across borders (excluding from diffusion only the most militarily sensitive products).

Selective liberalization and the formation of blocs or regional alliances

In the negotiation of regional trade agreements, David Orden finds that U.S. industries that are able to remain "moderate" up to the final period (e.g., before the North America Free Trade Agreement, NAFTA, package reached Congress) were able to acquire relatively large payoffs to secure their support. He notes in passing that two major U.S. industrial players, dairy and cotton, came to support the NAFTA accord only after strong rules of origin were adopted.(32)

But neither Orden, nor other authors who cover various aspects of the lumber, steel, autos, textile, and apparel industries, nor Krueger in her concluding overview, takes note of a broader policy question (and policy danger). What does a process that allows NAFTA's breathtaking expansion of the use of rules of origin to divert trade and shift foreign investment (and economic rents) into one regional market portend for the discovery by Jeffrey Frankel and others that regionalism is on the rise, perhaps even leading to the creation of regional blocs?(33) After correcting trade flows for natural determinants such as size, per capita gross national product, proximity, and common borders, Frankel demonstrates the European Union, Western Hemisphere, East Asia, and Asia Pacific Economic Cooperation forum (APEC) all show significant "block effects" - bias toward trading with each other substantially higher than would otherwise be predicted.(34)

A useful research design would seek to probe how such sharp delineation of trade blocs could be taking place in the midst of so much ostensible liberalization: might rules of origin, locational incentives, and other measures to influence patterns of foreign direct investment and trade be the new guise in which Gowa's games of selective liberalization will be played out?

More broadly, what are the implications of imitation and duplication of such exclusionary measures? Trade diversion and rent capture could arguably have made sense in terms of the U.S. national interest (economic and political) vis-a-vis Mexico, but how will the structure of international economic activity and consequent alignment of political relationships evolve if these discriminatory devices are extended throughout this hemisphere and copied (or bested) in Asia and Europe? (Since the predominant assumption has been, following Stephan Hymer, that foreign direct investment takes place in imperfectly competitive industries, the battle to attract multinational corporations is quite likely a struggle over the distribution of inframarginal chunks of good jobs, extra research and development [R&D], and perhaps high profits. Research by Katz and Summers suggests that rents in imperfectly competitive industries are more likely to be reflected in high wages and strong R&D activity than in excessive returns to capital.)

In the NBER series, however, there is no assessment of policy implications deeper than the damage done to efficiency by the play of particular rent-seeking constituencies.

The challenge for grand strategy is to decide the extent to which nations will permit themselves to use trade diversion, rent-switching, and diverse "domestic" measures to bolster their economies and polities selectively or will resolutely deny themselves the ability to capture advantage for their own people, neighbors, and allies.

Trade, technology, and who-is-us issues

Looking at R&D subsidies as a strategic trade issue, David Ulph and Alan Winters estimate that the payoff to gross domestic product from public support for high-tech industries is a surprisingly high 2.5 times the size of the intervention. Ulph and Winters conclude that "giving R&D support to the high-tech sector is potentially an extremely powerful and important policy," with results that are highly dependent on assumptions about the movement of scientists and science itself across borders.(35)

Surely a useful research design would address the question of what are the policy implications for treatment of the most obvious vehicle to affect such movement, i.e., multinational corporations? Should foreign firms be deliberately excluded from national R&D initiatives (the "Sematech" and "clean car" models) or invited to participate (the "flat panel display" model)? Should foreign firm eligibility be extended unilaterally or only on a reciprocal basis in return for access to the national R&D programs of other states? More broadly, what might be the most appropriate way for governments to address who-is-us dilemmas, and when might special measures genuinely be required to limit the potential for external denial or manipulation (a subset of the problem of external monopolistic suppliers above)? This gap is most peculiar in light of the identification of external monopoly as a legitimate national security concern in the Edward Graham and Krugman volume on foreign direct investment in the United States, and Graham's subsequent expansion of policy analysis in this area.(36)

The issue for grand strategy is whether to preserve a clear distinction between "our" firms and "others" or to adopt a studied agnosticism toward the national identity of firms wherever they are found (with special safeguards only in the case of the most concentrated international industries).

Explaining performance below potential

Somewhat surprisingly, therefore, in each of these arenas where the pursuit of power and the pursuit of plenty intersect and where the great debates over trade policy (especially strategic trade policy) and related technology and investment issues must be engaged, one finds the NBER contributing rather far below its potential, given the purely technical virtuosity of the studies assembled in these volumes - not so much wrong as "clueless" (in a precise use of the vernacular) about the larger context.

Why?

Performance below potential is usually explained by protection and insulation from competitive pressures. Could it be that some fraction of the economics community has been content to point out the easy mistakes of others, while sheltering itself within the NBER guildhall from the more serious intellectual challenges, hesitating to stretch the envelope, declining to raise the level of play?

The evidence is not inconsistent with this explanation.

Here is NBER coverage of strategic trade issues in high-tech industries, without citing any of the work of: David Mowery, Richard Samuels, Helen Milner, David Yoffie, Michael Mastanduno, Jeffrey Hart, Miles Kahler, Lynn Mytelka, Jeffry Frieden, or Aaron Friedberg.(37) Here are two entire NBER volumes on trade policy (including a concluding exhortation by Krueger for "multidisciplinary research") without citing the work of John Conybeare, Judith Goldstein, Joseph Grieco, Stephan Haggard, John Ikenberry, David Lake, Charles Lipson, Timothy McKeown, John Odell, Kenneth Oye, Robert Pastor, Ronald Rogowski, John Ruggie, Arthur Stein, or Susan Strange.(38) Further, there are thirty-six articles and commentaries here in the NBER series devoted to international political economy, that show no contact with the corpus of work in this area published by Cornell University Press, Princeton University Press, or the University of California Press or with any article in the principal scholarly journals where the political science community publishes on international political economy.(39) Were it not for Michael Finger, Ann Harrison, Douglas Irwin, David Orden, and the unusually well-read Douglas Nelson (a statistical outlier), the economists in these NBER volumes could claim a perfect record of abstinence from the principal publications where the international relations/political science community debates issues in international political economy.

Surely one might conclude that this is rather narrow and self-absorbed behavior on the part of the successors to those earlier generations in the economics community that included Adam Smith, Ricardo, Marshall, Viner, Hirschman, and Kindleberger.

The point, of course, is not that Mowrey and Samuels are wiser or more knowledgeable about aerospace policy (for example) than Krugman and Baldwin, but that Krugman, Baldwin, and their successors would be even wiser and more knowledgeable than they already are if they were in close dialogue with their counterparts in the international relations/political science community, and vice versa.

(On the other side of the international political economy dialogue, in contrast, the two volumes by Gowa and Mansfield build on nearly 150 sources from the principal researchers in the economics community, from, in alphabetical order, Avinash Dixit through Beth Yarbrough, engaging and debating with a large fraction rather than merely citing them.)

To what extent is a broader perspective needed? Is the design of grand strategy merely a question of good or bad economics or is there a larger choice required in the construction of national policy?

Sketching alternative paths for grand strategy

The policy arenas in which the power/plenty struggle certainly will be played out - strategic trade theory and high-tech industries; selective liberalization and the formation of blocs or regional alliances; and trade, investment, and who-is-us issues - are not well-covered by GATT/WTO disciplines. Each contains an arguable rationale for zero-sum self-interested action to gain national advantage or, alternatively, for cooperative action on behalf of the common good (including the benefit of dampening tensions that otherwise might result from preemption, matching moves, and mutual escalation).

The choices in each policy arena have profound repercussions for how nation-states define themselves and strengthen (or cede) the capability of exercising control over their own economies. Beyond merely asking what might be the most efficient economic outcome, national leaders will have to form their policy choices with a Hobbes-versus-Locke calculation of whether greater potential threats to their domestic well-being come from binding or loosening their own hands and the hands of others in the international system.

Furthermore, without any claim to identifying here all the principal issues involved or to examining all the major alternatives, it becomes nonetheless clear that nations can take one of two distinct paths for grand strategy; the two involve profoundly different approaches to national sovereignty and national identity. They diverge according to whether national sovereignty and national identity are preserved as integrally as possible or are deliberately blurred and diluted so as to preserve only the most basic and minimal domains of national control.

They might be characterized as a path toward a late-twentieth-century neomercantilism or, in contrast, a path that most accurately might be called transnational integration - rather than mere "liberalism" because, as will become apparent, a consistently liberal approach toward trade, investment, and technology flows - not to mention migrant labor flows - will perforce have much more radical consequences for the idea of the nation-state than envisioned in conventional assessments of the policy alternatives.

Strategic trade theory and high-tech industries

The question for grand strategy as it pertains to high-tech industries is whether to permit consolidation and exploitation of national quasi-monopolies or to deliberately encourage diffusion of monopoly power across borders. Calculations of power politics and of economic advantage could lead either way. The outcome will hinge on (1) where to draw the line on launch subsidies and indirect support (via defense budgets) for dual-use technologies; (2) whether to leave Super 301-type trade actions and voluntary import expansion-(VIE) type trade remedy agreements available to be used offensively and antidumping regulations available to be used defensively to support any one nation's high-tech supremacy(40); and (3) how intrusively to involve public authorities in surveillance of transborder corporate alliances and coproduction agreements.

In high-tech strategic trade industries, a late-twentieth-century neomercantilist path might find nations creating considerable leeway for themselves to provide launch support and preferential access for their own industries (as defined by extensive rules of origin) while tightly policing transnational alliances and coproduction agreements to preserve control over the location of jobs and the diffusion of technology. Unless deliberately tempered (see below), the logic of the drive for technological superiority might include aggressive unilateralist measures to insert exports into other markets along with vigorous use of antidumping regulations to hinder imports of similar products or even preempt their development.

A transnational integrationist evolution, in contrast, might find countries limiting each other's ability to bolster their own companies via direct and indirect support (including defense budget support), with a hands-off approach to transnational alliances and coproduction agreements that deliberately spread the creation of good jobs and the creation of codependencies across borders with the aim of creating constituencies to help cross-penetration of markets.(41) To dampen the beggar-thy-neighbor pressures in industries with quite large economies of scale, the treatment of VIEs and antidumping regulations would have to be significantly altered from what is permitted in current WTO procedures.

The direction of policy in this area will be played out, most notably, in the negotiations for extension of the European-U.S. civilian air agreement (with painful choices for the United States in the face of European allegations that the Defense Department budget, still the largest industrial policy tool in the world, is being used indirectly to enhance the competitive position of U.S. civilian aerospace companies) and in the mandatory renegotiation of the Uruguay Round subsidies code five years hence.(42)

Equally important will be the question of whether public authorities take it upon themselves to challenge private corporate technology alliances and production-sharing agreements across borders or provide insulation and buffering from such public-sector intrusion: whether or not there is a repetition of the FSX/Japan kind of dispute while China uses McDonnell Douglas, Boeing, and Airbus as tools to expand its indigenous aerospace industry will be a key case, with precedents being set for similar efforts involving Russia, Ukraine, Brazil, and India. (For antidumping regulations, Super 301, and the use of VIEs, see below.)

Selective liberalization and the formation of blocs or regional alliances

In the regional arena, any grand strategy must determine whether entrenched practices of preference and exclusion will (or will not) be uprooted in order to enhance genuine multilateral access for trade and investment. The answer will emerge from the stance toward: (1) expansion or contraction of NAFTA-like rules of origin in the Western Hemisphere, Europe-Eastern Europe, and Asia; (2) loosening or tightening of locational incentives (including subnational grants and tax preferences); and (3) exploitation or neutralization of antidumping rules as a tool of national and/or regional discrimination.

A neomercantilist approach might resist efforts to bring local incentives (including labor, environment, and regional development incentives) under multilateral discipline and permit expansive use of rules of origin.(43) It might then countenance managed trade demands (variations on VIEs, backed in the case of the United States by Super 301 and perhaps equivalent measures elsewhere) as a method to force international/intraregional penetration.(44)

A transnational integrative approach, in contrast, might institute tight limits on local incentives, harmonize and/or eliminate rules of origin, and prohibit managed trade.

The direction of policy will depend on whether the WTO is empowered to create new disciplines (which were rejected in the Uruguay GATT round) to prohibit VIEs in the way voluntary export restraint agreements now are prohibited and to change the test for antidumping from a cost-based to a price-based standard. More broadly, it will depend upon whether the new agenda of trade negotiations on competition policy, labor, and the environment heightens or diminishes the exclusionary measures available to particular regions.

Trade, investment, and who-is-us issues

The pursuit of grand strategy cannot avoid addressing who is "us" and who is "them," not only in the case of mundane suppliers in mundane industries but also in the case of reliable suppliers in critical industries. This will involve decisions on: (1) intensification or elimination of nationality-based eligibility for public R&D programs; (2) loosening or tightening of control over foreign acquisitions of companies in critical technology or defense industries; and (3) expansion or contraction in the scrutiny of nationality of suppliers for defense procurement. Indicative of concern about dependence upon concentrated foreign suppliers, the General Accounting Office found that 42 percent of a sample of U.S. firms reported that Japanese suppliers had rejected their orders for advanced goods, parts, or technologies or had delayed delivery by more than six months (non-Japanese suppliers were not part of this study).(45)

A neomercantilist approach might require a national identity test for firms to qualify for access to R&D initiatives and to receive permission to engage in takeovers or acquisitions in critical technology or defense industries.

A transnational integrative approach might allow nonnational firms to participate in R&D programs and acquire critical technology companies, subject only to agreement to maintain local R&D and local production in industries with a high degree of global concentration. Only in the case of highly concentrated defense suppliers, with extremely sensitive military technologies (where a takeover would represent the transference of quasi-monopoly control from one sovereign domain to another), might there be a presumption against permitting foreign acquisitions. Drawing on antitrust theory, I have proposed a 4-4-50 rule-of-thumb to test for levels of international market concentration sufficiently tight to make collusion credible; the presumption would be that concentration higher than four companies or four countries supplying 50 percent of the global market is a necessary condition for any genuine threat of delay, denial, blackmail, or manipulation. The 4-4-50 rule can be operationalized in terms of the Hirschman-Herfindahl index and made compatible (in the United States) with Hart-Rodino guidelines for mergers and acquisitions.(46)

Discussion of these issues is in the most preliminary stages, primarily within the Organization for Economic Cooperation and Development. The battle for the soul of technology policy in the United States between the clean car model (only the Big Three U.S. automakers are eligible for R&D subsidies) and the flat panel display model (foreign firms are eligible for R&D subsidies) will set an important precedent for other regions.

A schematic representation of the alternatives for grand strategy is shown in Table 1. My own recommendation for making the terribly complex trade-offs discussed above and summarized in Table 1 would be to follow a rule of minimal activism in the search for national advantage; that is, to try to maximize the opportunity for mutual gain while narrowing the pursuit of national advantage to those measures most necessary for national security and least destabilizing when deployed by some or all states simultaneously. And, to meet this challenge successfully, I conclude (as the final section makes clear) that Kindleberger may have to be credited with more insight than is fashionable in international relations/political science circles today.

The experience of engaging in public service is likely to pull would-be grand strategists in two conflicting directions on the issue of government intervention. On the one hand, it is axiomatic that anyone who has had to negotiate with the Japanese on market access for more than six months will feel the urge to advocate policies, no matter how unwise, that "show them a thing or two." On the other hand, anyone who has witnessed the mills of the U.S. government grind out economic policy (say, on antidumping) for more than six months will, I predict, begin to recommend the reading of Milton and Rose Friedman's Free to Choose to friends.

To assess whether a prudential rule of minimal activism in striving for national advantage might be the appropriate choice, one might begin by asking [TABULAR DATA FOR TABLE 1 OMITTED] to what extent is the impact of the choice
of grand strategy likely to be crucial in its own right for the stability of the international system in the contemporary world? Does the relationship between choice of approach to international economic policy and degree of interstate tension in the past provide grounds for considerable wariness today, or might the current expansion of international economic activity be so overwhelming in the aggregate as to constitute "the end of history" (to coin a phrase)?

Mansfield: does the choice of grand strategy matter at this juncture in history?

Mansfield's research offers an important, if somewhat counterintuitive, perspective on the significance of the choice of path for grand strategy in the contemporary period (albeit buried in by far the least accessible volume reviewed here).

Mansfield investigates the relationship between the distribution of power, international trade, and the deterioration of international relations that ultimately leads to the onset of war. In contrast to the predominant realist approach in the international relations community, which focuses on the importance of polarity in the international system (unipolar, bipolar, multipolar), Mansfield focuses on the concentration of resources and capabilities, or the relative inequality of power and potential among states, using measures closely related to the Hirschman-Herfindahl index of market concentration. Mansfield's analysis suggests that the importance of protectionist and exclusionary policies for interstate stability depends upon where they emerge in the historical pattern of international structures.

The good news is that there is an inverse relationship between the level of trade and interstate hostilities. With considerable care and rigor, Mansfield demonstrates that the liberal contention that trade and peace go together has some merit. Whether one examines wars involving major powers (the leading five to seven states), wars that do not involve a major power, or all interstate wars, higher levels of commerce are associated with a lower incidence of war and vice versa. Moreover, as trade levels increase, so does the quantitative effect on inhibiting hostilities among states as well as the statistical significance.(47)

Further, looking only at polarity, while major-power wars tend to begin less frequently in bipolar than in multipolar systems, little evidence suggests that periods involving the breakdown of a hegemonic system are any more prone to war-inducing tensions than other periods.(48)

The bad news is that there is an inverted U-shaped relationship between the concentration of resources and capabilities, restraints on trade, and tensions leading to interstate hostilities. Since hegemony is a measurement of the relative strength of the most important state, Mansfield argues, it does not adequately capture the distribution of power among all the major actors in the international system. Refocusing the examination of international structure to highlight measurements of the latter, Mansfield finds that the relationship between concentration and patterns of international trade, on the one hand, and tensions leading to hostilities, on the other, is quadratic rather than monotonic; that is, both the highest and lowest levels of concentration are associated with the fewest impediments to trade and the lowest incidence of warfare, while intermediate levels of concentration in the international system lead to both protectionist measures and higher incidence of conflict among the five to seven larger powers. Holding constant the number of major powers, there is an inverted U-shaped relationship between the relative inequality among them, the use of protectionist trade measures, and the propensity for hostilities.

The explanation for the outbreak of hostilities, according to Mansfield, may spring from the fact that deterrence is weakened when (in contrast to a highly concentrated state system) blocking coalitions are less certain to emerge. One of the five to seven larger powers may determine that a move against a smaller state is worth undertaking if success will improve its position relative to the rest and might be completed before others can react cohesively to prevent it. Conversely, the perceived threat posed by one of these five to seven larger powers may lead those with lesser capabilities to band together and launch a preventive war against it.

In this milieu of move and countermove on the part of nation-states, Mansfield also finds that regional trading blocs and enhanced use of protectionist measures are more likely to take place. Whether selective manipulations of markets and exploitations of "predatory opportunities" lead to, or merely accompany, the political maneuvering that results in hostilities is not clear from the data.(49)

Particularly worrisome, however, suggests Mansfield, are periods when the distributions of resources and capabilities within the international system have become less highly concentrated, but shifts in the shares of those resources and capabilities are taking place that may themselves be viewed as threatening. Perhaps the competition for market advantage combined with the expected consequences of inaction may lead states to run risks they otherwise would not.

Mansfield is careful not to suggest that structural conditions alone predict when levels of tension leading to outright conflict are imminent, "but the fact that similar structural conditions historically have been vested with dangerous characteristics should induce caution on the part of, and should not be overlooked by, decision makers."(50)

Clearly, despite the evident successes in trade liberalization in the contemporary period, there is a cautionary tale here. During a period when resources and capabilities are becoming more dispersed among the leading half-dozen or more states, the temptation to pursue measures that will advance any given state's relative position has appeared over the course of history to have been high relative to the more general appeal of maintaining aggregate trade flows. Mansfield's research would suggest that, absent strong institutional mechanisms explicitly to contain such economic rivalries, the potential for considerable tension among states (or blocs) would appear great, judging from historical experience, despite high overall levels of trade.(51)

How serious might such tension be as a threat to international stability in the contemporary era? The answer is likely to depend on the interaction between "getting fundamentals right" (in particular for the United States) and the choice of a minimally activist or a more aggressively activist and unilateral grand strategy.

With regard to the fundamentals, one can profitably return to Krugman's analysis, in which there is in fact an important area of overlap between the economics and the international relations/political science perspectives. While it is clear that the distributional consequences of the choice of grand strategy cannot be trivialized in the way Krugman's presentation suggests (because in some areas the political/security implications are certain to be quite important), Krugman is doubtless right in arguing that the aggregate economic impact of genuine zero-sum policies will probably be relatively small in comparison to the economic impact of improvement in the ratio between savings and consumption.

Consequently, a shift in the allocation of domestic resources from consumption toward savings and investment is likely to be the most important tool national leaders have to raise their own absolute standard of living and relative rates of economic growth, productivity, and technological innovation. Getting the fundamentals right would thus serve the objectives of power and plenty simultaneously, generating both greater economic welfare at home and more resources available to be deployed, ceteris paribus, to influence world events, lead common endeavors, and avoid adverse pressures in the international arena. In short, even those who believe Gowa's view of the international system better describes reality than Krugman's, and who consequently place greater importance on relative gains, will nonetheless agree with the latter's policy prescriptions about getting fundamentals right.

At the same time, better macroeconomic performance is likely to lead, in the case of the United States, to several kinds of political externalities as well. First, higher productivity growth and greater technological innovation will generate greater resources for experimentation with those adjustment-assistance and vocational-retraining initiatives needed to maintain popular support for political engagement abroad (perhaps helping to ward off the Stolper-Samuelson effect a while longer). A country whose incentive structure rewards investment in upgrading human resources, rewards more intensive use of human resources, and rewards the development of labor-intensive technologies is likely to find more support for economic liberalization and political engagement in the international arena than one whose incentive structure ignores upgrading human resources and offers a premium for replacing human resources with capital and labor-substituting technology.

Second, getting the economic fundamentals right may produce a dividend externally in terms of what Joseph Nye has called "soft power," since there is likely to be admiration, emulation, and bandwagon effects for a country "winning" more often than not against foreigners in international markets, for macroeconomic reasons, and piling up claims against the assets of foreigners rather than vice versa.(52) (Changes in the consumption/savings ratio will affect the trade balance, and hence the net accumulation of foreign assets, but not necessarily flows of direct foreign investment or acquisitions of domestic firms.)

Finally, one might expect a kind of "Kindleberger effect" (despite all the learned criticism): a lesser tendency to blame others, a greater willingness to bear burdens on behalf of the common good, and a greater appreciation of "the long shadow of the future."(53) Kindleberger emphasized the need for providing leadership through a willingness to bear a disproportionate share of the costs of system-maintenance. A crucial case in point may be the willingness of the United States to take the lead in integrating China, Russia, and the former Soviet Union firmly within the WTO multilateral trading system without, for example, maintaining the discriminatory and exclusionary anti-dumping and countervailing duty rules that have thus far governed nonmarket economies.

In the United States, better macroeconomic performance, consequently, ought to go hand in hand with a greater tendency, at the margin, to choose policies on the issues listed in Table 1 that fall under the rubric of transnational integration and with less inclination to go belligerently down the neomercantilism route.

On the other hand, no improvement (or deterioration) in the balance between savings and consumption will keep American industries "losing" more often than not against foreigners in international markets, no matter how hard the United States bashes others or others in fact lower their trade barriers, and will keep foreigners piling up claims against the assets of Americans "as far as the eye can see."

As for political externalities, a nation that is self-evidently mortgaging the future of its children to outsiders is unlikely to be the object of esteem and emulation by foreigners who are exercising more self-discipline abroad; a nation that lacks the wherewithal to upgrade its human resources or help its people adapt domestically to competition in international markets is unlikely to find support at home for dependable, constructive engagement in the international arena.

This might well lead to a tendency, at the margin, to choose policies on the issues listed in Table 1 that lie along the more unilateral, aggressive, even belligerent neomercantilism route.

But by far the worst danger would lie in the adoption of an assertive late-twentieth-century neomercantilist grand strategy in place of (or as a substitute for) movement toward greater macroeconomic balance in the United States.

This would turn Kindleberger, upon whose insights about systemic leadership the world may ultimately come to depend, on his head: having the preponderant power in international affairs constantly tearing at the fabric of relations with other major states and with no possible resolution in sight. The impact of unceasing mutual accusation and recrimination on the domestic publics of all the nations involved, as the immediate post-World War II generation passes on, might have a cumulative effect on interstate relations and international alignments that seems unlikely (in the extreme) today but could eventually make Mansfield appear prophetic.

1. In addition to Peddling prosperity (Krugman 1994a), see Krugman 1994b; 1994c; and 1993.

2. Krugman's targets of criticism include Tyson 1992; Thurow 1992; Magaziner and Reich 1983; Magaziner and Patinkin 1990; Luttwak 1993; Phillips 1984; Prestowitz 1988; Dietrich 1991; Garten 1992; and Sandholtz et al. 1992.

3. The quotations are from Krugman 1994b, 31; and 1994c, 270, respectively.

4. In addition to the sources cited above in footnote 2, see Krugman 1991.

5. Lawrence and Slaughter 1993.

6. An earlier example of this ambivalence is found in Krugman 1986.

7. Krugman 1994a, 243-44.

8. Ibid., 239.

9. Ibid., 269.

10. Ibid., 274.

11. Ibid., 280.

12. Ibid., 270.

13. Krugman 1994b, 35.

14.On maximizing power rather than plenty, see Viner 1948.

15. Ibid.

16. Srinivasan 1987.

17. Gowa 1994, 6.

18. This Public Records Office document is cited in ibid., 90.

19. Ibid., 91.

20. See Kindleberger 1973; and 1986.

21. See Conybeare 1983; 1984; and 1987. See also Gilpin 1975.

22. See Snidal 1985a; and 1985b.

23. See Keohane 1980; and 1984.

24. Gowa 1994, 29.

25. Ibid.

26. In particular, Gowa cites Pollins 1989b; and 1989a.

27. For a fascinating example of such critical analysis, see Krugman 1983.

28. See the final sentence of Krueger 1995b.

29. Klepper 1994, 123.

30. Krugman and Baldwin 1988.

31. Hirschman [1945] 1980.

32. Orden 1995.

33. For an empirical assessment of rules of origin and the consequent policy dilemmas, see Jensen-Moran 1995. In earlier papers written before the NAFTA negotiations were complete, Krueger and Richard Snape had noted that rules of origin would be a "key issue," and Robert Baldwin and Kuo-shu Liang had warned about antidumping and unfair trade protests becoming the pretext for creating trade blocs. See the respective contributions by Krueger and Snape and by Baldwin and Liang in Ito and Krueger 1993, 29, 41, and 44. Krueger has shown an interest in exploring rules of origin on a theoretical level in Krueger 1992; Krueger and Krishna 1995; and Krueger 1995a.

34. For evidence on trading blocs, see Frankel, Stein, and Wei 1993; and 1994.

35. Ulph and Winters 1994.

36. See Graham and Krugman 1991; and Graham and Ebert 1991.

37. These works include Mowery 1987; 1985; 1992; Samuels 1994; Samuels and Friedman 1993; Milner and Yoffie 1989; Mastanduno 1991; Hart 1992; Kahler 1985; Kahler and Frankel 1993; Mytelka 1990; Mytelka and Delapierre 1987; Frieden 1988; Friedberg 1989; and 1991. Perhaps it is not fair to put Helen Milner's name on the absentee list, since after reporting a "general belief" that protection will be granted when the industry is unanimous in supporting it, Krueger notes that "the same point has been made by Helen Milner." Also, David Yoffie's prestrategic trade book from 1983 is listed in one bibliography but not cited in any chapter.

38. See Conybeare 1987; 1984; Goldstein 1994; Grieco 1990; Ikenberry, Lake, and Mastanduno 1988; Lake 1985; 1988; Oye and Rogowski 1989; Fishlow and Haggard 1992; Haggard 1994; Lipson 1984; McKeown 1984; 1991; Odell 1990; Pastor 1980; Ruggie 1982; Stein 1984; and Strange 1988. An article by Robert Pastor is cited in one chapter but his major book on the trade policy process is not.

39. I refer specifically to Conybeare 1987; Encarnation 1992; Friedman 1988; Gilpin 1981; Goldstein 1994; Grieco 1990; Ikenberry, Lake, and Mastanduno 1988; Lake 1988; 1985; Milner 1988; Oye 1992; Rogowski 1989; and Sharp 1986.

40. The concern about antidumping was originally focused on prohibiting international price discrimination, with the predatory intent to injure central in the determination of dumping. Over time the laws have changed from international price discrimination to a test of selling below cost, regardless of intent to injure. Moreover, U.S. law artificially defines dumping as selling below average cost plus 10 percent overhead and 8 percent profit. Since, under competitive conditions, producers will sell near marginal cost, foreign firms that are merely acting competitively and are not engaged in predatory practices can be found to be dumping (whereas their domestic counterparts cannot). In high-tech industries where forward pricing is standard practice, antidumping measures based on average cost, plus 18 percent mark-up, without adequate recoupment of start-up expenses, are strongly exclusionary. The Uruguay Round text on antidumping requires that cost calculations "reflect the costs at the end of the start-up period." But, according to an estimate produced for the U.S. Commerce Department, the per-unit cost of a hypothetical 150-seat commercial airliner, for example, does not level off until the two hundredth aircraft is finished; early output is some 300 percent more costly. See Boltuck and Litan 1991; and Schlie 1986.

41. For efficiency gains from liberalization in imperfectly competitive markets, see Richardson 1989.

42. Schott and Buurman 1994, 90.

43. On rules of origin, particularly as they apply to U.S. policy options, see Jensen-Moran 1995.

44. On Super 301 and possible EU equivalents and on VIEs, see Schott and Buurman 1994.

45. U.S. General Accounting Office 1991. For a broader historical perspective on the manipulation of access to monopolistically controlled goods, services, and technologies (including manipulation on the part of the U.S. government), see Moran 1990.

46. Moran 1993.

47. Mansfield 1994, 149.

48. Ibid., 227-28.

49. On market manipulations, see ibid., 180. Mansfield draws on Conybeare for this explanation. See also Conybeare 1985; and Gilpin 1981. For an argument that economic regionalism can have a potentially liberalizing influence, see Oye 1992.

50. Mansfield 1994.

51. On Germany and Japan, Mansfield cites Mearsheimer 1990. For a perspective on Asia, see Betts 1993-94.

52. Nye 1990.

53. See Axelrod 1984; and Axelrod and Keohane 1985.

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